



Budgetary Support Service

ASSESSMENT OF BUDGETARY RESOURCES AND MEANS IN THE AREA OF DEVELOPMENT AND COOPERATION

BUDGETARY AFFAIRS

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The Report was prepared by Roberto Zavatta, based on written contributions from Alberto Bolognini. Enrico Giannotti and Laura Reka provided assistance in the analysis of basic documents and in the compilation and interpretation of data. The usual disclaimer applies.

ABBREVIATIONS AND ACRONYMS

AIDCO	EuropeAid Co-Operation Office
CDE	Center for the Development of Enterprise
DAC	Development Aid Committee (of the OECD)
DFID	British Department for International Development
DPS	Development Policy Strategy
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC	European Community
EDF	European Development Fund
EIDHR	European Initiative for Democracy and Human Rights
EU	European Union
FDI	Foreign Direct Investment
FPA	Framework Partnership Agreements
GDP	Gross Domestic Product
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
LDC	Least Developed Countries
LIC	Low Income Countries
LMIC	Low Middle Income Countries
MADC	More Advanced Developing Countries
MFA	Macro Financial Assistance
MDG	Millennium Development Goals
NGO	Non-governmental Organizations
NIS	New Independent States
NAS	Non State Actors
NAO	National Audit Office
OA	Official Assistance
ODA	Official Development Assistance
OLIC	Other Low Income Countries
PSA	Public Service Agreement
RAL	<i>Reste à liquider</i>
ROM	Results-Oriented Monitoring
TOR	Terms of Reference
UMIC	Upper Middle Income Countries
WB	World Bank

SIGNS USED

- Nil or below the minimum level
- .. Not available
- n.a. Not applicable

In all the tables and figures totals may not add due to rounding

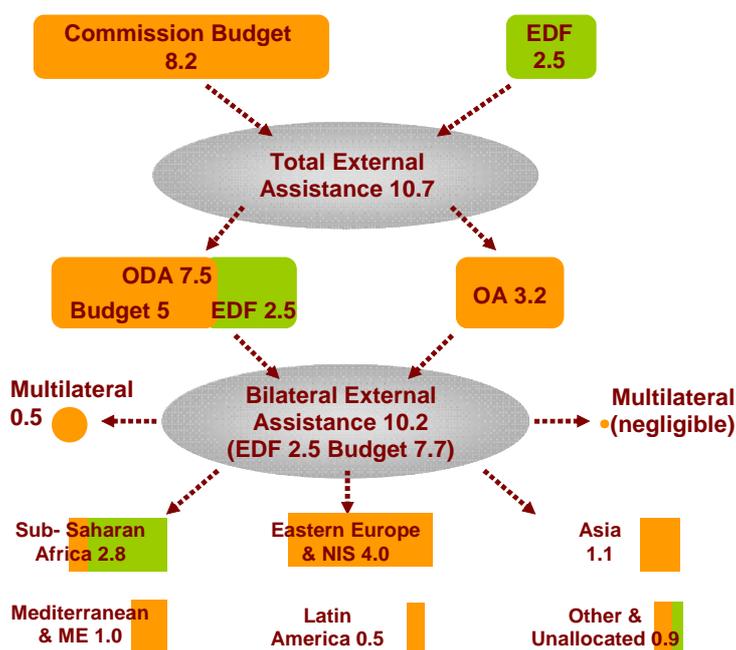
EXECUTIVE SUMMARY

Introduction

The objective of this study is to review “the output of the development and cooperation programmes financed by the Community budget over the period 2000-2005”. Given the potentially very broad scope of work, a selective approach was adopted. In particular, the topics selected for analysis include: (i) the coherence between policy objectives and the allocation of resources, (ii) the performance of the EC-funded aid projects, and (iii) the administrative costs incurred in the management of the EC aid program. In addition, following a specific indication in the terms of reference, the study also reviews the role of non governmental organizations (NGO) in the framework of the EC aid policy. The study was carried out over a period of little more than a month by two consultants, with some research and editorial support. Given the limited time and resources available, the study is entirely based on desk work. The main sources used include: the EC budget, policy documents published by the Commission, evaluation studies and audit reports of EC-funded operations, and various publications from the OECD Directorate for Development (commonly known as DAC) and other donor organizations.

Overview of EC External Assistance

The European Community (EC) is the world’s third largest donor, after the US and Japan. In 2005, total EC commitments for total external assistance (budget + EDF) were at some €11.4 billion. Actual disbursements were somewhat lower, at €10.7 billion. Over the 2000 – 2005 period there has been a remarkable increase in disbursements (+60%), while commitments have fluctuated between €10 and 12 billion. Forecasts for 2006 and data from the draft 2007 budget suggest a stabilization for both commitments and disbursement at around €10.5 – 11 billion. Funding for the EC external assistance comes from the general budget and the EDF, with the budget typically accounting for 75% of the total. EC external assistance goes to developing countries (ODA) as well as to countries in transition in Eastern Europe (OA). Resources allocated to countries in transition were very high in the early 2000s, in connection with the peak of the pre accession effort, but have been declining over the last few years. Some key data (in €billion) about the EC external assistance in 2005 are provided in the figure below.



Policy Objectives and Allocation of Resources

The ‘eradication of poverty’ is the priority objective of the EC development policy. This orientation was already present in the ‘Development Policy Statement’ of 2000 and was confirmed by the ‘European Consensus’ of end 2005. In practice, poverty eradication has coexisted with other objectives, such as the preparation of accession of new Member States, political stabilization in the Western Balkans, and the promotion of regional integration in the Mediterranean region.

It is difficult to assess the relative weight of poverty eradication and other objectives in terms of budget appropriations. Indeed, the information on the activities to be financed under the various ‘geographical’ budget lines is often too vague to gauge the sense of priorities. The logic of ‘thematic’ budget lines is clearer, but they account only for a minor share of the budget.

Whatever the (implicit) relative importance of policy objectives *ex ante*, *ex post*, data suggest that in recent years EC external assistance has been increasingly focusing on poverty. At the geographical level, commitments in favor of least developing countries (LDC) have increased significantly, both in absolute and in relative terms. In particular, in 2005 73% of the EC aid financed by the budget (i.e. excluding EDF) went to LDC, compared with 58% in 2000. The share of aid going to all ‘low income countries’ also increased, putting the EC broadly at par with the average for DAC donors, and ahead of the USA. Data on allocations by sector, show a large increase in spending for the ‘social services and infrastructure’ sector, that in 2005 accounted for 41% of total commitments. However, this is an extremely broad sector, and the large increase is largely attributable to increased allocations in the area of government reform, which may not always have a direct impact on poverty levels. Resources devoted to education and health, also recorded an increase, but of much lower magnitude, from 14% in 2000 to 16% in 2005.

Performance of EC External Assistance

The theme of how to measure the overall impact of donors’ activities has been debated and researched at length over the last decade, largely as a result of the increasing pressure put on donor agencies to ‘show results’. The conclusion is that, due to a combination of methodological and practical problems related to availability of data, all encompassing measures of the aid impact are not feasible. Nonetheless, practical approaches have been devised by some donor agencies to provide an at least partial measurement of the results of their activities. In this area the Commission is lagging somewhat behind, as most publications on aid issues have maintained a largely qualitative approach.

Despite the above, a sense of the performance of EC external assistance can be derived from the scores attributed to individual projects as part of monitoring activities. Data for the 2000 – 2005 period show that, on average, EC funded projects have been performing satisfactorily. The review of detailed data at the regional and sector level, suggests a remarkable recovery in performance in Mediterranean countries, Eastern Europe and the Western Balkans (which were performing poorly in the early 2000) and a positive trend for projects in trade, regional integration and good governance. Problems do exist, and they seem getting worse, for projects in the ACP countries and initiatives in miscellaneous sectors. In general, EC projects perform comparatively less well in terms of efficiency (i.e. the cost effectiveness related to alternatives) and overall impact, while the relevance of projects and even their sustainability appear to have improved over time.

The picture resulting from monitoring data is broadly confirmed by evaluation studies and audits carried out by the Court of Auditors, although in certain cases significant problems are also identified. Weaknesses have been found in the conception of projects, especially regarding the

formulation of clear objectives against which results can be measured. The lack of clear benchmarks may also influence on the quality of monitoring, as the absence of clear benchmarks inevitably involves a higher degree of subjectivity. On the other hand, evaluations and audit reports are generally appreciative of the re-organization of the EC 'aid machinery', and, in particular, de-concentration is found to have had a positive influence on the implementation of projects, with a drastic reduction in delays and closer supervision.

The Cost of the Aid Machinery

By the end of the 1990s, the reform of the EC external assistance structure had become an absolute necessity. The process was largely completed by 2004 and this has brought a number of positive effects, with the speeding up of the project cycle, the reduction and then the stabilization of the *reste à liquider*, and the improvement of payment terms. However, these benefits have come at a cost, namely an increase in administrative expenses. Data published by the Commission indicate that in 2003 – 2005 administrative costs related to the management of aid to developing countries were in the order of 5.3% - 6.5% of total commitments. The share is higher, in the order of 6.5% - 7.7% when actual payments are taken into account.

The increase in aid-related administrative costs is also confirmed by OECD data, according to which the share of administrative costs on total allocations to developing countries has increased from 2.6% in 2000 to 6.3% in 2004 (last year for which data are available). Even more importantly, while in 2000 the EC was a low cost donor, with administrative costs lower than those of all other main donors, in 2004 it had become a high cost donor, second only to the UK and above the average for DAC donors.

The Role of NGO in EC External Assistance

NGO have been involved in EC external assistance activities since the mid 1970s, when a dedicated budget line was created (at that time B7-6000, now 21 03). Since then, the role of NGO has progressively expanded. NGO cooperate actively with DG ECHO in the implementation of emergency aid initiatives and participate in the implementation of projects under various thematic budget lines (human rights, environment, migration, etc.).

Several estimates regarding the volume of EC aid channeled to and through NGO have been put forward in the past, with figures ranging from €400 million to €1.4 billion. Our own estimate, referred to 2005, puts the total at some €820 – 900, i.e. some 10 – 11% of the EC aid budget. Of this amount, some €330 refer to funding for emergency aid operations managed by DG ECHO and another €200 come from the NGO 'dedicated' budget line. The bulk of this funding has gone to European NGO, until recently the only ones entitled to bid for EC aid money. Southern NGO normally act as local partners, and are largely responsible for implementation on the ground.

There is little systematic evidence regarding the performance of NGO as implementers of development operations and their efficiency has been more often stated than demonstrated. Studies conducted in the 1990s suggest a wide variation in performance, with NGO performing very well and others much less so. Regarding the NGO collaborating with the EC, the best source of information is represented by the evaluations conducted by DG ECHO. These studies also confirm a wide variation in performance, especially regarding the cost effectiveness of interventions. The logical conclusion is that NGO are a diverse lot, including poor as well as excellent performers.

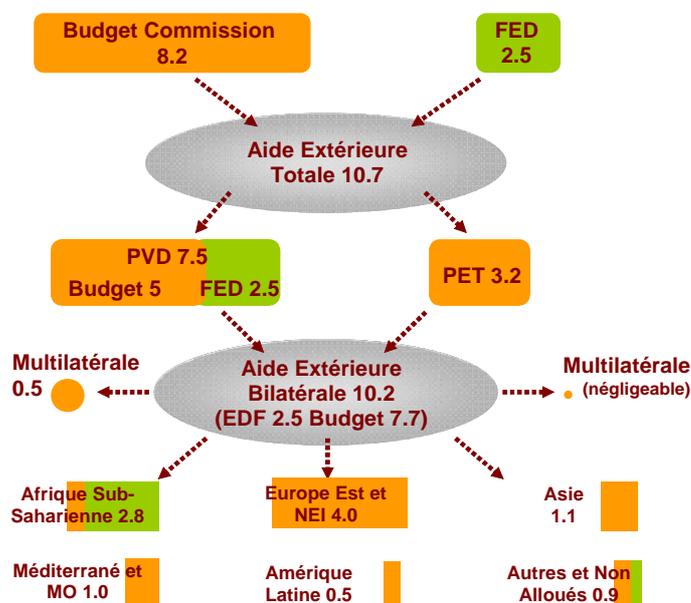
RESUME

Introduction

Cette étude vise à analyser « *les résultats des programmes de développement et de coopération financés par le budget de la Communauté entre 2000 et 2005* ». S'agissant d'un sujet extrêmement vaste, nous avons adopté une approche sélective, focalisée sur certains aspects considérés plus significatifs. Les éléments retenus pour l'analyse sont : (i) la cohérence entre les objectifs de la politique d'aide extérieure et l'allocation des ressources, (ii) les performances des initiatives d'aide financés par la Communauté européenne et (iii) les coûts administratifs liés à la gestion du programme d'aide communautaire. De plus, suite à une indication spécifique du mandat, l'étude s'intéresse également au rôle des organisations non gouvernementales (ONG) dans le cadre de l'aide communautaire. L'étude a été réalisée en un peu plus d'un mois par deux consultants qui ont bénéficié d'une assistance limitée pour les recherches de base et la rédaction. Vu les limitations au niveau du temps et des ressources disponibles, cette étude repose uniquement sur des analyses de documents. Les sources principales utilisées sont : le budget de la Communauté européenne, les documents sur la politique d'aide publiés par la Commission, les études d'évaluation et les rapports d'audits des initiatives d'aide communautaires ainsi que diverses publications de la Direction de la Coopération pour le Développement de l'OCDE (mieux connu sous le nom de CAD) et d'autres organisations de donateurs.

Données de base sur l'aide extérieure de la Communauté européenne

La Communauté européenne (CE) est le troisième plus grand donateur après les Etats-Unis et le Japon. En 2005, le total des engagements de la Communauté européenne pour l'aide extérieure (budget + FED) s'élevait à quelque 11,4 milliards d'euros. Les paiements, quant à eux, ont été de l'ordre de 10,7 milliards d'euros. La période comprise entre 2000 et 2005 a été témoin d'une hausse remarquable des paiements (+ 60%), tandis que les engagements sont restés compris entre 10 et 12 milliards d'euros. Les prévisions pour 2006 et les données tirées du projet de budget 2007 permettent d'entrevoir une stabilisation des engagements et des paiements entre 10,5 et 11 milliards d'euros. Les fonds alloués à l'aide extérieure de la Communauté européenne proviennent du budget général et du FED. En règle générale, le budget compte pour 75% du total. L'aide extérieure de la Communauté européenne est destinée d'une part aux pays en voie de développement (PVD) et d'autre part, aux pays en transition d'Europe de l'Est (PET). Les ressources allouées aux pays en transition ont été particulièrement élevées au début des années 2000, ce qui correspondait au pic des efforts réalisés pour faciliter l'adhésion, avant de diminuer au cours des dernières années. Le schéma ci-après fournit quelques données (en milliards d'euros) sur l'aide extérieure de la Communauté européenne pour 2005.



Objectifs de la politique communautaire et affectation des ressources

L'éradication de la pauvreté est l'objectif principal de la politique de développement de la Communauté européenne. Cette orientation figurait déjà dans la « Déclaration de politique de développement » de 2000 et elle fut confirmée par le « Consensus européen » à la fin 2005. Dans la pratique, l'éradication de la pauvreté coexistait avec d'autres objectifs, tels que l'assistance à l'adhésion des nouveaux Etats membres, la stabilisation politique dans les Balkans occidentaux et la promotion de l'intégration régionale dans la région méditerranéenne.

Une appréciation ponctuelle du poids relatif de l'éradication de la pauvreté et des autres objectifs en termes de dotation budgétaire est difficile à réaliser. En effet, les informations relatives aux activités financées par les diverses lignes budgétaires « géographiques » sont souvent trop vagues pour permettre d'identifier les priorités. La logique des lignes budgétaires « thématiques » est plus claire, mais celles-ci ne représentent qu'une partie mineure du budget.

Quel que soit le poids relatif (implicite) des objectifs *ex ante*, les données *ex post* démontrent que l'aide extérieure de la Communauté européenne s'est de plus en plus focalisée sur la pauvreté au cours des dernières années. Au niveau géographique, les engagements en faveur des pays les moins développés (PMD) ont connu une augmentation sensible, aussi bien en termes absolus que relatifs. Ainsi en 2005, 73% de l'aide communautaire financée par le budget (c.-à-d. sans le FED) fut destinée aux PMD, contre 58% en 2000. La part de l'aide affectée à tous les « pays à faible revenu » a augmenté également, ce qui met la Communauté européenne dans la moyenne des donateurs du CAD, et devant les Etats-Unis. L'analyse des affectations par secteur montre une augmentation appréciable des dépenses pour la catégorie « infrastructures et services sociaux », soit 41% de l'ensemble des engagements en 2005. Toutefois, ce secteur est extrêmement vaste et cette augmentation sensible s'explique en grande partie par l'augmentation des affectations dans le domaine des réformes de l'administration publique, qui n'ont pas toujours un impact immédiat sur le niveau de pauvreté. Les ressources allouées à l'éducation et à la santé ont également enregistré une augmentation, mais plus limitée, et sont passées de 14% en 2001 à 16% en 2005.

Performance de l'aide extérieure de la Communauté européenne

L'évaluation de l'impact global des activités d'aide au développement a fait l'objet de nombreuses recherches et de multiples débats au cours des dix dernières années et ce, en raison des pressions croissantes d'« obligation de résultats » auxquelles ont été soumis les organismes donateurs. Une combinaison des problèmes méthodologiques et pratiques liés à la disponibilité des données contribue à l'impossibilité de mesurer globalement l'impact de l'aide. Néanmoins, de façon pragmatique, certains organismes donateurs ont développé des méthodes qui permettent d'obtenir ne serait-ce qu'une mesure partielle du résultat de leurs activités. La Commission européenne est en peu à la traîne dans ce domaine vu que la majorité de ses publications sur les questions d'aide ont préservé une approche qualitative.

Toutefois, il est possible de se faire une idée des performances de l'aide extérieure de la Communauté européenne sur la base des scores attribués à chaque projet dans le cadre des activités de suivi. Les données disponibles pour la période allant de 2000 à 2005 indiquent que les projets financés par la Communauté Européenne ont reçu en moyenne une note satisfaisante. L'étude approfondie des données au niveau des régions et des secteurs met en évidence une remarquable récupération des performances dans les pays méditerranéens, d'Europe de l'Est et des Balkans occidentaux (dont les performances étaient médiocres au début des années 2000) et montre une tendance positive pour les projets dans le commerce international, l'intégration régionale et la réforme des administrations publiques. Les projets dans les pays ACP et les initiatives dans les

secteurs mineurs connaissent des problèmes qui ne semblent pas s'améliorer. En général, les performances des projets de la Communauté européenne sont inférieures en termes de coût efficacité et d'impact global tandis que la pertinence des projets et leur durabilité se sont améliorés au fil du temps.

Le cadre général qui découle des résultats de l'action de suivi est confirmé par les études d'évaluation commanditées par la Commission et par les audits de la Cour des Comptes, même si des problèmes sérieux ont été mis à jour dans certains cas. La conception des projets présente certaines faiblesses, plus particulièrement au niveau de l'identification d'objectifs clairs qui permettront d'évaluer les résultats. L'absence de points de référence évidents a également un effet sur la qualité de l'action de suivi vu qu'une telle absence implique inévitablement un niveau de subjectivité plus élevé. D'un autre côté, les rapports d'évaluation et d'audit reconnaissent l'importance de la réorganisation de la structure de gestion de l'aide de la Communauté européenne et confirment l'effet positif de la décentralisation sur la mise en œuvre des projets, avec à une réduction drastique des retards et à une supervision plus étroite.

Les coûts de gestion de l'aide communautaire

A la fin des années 1990, la réforme de la structure de l'aide extérieure de la Communauté européenne était devenue une absolue nécessité. Ce processus s'est conclu en 2004 et il a entraîné de nombreux changements positifs dont l'accélération du cycle de projet, la réduction et la stabilisation des « restes à liquider » et l'amélioration de ponctualité des paiements. Ces avantages ont toutefois entraîné une augmentation des dépenses administratives. En effet, selon les données publiées par la Commission, les coûts administratifs liés à la gestion de l'aide aux pays en développement entre 2003 et 2005 représentaient de 5,3 à 6,5% de l'ensemble des engagements. Cette part est plus élevée (6,5 à 7,7 %) lorsque l'on tient compte des paiements.

L'augmentation des coûts administratifs liés aux activités d'aide extérieure est également confirmée par les données de l'OCDE : la part des coûts administratifs sur l'ensemble des allocations aux pays en développement est passée de 2,6 % en 2000 à 6,3 % en 2004 (dernière année pour laquelle des données étaient disponibles). Plus significatif encore est le fait que la Communauté européenne est passée d'une position de donateur à faibles coûts administratifs (inférieurs à ceux des autres pays donateurs) en 2000 à celui de donateur à coût élevé en 2004, derrière le Royaume-Uni et au-dessus de la moyenne des donateurs membres CAD.

Le rôle des ONG dans l'aide extérieure communautaire

Les ONG participent aux activités d'aide extérieure de la Communauté européenne depuis les années 1970 lorsqu'une ligne budgétaire dédiée fut créée (B7-6000 à l'époque, devenue 21 02 03). Depuis lors, le rôle des ONG s'est peu à peu étendu. Les ONG coopèrent étroitement avec la DG ECHO dans le domaine de l'aide d'urgence et elles participent à l'exécution de projets par différentes lignes budgétaires thématiques (droits de l'homme, environnement, émigration, etc.).

Les diverses estimations de l'aide communautaire affectée aux ONG (ou canalisée par le biais des ONG) proposées par le passé étaient comprises entre 400 millions et 1,4 milliards d'euros. Notre estimation, qui repose sur les données pour l'année 2005, avance un total compris entre 820 et 900 millions d'euros, soit de 10 à 11% du budget de la Communauté européenne dédié à l'aide extérieure. Sur ce montant, 330 millions d'euros sont liés au financement d'opérations d'aide d'urgence gérées par la DG ECHO et 200 millions proviennent de la ligne budgétaire spécifiquement dédiée aux ONG. Ce sont des ONG européennes, qui jusqu'il y a peu étaient les seules admises à faire des propositions de projets, qui reçoivent la majorité du financement.

Néanmoins, les ONG européennes sont normalement en partenariat avec des ONG du tiers monde, qui sont responsables en grande partie de l'exécution sur le terrain.

Il y a très peu de données solides sur les performances des ONG en tant qu'outil de coopération au développement et, notamment, leur coût efficacité a plus souvent été déclarée que prouvée. Des études réalisées au cours des années 1990 ont mis en lumière de grands écarts au niveau des performances, où certaines ONG obtiennent d'excellents résultats tandis que d'autres reçoivent des résultats plus médiocres. S'agissant des ONG qui coopèrent avec l'aide communautaire, ce sont les études d'évaluation réalisées par la DG ECHO qui fournissent les meilleures informations. Ces études confirment également de grands écarts au niveau des performances, surtout lorsqu'il s'agit du coût efficacité des interventions. La conclusion inévitable est que la qualité des performances des ONG est loin d'être homogène et que, comme pour les autres acteurs de la politique d'aide, dans le monde des ONG il y a en peu de tout.

1 INTRODUCTION

This “assessment of budgetary resources and means in the area of development and cooperation” (the “Report” or “Study”) was prepared for the European Parliament by *Economisti Associati* (the “Consultant”). The Study was prepared within the framework of the service contract IP/D/BUDG/CONT/FWC/2006-072/lot 4/C1 (the “Framework Contract”) which is aimed at providing external expertise to the Committee on Budgets and the Committee on Budgetary Control on policy issues in the area of aid policy. The specific nature of the assignment was detailed in the Specific Contract IP/D/BUDG/CONT/FWC/2006-072/lot 4/C1/SC 1 (the “Specific Contract” or “Assignment”). The Study was carried out over a period of approximately one calendar month by senior consultants with some research assistance support.

Scope of the Study. The TOR for the Study call for a review of “*the output of the development and cooperation programmes financed by the Community budget over the period 2000-2005*”. The scope of the Study was further refined based on consultations with the relevant EP staff, taking also into consideration the tight schedule and the limited resources available. In this context it was agreed that the Study would adopt a selective approach, with focus on some aspects of the EC development and cooperation program. In particular, the topics selected for analysis include: (i) the coherence between policy objectives and the allocation of resources, (ii) the performance of the EC development policy, (iii) the administrative costs incurred in the management of the EC aid program. In addition, following a specific indication in the TOR, the Study reviews the role of non governmental organizations (NGO) in the framework of the EC aid policy.

Sources of Data. The Preliminary Draft General Budget for 2007 and the General Budgets for the years covered by the Study were the obvious starting point for the Consultant. However, given the highly aggregated character of budget data the Consultant also made reference to data coming from other sources, namely:

- ➔ the statistics on the EC aid flows presented annually by the Commission in the Annual Reports on the EC development policy (the ‘Annual Reports’);
- ➔ the statistics on global aid flows contained in the database kept by the OECD Development Cooperation Directorate (DAC).

The Annual Reports are a useful source of information on the EC external assistance activities and their quality has been improving overtime. However, some of the statistics presented in these reports show some weaknesses and inconsistencies¹. DAC statistics cover aid activities carried out by all major donors for a long period of time. They are based on information supplied by donor organizations, and therefore reflect the quality of data at entry. DAC statistics were used primarily for international comparisons and to fill certain gaps in data provided in the Annual Reports.

Documentary Sources. The Study involved the review of a large number of documents and reports. These fall in five main categories, namely:

- ➔ the main EC policy documents in the field of external assistance, such as the Development Policy Strategy (DPS) of 2000² and the more recent European Consensus on Development (‘Consensus’) of December 2005³;

¹ A detailed critique of the statistical format and coverage adopted in the Annual Reports is provided in Marie-Laure de Bergh, Jonas Frederiksen and James Mackie, *Annual Report 2006 on the EC's Development Policy and the Implementation of External Assistance in 2005*, ECDPM Technical note n. 4, June 2006.

² Council, *Declaration by the Council and the Commission on the European Community's development policy*, 10 November 2006.

³ European Parliament, Council and Commission, *The European Consensus on Development*, Official Journal of the European Union, 24.2.2006.

- ➔ the Commission documents related to specific aspects of the external assistance policy, including those related to the reform of the ‘aid machinery’ that took place during the period covered by the Study;
- ➔ the evaluation studies contracted by the Commission to assess the performance of external assistance measures in various geographical areas or sectors;
- ➔ the annual and special reports produced by the Court of Auditors in the field of external relations;
- ➔ the publications, mainly annual reports or reports with a methodological content, produced by international organizations and bilateral donor organizations;
- ➔ the studies and reports produced by a variety of research centers, think tanks and individual scholars dealing with aid and/or EU affairs.

Finally, the analysis of the role of NGO in external assistance involved the review of a separate, set of documents, largely originating from the NGO community.

Definitions. Throughout the Study a distinction is made between ‘external assistance’ and ‘development assistance’. External assistance is a broader concept, as it relates to assistance to both developing and transition countries, while development assistance (or ‘development cooperation’) has to do solely with developing countries. In terms of financial flows, the funds provided to developing countries are commonly referred to as Official Development Assistance (ODA) while the financing provided to transition countries (as well as to some more advanced developing countries) goes under the expression of Official Assistance (OA). Hence, external assistance is the sum of ODA and OA. While keeping the conceptual distinction between ‘external assistance’ and ‘development assistance’, sometimes in the text either expression is replaced by the word aid. While it is acknowledged that this word may have a slightly different connotation, its shortness makes it often preferable to its more elaborate and longer counterparts.

Structure of the Report. The structure of the Study is as follows:

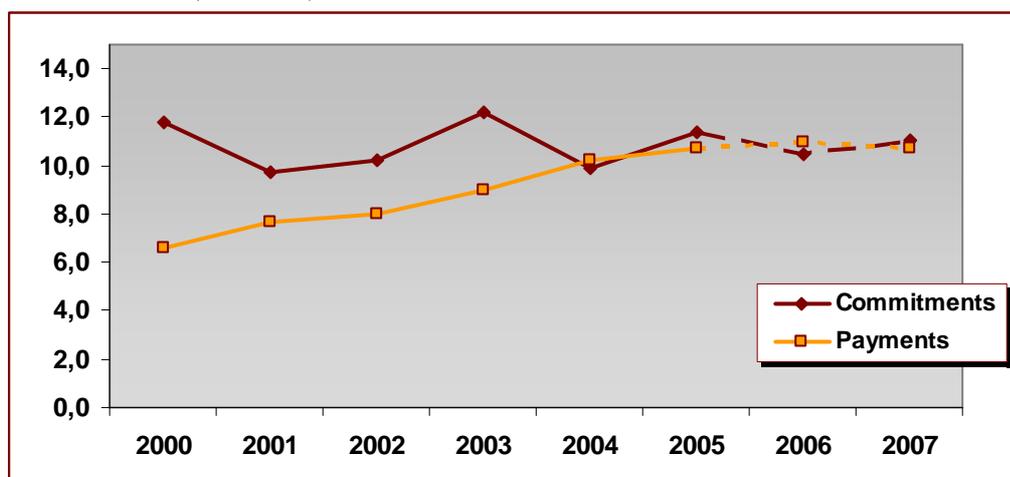
- ➔ Section 2 provides a brief overview of the EC external assistance;
- ➔ Section 3 reviews the coherence between policy goals and the allocation of aid resources on a geographical and sector basis;
- ➔ Section 4 reviews the available evidence regarding the recent performance of the EC external assistance;
- ➔ Section 5 deals with the issue of the administrative costs of external assistance;
- ➔ Section 6 assesses the role of NGO in the EC external assistance.

The Report also includes several Annexes providing more detailed back up information or dealing with specific aspects.

2 OVERVIEW OF EC EXTERNAL ASSISTANCE

The European Community (EC) is the world's third largest donor, after the US and Japan. In 2005, total EC commitments for total external assistance (budget + EDF) were at some €11.4 billion⁴. Actual disbursements were somewhat lower, at some €10.7 billion. Over the 2000 – 2005 period, commitments have fluctuated between €10 and 12 billion, reaching a peak in 2003, in connection with the maximum effort towards accession countries. Disbursements have constantly increased, from €6.6 billion in 2000 to e 10.7 billion in 2005 (+ 60%). Forecasts for 2006 and data from the preliminary 2007 budget suggest a stabilization for both commitments and disbursement at around € 10.5 – 11 billion.

Figure 2.1 Trends in Total EC External Assistance
(€billion)



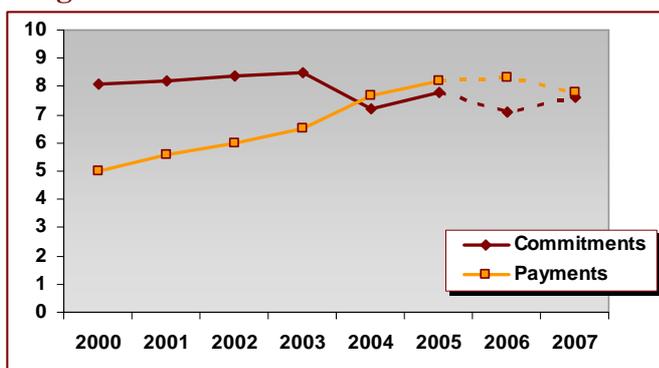
Funding for the EC external assistance comes from two sources, namely:

- the EC general budget, which typically accounts for about 75% disbursements (in 2005, €8.2 billion);
- the European Development Fund, which contributes for the remaining 25% (in 2005, €2.5 billion).

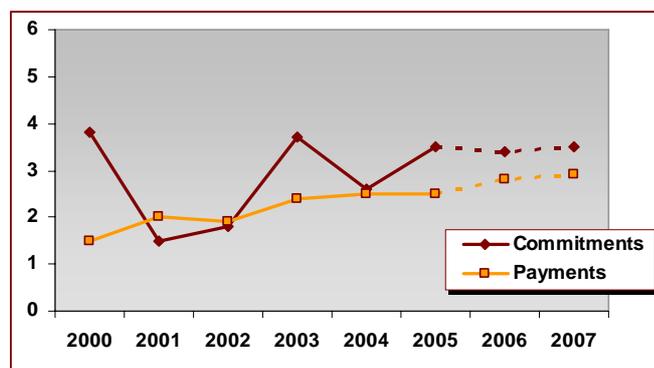
From a budget perspective, in 2005 external assistance accounted for about 7% of the total Commission budget, down from 8.5% in 2000. Appropriations for external assistance accounted for about 6% of the 2006 budget and are expected to stay at about the same level in 2007.

Figure 2.2 Trends in EC External Assistance – Budget and EDF
(€billion)

Budget



EDF



⁴ Unless otherwise specified, all figures are in current € and are drawn from the Annual Reports or from the budget.

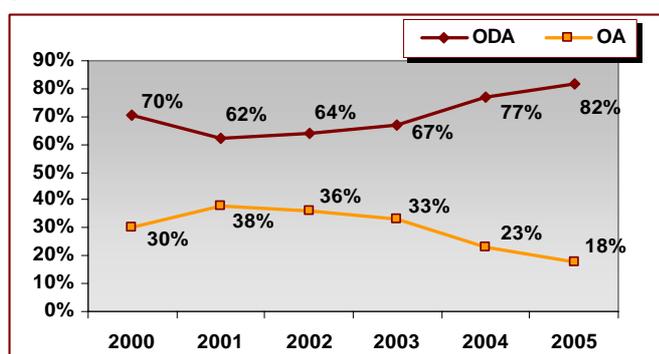
In accordance with international definitions, EC external assistance is divided in two main categories, namely:

- ➔ assistance to development countries, the so called Official Development Aid (ODA);
- ➔ assistance to transition countries in East Europe and other more advanced developing countries, which goes under the expression of Official Aid (OA).

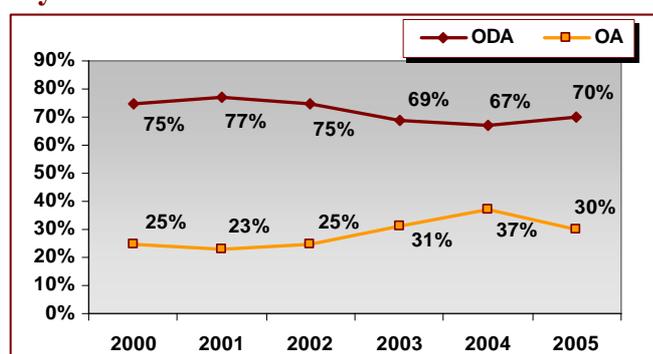
Appropriations for OA (entirely financed from the budget) were very high in 2000 – 2003, when they accounted for about one third of total external assistance commitment and for little less than half of budget. OA disbursements followed with a lag of about two years. ODA flows have been following a more stable, and increasing trend.

Figure 2.3 Trends in ODA and OA Flows
(percentages)

Commitments



Payments



Traditionally, the bulk of the EC external assistance is managed directly by EC institutions and attributed to individual countries or groups of countries ('bilateral aid'). In 2005 bilateral aid accounted for € 10.2 billions, i.e. 95% of total disbursements for external assistance, and was directed to both developing and transition countries. EC 'multilateral aid' (€0.5 billion in 2005) includes contributions to international institutions, such as regional development banks and UN agencies, and is predominantly aimed at supporting assistance in developing countries.

EC bilateral aid goes to over 150 countries and territories. The EC is the main bilateral donor in about 45 countries, mainly in Eastern Europe and ACP countries (Africa, Caribbean and Pacific) and the second largest in another 50 countries⁵. In 2005 Eastern Europe and the NIS were the main recipient of EC external assistance (about 39%), followed by ACP countries with 28%.

EC external assistance is primarily managed by four Directorate General (DG), namely:

- ➔ DG External Relations (RELEX), responsible for actions aimed at Asia, Latin America, the Mediterranean and the New Independent States (NIS);
- ➔ DG Development (DEV), responsible for operations in Sub Saharan Africa, Caribbean and Pacific (the so called ACP countries);
- ➔ DG Humanitarian Aid (ECHO), responsible for emergency operations in all countries;
- ➔ DG Enlargement (ENLARG), working on East European countries and now focused particularly on the Western Balkans.

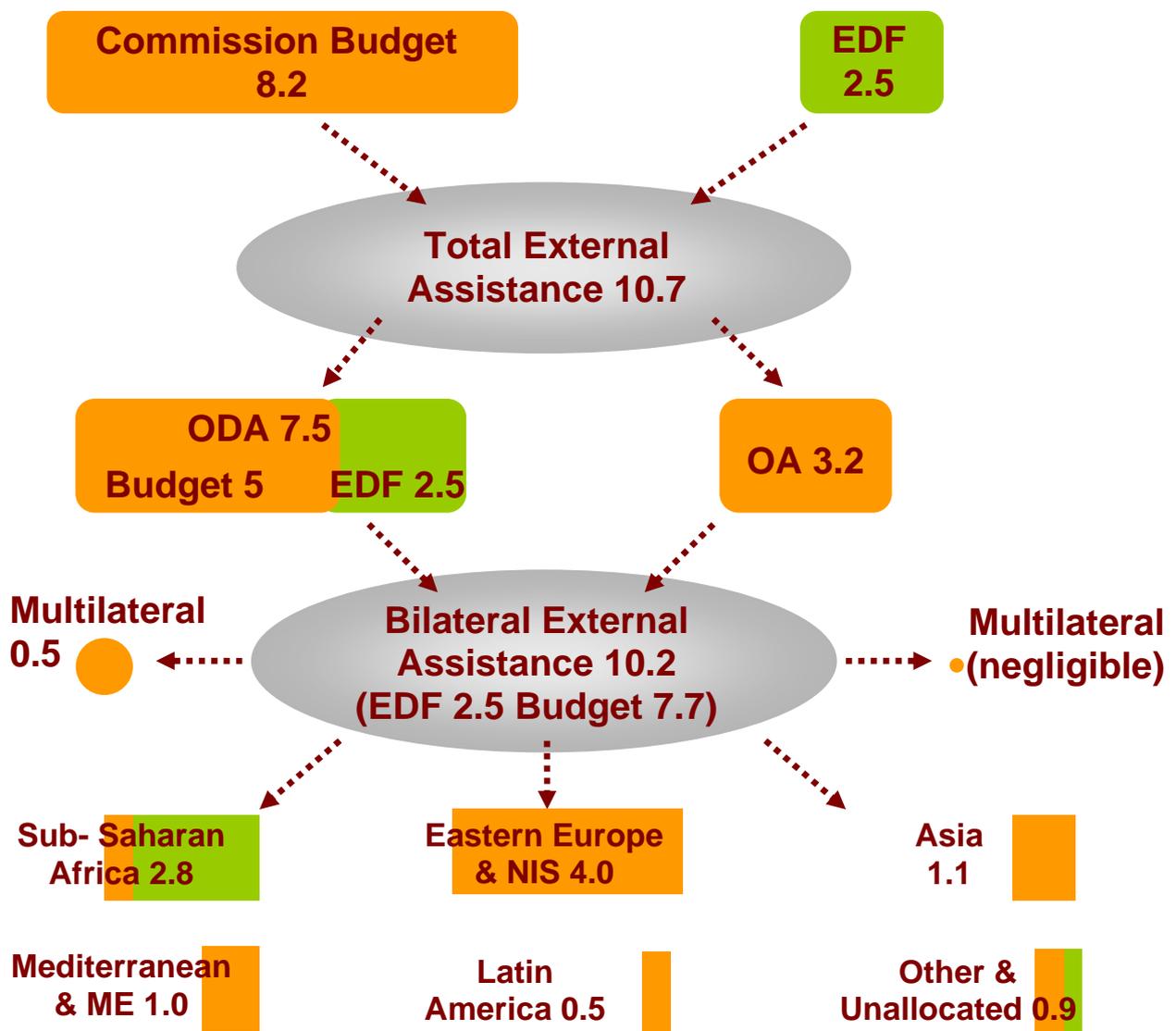
These four DG account for about 90% of total EC aid disbursements and for 75% to 85% of the external assistance included in the Commission budget. Other DG outside the 'RELEX family' are also involve in the provision of external assistance. The main players are DG Agriculture and Rural

⁵ Data from the OECD – DAC database, referred to 2004.

Development (AGRI) and DG Regional Policy (REGIO), providing pre-accession assistance through SAPARD and ISPA, and DG Fisheries and Maritime Affairs (FISH), providing funds within the framework of international fishery agreements.

Since the beginning of 2001, the management of operational aspects of a large part of EC external assistance has been entrusted to the EuropeAid Co-operation Office ('EuropeAid' or AIDCO), operating under the aegis of DG RELEX and DG DEV. AIDCO's role has been progressively expanding, and in 2005 it managed about 45% of the external assistance included in the budget. The establishment of AIDCO has been accompanied by a process of devolution of tasks to EC Delegations in beneficiary countries, commonly known as de-concentration. These reforms, largely accomplished by the mid 2000s, had positive impact on EC aid operations, as signaled *inter alia* by the steady increase in disbursements mentioned above.

Figure 2.4 Summary View of EC External Assistance in 2005
(€billion, rounded figures)



3 POLICY OBJECTIVES AND ALLOCATION OF RESOURCES

3.1 Introduction

This section is devoted to the analysis of coherence between the objectives of the EC external policy and the actual allocations of resources. In particular, Section 3.2 focuses on the linkage between policy objectives and budgetary allocations, with special reference to the primary objective of achieving poverty eradication. Section 3.3 analyzes the geographical distribution of EC external assistance flows while Section 3.4 does the same at the sector level. Some concluding remarks are in Section 3.5.

3.2 Policy Objectives and Budget Priorities

The ‘eradication of poverty’ is the priority objective of the EC *development policy*. The need to “*campaign against poverty in developing countries*” was already mentioned as a key objective in the Maastricht Treaty (article 177), along with the promotion of economic and social development and the integration of developing countries into the world economy. The primacy of poverty eradication was clearly spelled out in the in the Development Policy Statement of 2000 (DPS), according to which “*The main objective of Community development policy must be to reduce and, eventually, to eradicate poverty.*”. This approach was lately confirmed by the European Consensus of end 2005, which states that “*The primary and overarching objective of EU development cooperation is the eradication of poverty in the context of sustainable development*”. At the operational level, the objective of poverty eradication has been anchored to the so called Millennium Development Goals (MDG), which have come to be considered as the benchmark for EC action towards developing countries⁶.

At the level of the EC *external assistance* policy, the poverty eradication objective has always coexisted with other goals, related to the EC (and EU) overall foreign and security policy objectives. In particular, the pre accession instruments introduced during the 1990s have mainly aimed at the fulfillment of the *acquis* and at preparing candidate countries for the implementation of the EU structural and rural policies. Similarly, the various neighborhood and partnership instruments pursue objectives that go well beyond poverty reduction, namely the promotion of political cooperation and the fostering of economic integration (including participation in the EU internal market, legislative and regulatory approximation, etc.). On top of these long-term strategic (or policy-driven) objectives, the EC external assistance also reflects other short-term, tactical objectives, related to the management of crisis and emergency situations of a political, humanitarian or macro-financial nature.

The existence of multiple objectives is not surprising *per se*. For the purpose of this Study (and, in general, from a budgetary perspective) the real issue is how the various objectives are reconciled in terms of allocation of resources. Indeed, an identification of the weight attributed to the various objectives is an essential pre condition for assessing the appropriateness of the balance between ‘ends’ and ‘means’ and, a later stage, for assessing the results achieved.

⁶ The MDG are a set of eight development goals (e.g. ‘eradicate extreme poverty and hunger’ or ‘achieve universal primary education’) adopted by the UN Millennium Summit of September 2000. Associated to the MDG is a set of quantitative targets related to the various ‘dimensions’ of underdevelopment (e.g. halving the share of population living on less than US\$ 1 a day) to be achieved by 2015. The MDG and related targets have become the internationally accepted benchmark against which the efforts of the international community should be measured.

In this respect the information contained in the Budget provides limited guidance. On the one hand, the thematic budget lines included under chapter 21 have a fairly well defined scope and orientation, but they account for only a limited share of total appropriations for external assistance. On the other hand, the descriptions of activities to be funded by the much larger geographical programs are extremely heterogeneous, providing information of a varying detail and usefulness. For instance, with reference to the 2007 draft budget currently under discussion, the 'Remarks' to item 19 08 01 01, related to Mediterranean countries, include a fairly compact list of six themes or 'fields of intervention', which can be fairly easily traced back to overall policy objectives. In contrast, the Remarks to item 19 08 01 03, related to eastern Europe, include an unstructured list of diverse activities to be financed, ranging from "*the promotion of human rights, democracy and the rule of law*" to the "*construction and restoration of the sewage network in the northern parts of St. Petersburg*". As for the relative importance attached to the poverty eradication objective, again the situation is often hard to gauge. In some cases, explicit reference to the MDG is made and this is sometimes accompanied to the 'earmarking' of part of appropriations for selected sectors (basic education and health). In other cases, the theme also appears to be of relevance, but this has to be inferred from the more or less well structured list of activities. Under these conditions, it is pretty obvious that deriving a ranking of priorities (let alone an estimate of the resources attached to each priority) from the information contained in the budget, becomes a highly subjective exercise, more akin to arts than to science.

3.3 Allocations by Geographical Areas

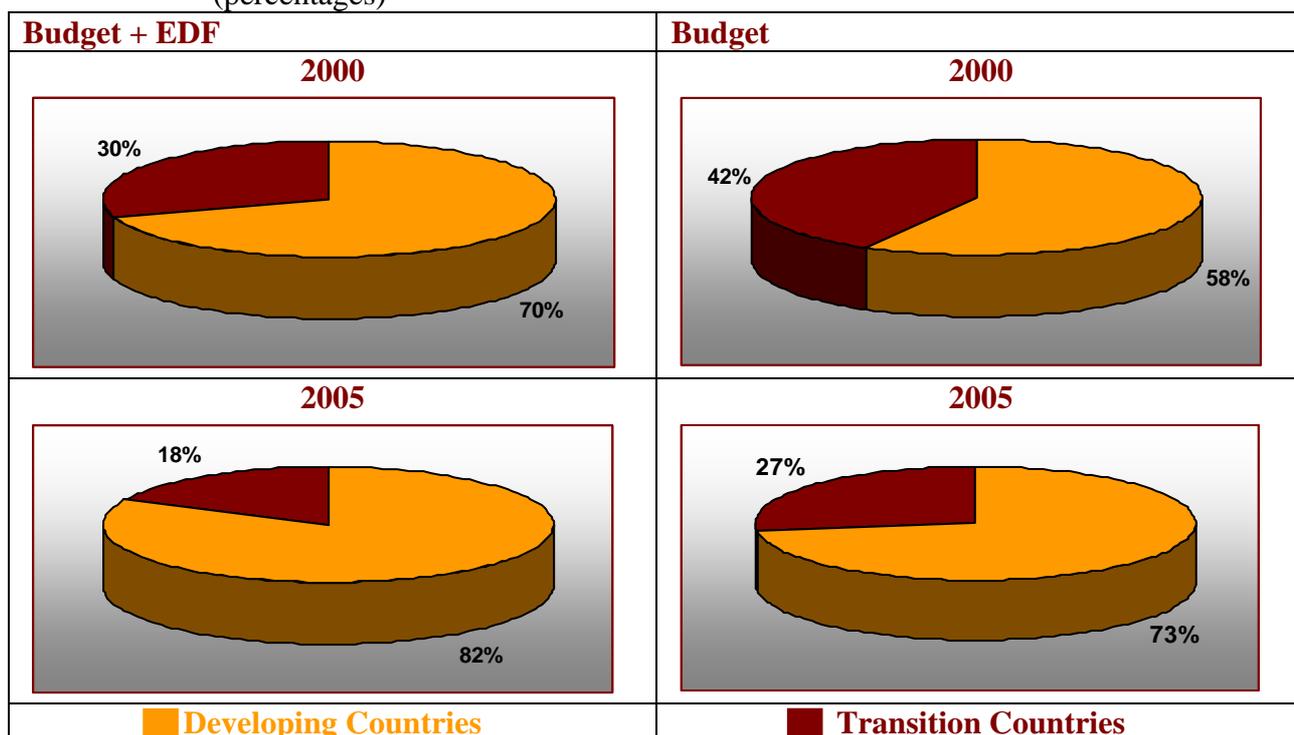
Irrespective of the indications included in the budget, the priority attached to the various policy objectives can be inferred from the *ex post* allocation of resources. This section deals with the allocation of EC external assistance funds on a geographical basis while sector allocations are analyzed in the following section.

In the past several observers have pointed at a certain imbalance between the declared objective of poverty eradication and actual allocation of funds, either on a geographical or on a sector basis. The theme was echoed in the review of the EC aid carried out by DAC in 2002⁷. Based on data related to the 1990s, the DAC report found evidence of an increasingly skewed distribution of EC aid, with a growth of allocations to East European countries and other middle income countries and a decline (in relative terms) of resources devoted to developing countries. The DAC report acknowledged that resources going to transition economies were largely additional (compared with the long term trend of EC aid) and that allocations to developing countries had been broadly preserved, in absolute terms. Nonetheless, the DAC report concluded that the overall distribution of EC aid was to be regarded as "*far from the ideal if the primary aim is poverty reduction*" (page 45).

The analysis of EC external assistance flows during the 2000 – 2005 period indicates that the situation has changed. As shown in Figure 3.1 below, over the period under consideration the share of total EC aid (i.e. budget + EDF) committed to developing countries has increased from 70% to 82%. The positive trend in favor of developing countries is also noticeable in the case of aid commitments financed by the budget only, which posted an increase from 58% in 2000 to 73% in 2005.

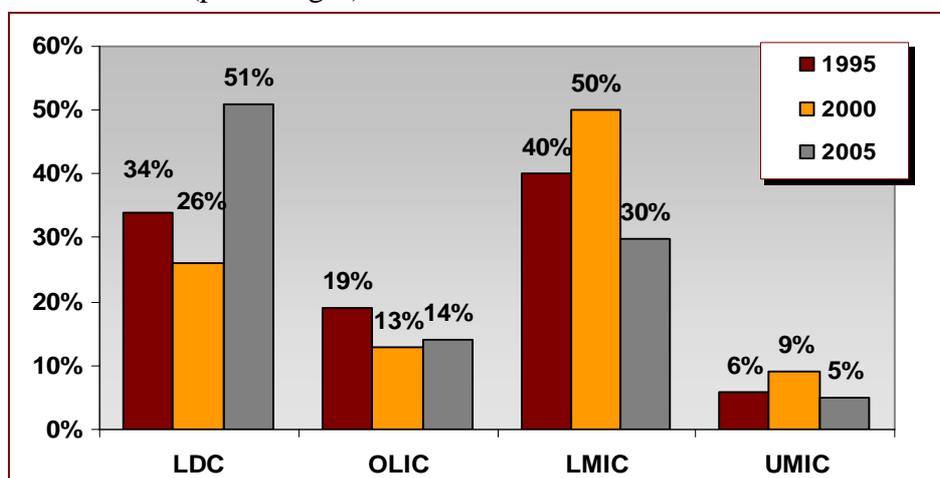
⁷ OECD – DAC, *Development Cooperation Review – European Community*, Paris, 2002 (hereinafter referred to as the DAC Peer Review)

Figure 3.1 Composition of EC Aid Flows
(percentages)



The progressive alignment of EC aid allocations with the ‘poverty eradication’ objective is even more palpable when the analysis concentrates on ODA flows. As shown in Figure 3.2 below, over the 2000 – 2005 period, the least developed countries (LDC) have seen their share in total EC ODA (budget + EDF) to double, from 26% to 51%. The share of other low income countries (OLIC) has remained broadly stable (and still below the level reached in the mid 1990s), but altogether, in 2005 the low income countries (LIC) accounted for about two thirds of EC ODA commitments, compared with less than 40% in 2000 and about 50% in 1995. The progress is evident also in a comparative perspective. According to DAC data for the biennium 2003 – 2004, EC commitments to LDC (43%) and to all LIC (55%) were well above the corresponding figures for the US (LDC: 32% and LIC: 47%). Compared with the whole set of DAC countries, the EC was above the average in terms of allocations to LDC (43% vs. 35%) and only marginally below regarding commitments to all LIC (55% vs. 58%).

Figure 3.2 Trends in EC ODA Commitments (Budget + EDF)
(percentages)



However, the picture is definitely less exciting when the ‘intensity of effort’ is taken into consideration. Indeed, despite the recent increase in aid to LDC, the EC per capita aid to Sub Saharan Africa remains at a mere US\$ 1.6 (it was US\$ 0.9 in 2000, basically with no change if the re-evaluation of the € is taken into account), compared with US\$ 13.7 in East European countries (compared with US\$ 8.9 in 2000). This shows up in the ranking of the top recipients. As indicated in Table 3.1, in 2005 the list of the 15 main recipients of EC external assistance was topped by four European countries (of which two are Member States), followed by Morocco and Afghanistan. Only two Sub Saharan countries figured in the list, of which one (Congo) was mainly receiving emergency aid.

Table 3.1 Top 15 Recipients of EC External Assistance

	Country	1994-95		Country	2000		Country	2005	
		€mn	%		€mn	%		€mn	%
1	<i>Morocco</i>	119	3.3%	<i>Yugoslavia</i>	511	8.4%	<i>Poland</i>	896	8.8%
2	<i>Ethiopia</i>	104	2.8%	<i>Poland</i>	236	3.9%	<i>Romania</i>	457	4.5%
3	<i>Egypt</i>	98	2.7%	<i>Bosnia-Herzeg</i>	213	3.5%	<i>Turkey</i>	258	2.5%
4	<i>Yugoslavia uns</i>	91	2.5%	<i>Romania</i>	152	2.5%	<i>Hungary</i>	233	2.3%
5	<i>Ivory Coast</i>	79	2.2%	<i>Hungary</i>	145	2.4%	<i>Morocco</i>	219	2.1%
6	<i>Mozambique</i>	70	1.9%	<i>South Africa</i>	112	1.8%	<i>Afghanistan</i>	206	2.0%
7	<i>Cameroon</i>	67	1.8%	<i>Russia</i>	105	1.7%	<i>Bulgaria</i>	206	2.0%
8	<i>Zimbabwe</i>	67	1.8%	<i>Egypt</i>	95	1.6%	<i>Russia</i>	187	1.8%
9	<i>Uganda</i>	67	1.8%	<i>Czech Republic</i>	94	1.6%	<i>Congo</i>	172	1.7%
10	<i>Bangladesh</i>	65	1.8%	<i>Jordan</i>	93	1.5%	<i>Palestinian AA</i>	167	1.6%
11	<i>Palestinian AA</i>	64	1.7%	<i>Yugoslavia uns</i>	87	1.4%	<i>Slovak Rep.</i>	166	1.6%
12	<i>Tanzania</i>	60	1.6%	<i>Macedonia</i>	87	1.4%	<i>India</i>	151	1.5%
13	<i>Senegal</i>	59	1.6%	<i>Bulgaria</i>	85	1.4%	<i>Czech Republic</i>	140	1.4%
14	<i>Bosnia-Herzeg</i>	59	1.6%	<i>Albania</i>	80	1.3%	<i>South Africa</i>	139	1.4%
15	<i>Mali</i>	54	1.5%	<i>Ethiopia</i>	79	1.3%	<i>Egypt</i>	135	1.3%
	Total above	1123	30.7%	Total above	2174	35.9%	Total above	3732	36.5%
	Total ODA	3659		Total	6057		Total	10217	

* Data for 1994-95 refer to ODA only and are from DAC.

The still modest effort of EC external assistance towards the poorest countries is confirmed by a simple statistical exercise aimed at measuring the correlation between the EC aid per capita and one of the most commonly used measures of poverty, i.e. the percentage of population living with less than US\$ 1 per day. The exercise shows that in 2005 the two variables are not correlated, i.e. the distribution of EC aid per capita is largely independent from poverty levels. This is still better than in 2000, when a (weak) inverse relationship was found.

3.4 Allocations by Sectors

In the past, the priority attached to poverty eradication has been sometimes interpreted to imply the setting of minimum allocations to certain types of development activities. In particular, proposals have been formulated to set minimum targets for spending in ‘social infrastructure and services’, under the assumption that this would involve an increase in the provision of basic services for the poorest strata of the population. Accordingly, in certain years 20% of total appropriations under

some geographical programs was ‘reserved’ for expenditures for basic education and basic health⁸. Some observers have objected to such an approach, as the process of poverty eradication requires a wide range of measures, in the provision of social services as well as in other sectors. Skepticism towards “*Bruxelles-led target-setting*” was expressed by DAC in the above mentioned review of the EC aid. In particular, DAC expressed the view that “*the allocation to social sectors is regarded as an unsatisfactory indicator of poverty focus*” and highlighted the need of “*multifaceted approach*” in fighting poverty.

Irrespective of the pros and cons of targeted allocations, data on sector allocations suggest that in recent years EC aid has been increasingly redirected towards the ‘social services and infrastructure’. As indicated in Table 3.2 below, in 2005 total ODA commitments for ‘social infrastructure and services’ reached 41% of the total, with a marked increase over the 26% recorded in 2000.

Table 3.2 Allocation of ODA Commitments by Sector (Budget + EDF)

Sectors and Main Sub Sectors	2000		2005	
	€million	%	€million	%
Social Infrastructure and Services	1,979	26.3	3,832	41.4
- Education	425	5.7	563	6.1
- Health & Population	365	4.9	468	5.1
- Water Supply and Sanitation	247	3.3	418	4.5
- Government and Civil Society	696	9.3	1,374	14.9
- Other Social Infrastructure	247	3.3	569	6.2
Economic Infrastructure and Services	1,271	16.9	1,291	14.0
- Transport and Storage	596	7.9	216	2.3
Production Sectors	675	9.0	455	4.9
- Agriculture, Forestry and Fishing	451	6.0	139	1.5
Multi-sector and Crosscutting Issues	686	9.1	512	5.5
Commodity Aid and General Program Assistance	1,622	21.6	1,275	13.8
Emergency Assistance	980	13.1	1,386	15.0
Other	304	4.0	496	5.4
Total	7,517	100.0	9,247	100.0

NB Data for 2000 were taken from the DAC Peer Review and converted in € at the prevailing exchange rate. They only refer to bilateral commitments, with exclusion of ODA channeled through multilateral organizations (multilateral ODA). Data for 2005 are from the Annual Report and refer to both bilateral and multilateral ODA. In both cases, the total excludes some amounts that cannot be allocated by sector. All figures are rounded and totals may not add.

However, the growth in allocations to ‘social infrastructure and services’ is primarily the result of an ‘explosion’ in allocations to the sub sector ‘government and civil society’, which in 2005 reached the record figure of €1,374 million and whose share in total commitments increased from 9% in 2000 to nearly 15% in 2005, becoming the single most important heading in EC assistance a part from emergency aid. A significant increase was also recorded by the residual category ‘other social infrastructure’, which reached the value of €569 million, equivalent to more than 6% of total allocations (up from about 3% in 2000). It should be noted that these headings include activities whose purpose is often not directly related to the provision of social services, such as initiatives in support of general civil service reform, the strengthening of statistical services, and the monitoring of elections. On the other hand, allocations to ‘core’ social services, such as education, health and water & sanitation, did record an increase in absolute value (especially for water and sanitation, whose allocations nearly doubled), but the increase in relative terms, as a share of total EC aid,

⁸ In the 2005 budget the 20% target for basic social services was mentioned in the case of Mediterranean countries, Latina America and Asia. In the 2007 draft budget the 20% target is mentioned only in the case of Asia. Reference to the 20% reserve was always accompanied by the mention that “*a degree of flexibility should be the norm*”.

improved only marginally, from 14% in 2000 to some 16% in 2005. Basic education and basic health, i.e. the sectors for which the 20% 'reserve' was in principle set (at least in certain regions), accounted for only 7%.

The expansion of allocations to social services (and government reform) involved a reduction (in relative terms) in spending for all other sectors, with the exception of emergency assistance⁹. Particularly affected by this major reallocation of funds were expenditures for 'economic infrastructure and services', which declined from 17% to 14%, and especially aid to productive sectors, whose share declined from 9% to 5%. In certain cases, the reduction was not only in relative terms, but also in absolute amounts. This is notably the case of transport, whose allocations declined from € 600 million to some € 200 million, and of assistance to agriculture, whose allocations declined from €450 million to less than €150 million.

3.5 Concluding Remarks

Over the last few years the composition of EC aid flows has changed significantly. Having absorbed the accession phase, the priority is now again on developing countries and on LDC among them. The intensity of effort still remains limited, but given the orders of magnitude involved, this is more a matter of scale (how much aid) than of allocation (where to spend it).

The renewed focus on poverty emerging from a cursory reading of sector allocations is, in reality, a sort of 'statistical illusion'. If anything, the new theme in EC aid is public sector reform. This may well have a major impact on poverty in due course, but certainly it is something different from social services and infrastructure as commonly understood. The Commission certainly cannot be blamed for presenting the data according to the standard DAC purpose nomenclature, but maybe adding a sub heading would enhance clarity. In more substantive terms, rather worrisome is the withdrawal from 'real' infrastructure (i.e. transport) and 'productive sectors', including agriculture. At least in ACP countries this seems to be the result of a division of labor between the Commission and the EIB. The bank is indeed working hard to expand operations in developing countries, but the task is definitely not an easy one.

⁹ It should be noted that in 2005 allocations to emergency assistance were heavily influenced by expenses related to the Tsunami. According to DAC data, in 2004 EC allocations to emergency aid were at some 10% of the total.

4 PERFORMANCE OF EC EXTERNAL ASSISTANCE

4.1 Introduction

This Section concentrates on the performance of the EC external assistance. The starting point for the analysis is provided by the data on the performance of aid projects generated by the monitoring system established by AIDCO over the last few years. A brief presentation of this system and of aggregate performance results are provided in Section 5.2. Sections 5.3 and 5.4 provide a more detailed picture of project performance in the main geographical areas and sectors of intervention. Section 5.4 takes a more qualitative approach and reviews the evidence resulting from the evaluation studies carried out by the Commission and the audits conducted by the Court of Auditors (the ‘Court’). Section 5.5 deals with the issue of how to measure the overall performance of aid activities. Finally, some concluding remarks are provided in Section 5.6.

4.2 Performance at the Project Level - Overview

The Monitoring System. Starting from 2001, the bulk of ongoing EC-funded projects is subject to performance assessment as part of the so called Results-Oriented Monitoring (ROM) system. The performance of each project is periodically reviewed against the five criteria typically retained in this type of exercises, namely: relevance, effectiveness, efficiency, sustainability and impact. Short definitions of these criteria are in Box 4.1 below. The performance of each project is assessed against the five criteria and a score is attributed for each of them. Scores are on a 1 to 4 scale, where 4 stands for very good, 3 for good, 2 for minor problems and 1 serious problems. A project is regarded to be “on track” if it achieves an overall score of 2.5. Performance assessment extends to initiatives funded by both the EC budget and the EDF. Monitoring concentrates on projects worth more than € 1 million and only about 10% of smaller projects are covered. Emergency aid operations implemented by DG ECHO as well as budget support programs are also not covered. The performance assessment is not done internally by AIDCO but rather is entrusted to external contractors, recruited through specific tenders.

Box 4.1 Evaluation Criteria

Relevance. Relevance assesses the consistency of the objectives of a development project with the beneficiary country’s needs and requirements.

Effectiveness. Effectiveness relates to the extent to which the objectives of a development project were achieved or are expected to be achieved.

Efficiency. Efficiency (also referred to as cost effectiveness or value for money) measures how economically the resources devoted to a development project were converted into results.

Sustainability. Sustainability relates to the probability that the benefits resulting from a development project will continue to flow after the assistance has been completed.

Impact. Impact refers to the overall, positive and negative, primary and secondary, intended or unintended long term effects produced by a development project.

The Database. Available data cover the period 2001 – 2005. Performance indicators for individual projects are aggregated so as to yield average values¹⁰. A more refined system for calculating average scores was introduced in 2004, and this has an impact (seemingly modest) on the comparability with previous scores. In 2005 the ROM system covered over 1,200 projects, with a total value of about € 8.4 billion. Assuming an average project duration of 3 years, it can be estimated that the current database covers approximately one third of the current portfolio, in value terms. In the early 2000s the number of projects covered by ROM was smaller and this may impact on statistical significance. Therefore, data must be interpreted with some caution. Data on project performance are available to the general public only at the global level, for the main geographical areas, broadly corresponding to main EC instruments (e.g. Sub Saharan Africa, NIS, etc.) and for priority areas (or sectors) of EC development policy¹¹.

Aggregate Results. Aggregate performance indicators for EC-funded projects for the 2001 - 2005 period are provided in Table 4.1 below. The two columns for 2004 reflect the change in the scoring system mentioned above.

Table 4.1 Performance Indicators – Aggregate Data

	2001	2002	2003	2004 (a)	2004 (b)	2005	%Change
Relevance	2.57	2.62	2.68	2.69	2.71	2.79	+9%
Effectiveness	2.67	2.69	2.72	2.72	2.79	2.77	+4%
Efficiency	2.51	2.56	2.56	2.61	2.64	2.65	+6%
Sustainability	2.55	2.60	2.70	2.65	2.77	2.83	+11%
Impact	2.59	2.62	2.70	2.73	2.75	2.75	+6%
Average	2.58	2.62	2.67	2.68	2.73	2.76	+7%

(a) old scoring system (b) new scoring system

The data show that, on average, EC-funded projects have obtained scores of at least 2.5 (i.e. have been regarded “on track”) in all the years and for all the criteria. Also, the performance appears to have continuously improved over time, with all the criteria showing a positive trend. The best performance is in the case of sustainability, which posts a 11% increase, while effectiveness, efficiency and impact have improved by 4-6%. Finally, it is worth noting that the refinement of the scoring system introduced in 2004 resulted in an improvement of performance indicators. Additional information provided in the Annual Reports indicates that only 1% of the projects are experiencing serious problems (i.e. have received the lowest score of 1 for at least three of the evaluation criteria) while another 9% are experiencing problems with one or two criteria.

4.3 Performance at the Project Level – Regional Aspects

Overview. A summary presentation of the average performance of EC projects in the main geographical areas of intervention is provided in Table 4.2 below. For the sake of simplicity, the data presented here refer only to average scores, combining the scores for each of the five evaluation criteria into a single annual score for each geographical area. The full set of data is provided in Annex B.

¹⁰ To the best of our understanding, averages are “un-weighted”, i.e. a project worth one million and a project worth € 10 million carry the same weight in the calculations.

¹¹ Project performance indicators are usually published in the Annual Reports. The data presented here are taken from the 2005 Annual Report.

Table 4.2 Performance Indicators – Geographical Areas

	2001	2002	2003	2004	2005	%Change
Western Balkans	2.28	2.20	2.55	2.68	2.81	+23%
NIS Countries	..	2.40	2.72	2.80	2.84	+18%
MEDA Countries	2.30	2.81	2.82	2.84	2.88	+25%
ACP Countries	2.57	2.48	2.55	2.59	2.57	-
Asia	2.77	2.63	2.64	2.69	2.75	-1%
Latin America	2.70	2.85	2.86	2.84	2.78	+3%
Average	2.58	2.62	2.67	2.68	2.76	+7%

Data for projects in NIS countries are not available for 2001. In red the scores below the minimum acceptable level

The picture emerging from the data is globally a positive one, with average scores above the 2.5 benchmark. However, some peculiar traits can be identified. In particular, it is worth noting the marked improvement recorded by projects in the Western Balkans, in the NIS countries and in the MEDA region. Indeed, all these regions started from less than satisfactory levels and experienced a remarkable recovery in a very short period of time (e.g. +22% in MEDA in just one year), reaching comparatively high levels in 2005. This pattern, *prima facie* somewhat surprising, appears to be confirmed by other sources (see Box 4.2 below). In Asia and Latin America, no clear trend is discernible, with some ups and downs, albeit of a modest magnitude. Lastly, the average performance of projects in ACP countries, has remained broadly stable, at positive but not exciting levels.

Box 4.2 Findings from the Court of Auditors' Reports

The Court recently released two reports covering EC projects in the MEDA countries and in Russia¹². The findings regarding the MEDA countries are globally positive and, although a number of projects were still ongoing at the moment of the audit, an improvement in performance was noted. Among the reasons for this improvement is the de-concentration process that has had a positive impact on project implementation and supervision. Findings related to TACIS projects in Russia are much less favorable, with a high proportion of projects not achieving the intended results and showing little chances of being sustainable. Most of the projects displaying a poor performance were implemented in the early 2000s and this is consistent with the low marks attributed by monitoring to TACIS projects in those years.

Detailed Analysis. A more detailed analysis of project performance, focusing on the five evaluation criteria, was also carried out. The results are presented in tabular form in Annex B, while the main findings are presented below:

- ➔ **Western Balkans, NIS and MEDA Region.** As already noted, in the early 2000 projects in these regions were performing poorly, with scores below the acceptable minimum for all the evaluation criteria, with the partial exception of relevance. A remarkable recovery started in 2002 – 2003, with improvements concerning all the evaluation criteria. Based on the monitoring data, projects in these regions clearly stand out as the ‘star performers’;
- ➔ **Asia and Latin America.** Projects in these two regions appear to perform reasonably well on average, with comparatively lower (but still acceptable) scores regarding efficiency (in both regions) and impact (in Asia). Overtime, performance has evolved somewhat erratically, with ups and downs for one year to another that cannot be easily explained;

¹² Court of Auditors, *Special Report No 2/2006, concerning the performance of projects financed under TACIS in the Russian Federation*, April 2006; Court of Auditors, *Special report N° 5/2006, concerning the MEDA program*, July 2006

- ➔ **ACP Countries.** ACP countries clearly emerge as the most problematic area. While the overall score is above the minimum threshold, this is the result of widely diverging patterns regarding the various performance indicators. Indeed, projects in ACP countries score well in the more qualitative criteria (relevance and sustainability) but receive less than satisfactory results in terms of efficiency and impact, which in 2005 were both below the threshold. Even more worrying, there has been a decline in performance overtime¹³.

4.4 Performance at the Project Level – Sectors

Overview. A summary presentation of the average performance of EC projects in the main sectors of intervention is provided in Table 4.3 below. Again, the data presented here refer only to average scores, combining the marks attributed to each of the five evaluation criteria into a single annual score for each sector. A more detailed review of individual indicators is provided in the subsequent chapter.

Table 4.3 Performance Indicators – Sectors

	2001	2002	2003	2004	2005	% Change
Trade and Development	..	2.54	2.70	2.73	2.78	+9%
Regional Integration	..	2.65	2.69	2.93	2.81	+6%
Macroeconomic and Social	..	2.59	2.75	2.72	2.72	+5%
Transport	..	2.74	2.70	2.65	2.71	-1%
Food Security & Rural Dev.	..	2.66	2.57	2.61	2.71	+2%
Good Governance	..	2.54	2.61	2.64	2.78	+9%
Other Projects	..	2.74	2.74	2.76	2.57	-6%
Average	..	2.62	2.67	2.68	2.76	+5%

Data for projects grouped on a sector basis are only available since 2002

The overall picture is again a positive one, with all the scores above the acceptable minimum. A clear positive trend is displayed by projects in ‘trade and development’ and ‘institution strengthening/good governance’ and, to a lesser extent, by initiatives in ‘macro economic and social sectors’ and ‘regional integration’ (which experienced a worsening in 2005). This is compensated by the more modest performance achieved by projects in ‘transport’ and ‘food security’, while a negative trend emerges in the case of initiatives included in the residual category ‘other projects’.

Detailed Analysis. The project performance in the main sectors was also reviewed with reference to the more detailed performance indicators. The results of this exercise are presented in tabular form in Annex B while the main findings are presented below:

- ➔ **Trade & development and good governance.** In these sectors the pattern is very similar to the one found above for projects in the Western Balkans, NIS and MEDA: in the early 2000 they started from a low base (in most cases just above the minimum acceptable level) and then experienced a very rapid recovery. In 2005 these projects received fairly high scores, typically in the order of 2.8 or higher;
- ➔ **Macroeconomic & social sectors and regional integration.** Projects in these sectors have an overall positive performance (better in regional integration) but this is the result of divergent trends (stable improvement in food security and rural development, improvement with some

¹³ Problems with projects in ACP countries, and namely in Sub Saharan Africa, are not a peculiarity of EC aid. For instance, in the early 2000 DFID projects in Africa were performing worse than in other regions. However, unlike the case of the EC, there were signs of an improved performance overtime. See, DFID, *Measuring Value for Money? An independent review of DFID's Value for Money (VFM) Indicator, Public Service Agreement 2003-2006*, November 2003.

reversals in more recent times for the other two trends). They perform well across the various performance indicators, although scores for efficiency are comparatively lower;

- ➔ **Transport.** The performance of transport projects shows contrasting elements. The overall score is positive (broadly at par with food security and macroeconomic & social initiatives) but it has been declining overtime. The trend for specific performance indicators is somewhat puzzling, with an improvement in sustainability and a decline in relevance, effectiveness and efficiency;
- ➔ **Other sectors.** This residual category displays the worst performance. Once again, the overall score is in positive territory, but with a significant decline in 2005. Two indicators (efficiency and impact) are below the minimum acceptable level and effectiveness has been declining throughout the period.

4.5 Performance of Projects and Programs – Evidence from Evaluations and Audits

Since 2000 the assessment of EC external assistance has been the subject of no less than 100 official documents. These include the evaluations carried out by AIDCO, mainly of a strategic nature and covering country strategies, thematic areas or whole programs, such as TACIS or MEDA), the evaluations of emergency aid conducted by DG ECHO, selected evaluations run by other DG or programs (e.g. DG ENLARG, EIDHR, etc.), and the audits performed by the Court. It is obviously impossible to summarize in any meaningful way the results of such an impressive body of literature. However, it is probably fair to say that the general intonation of evaluation studies is a positive one, although several problem areas are identified. The comments formulated in the reports produced by the Court are sometimes sharp, but outlook is not negative either.

From the perspective of this Study, one common (and striking) feature of these reports and audits is the lack of quantitative analysis regarding the results achieved by the EC aid. Whatever quantitative data are presented, they typically refer to inputs (i.e. the money spent) rather than to outputs, let alone results. An exception to this trend is represented by the evaluations carried out by DG ECHO, that are more operationally oriented. Although largely of a qualitative nature, these reports are nonetheless useful in pointing out some factors that have an influence on the performance of EC external assistance as well as on its ‘measurement’. The main findings are summarized in the paragraphs below. Once again, the analysis makes reference to the five standard evaluation criteria¹⁴

Relevance. As mentioned above, relevance has to do with the consistency of project objectives with development goals. In practice, a project is judged to be “relevant” when it addresses correctly identified needs in the beneficiary country and it does so (i) with the appropriate mix of means, (ii) in collaboration with an appropriate counterpart, and (iii) within an appropriate time frame. In practice, the relevance of a certain aid intervention is largely related to the quality of the work performed in the project identification and preparation phase. However, as things change over time (and the more so in developing countries), relevance is also affected by the time elapsed between identification and implementation as well as by the flexibility afforded by procedures, so as to allow the swift adoption of remedial measures in case problems emerge. In the past, several EC projects suffered from a poor identification of beneficiaries and poorly drafted TOR. As noted by the Court in the above mentioned report concerning Russia¹⁵, this was certainly the case of many TACIS projects in Russia, which helps to understand the low scores received by projects in this area in the

¹⁴ This review should not be interpreted as the result of an exhaustive analysis of all the evaluations and audits performed by the Commission and the Court. The Consultant focused on approximately a dozen of reports that appeared to be of particular interest for the Study, giving priority to the most recent ones. The report on which greater reliance was made are cited in the text while those consulted only partially are indicated in the bibliography.

¹⁵ Court of Auditors, *Special Report No 2/2006 concerning the performance of projects financed under TACIS in the Russian Federation*, April 2006.

early 2000. A summary of the problems identified and of their consequences is provided in Box 4.3 below.

Box 4.3 Problems in Project Design

The poor quality of TOR and the lack of realism in underlying assumptions were found to be a problem in 12 of the 29 TACIS projects audited by the Court in Russia. Examples include cases “*where the institutional framework of a beneficiary was not adequate or was non-existent, the target group had no interest in the services provided, the cooperation potential of the local administration was over-estimated or the beneficiary was not, by legislation, allowed to provide the services or information foreseen by the project*”. This inevitably had repercussions in the implementation phase, with “*major delays in implementation. In this respect the most critical part was the inception phase, which usually took more time than planned. Those delays were mostly linked to an inadequate quality of the preparation of the projects. Due to the poor TOR, the projects needed many approvals for changes during inception and implementation*”. In this context, things were further aggravated by procedural aspects, as the “*procedure to change the project approach through addenda is time-consuming. Even a change of personnel requires the same procedure as modifications to the project’s actual substance*” (page 8).

Effectiveness. Effectiveness relates to the ability of a certain project of achieving the intended results. In turn, the achievement of results depends upon the project’s ability to produce some outputs. A precondition for assessing effectiveness is the existence of clearly specified objectives and benchmarks. However, evidence from evaluation and audit reports suggests that this condition is often not met. The problem is again illustrated by the findings of the Court in Russia: indeed, in the majority of the initiatives analyzed, “*the initial project objectives in the TOR either described only the intended activities or input instead of setting clear and measurable objectives; or they were formulated in the same general way as in the political programming documents, forcing the contractors to define the actual purpose of the projects during implementation. The projects did not have objectives that would have identified the problems to be solved nor did they have such objectives against which the achievements of the projects could have been measured*” (page 7). In turn this raises doubts regarding the objective nature of the assessment performed during monitoring. Indeed, the evaluation of EC projects in private sector development¹⁶ noted that “*the quality of assessments relies on the programme indicators themselves (in the absence of good outcome and impact indicators, [the monitors] must often devise their own indicators within a limited time) as well as on the monitoring staff’s understanding of the PSD strategy so as to ensure that the programme is monitored vis-à-vis the objectives of the strategy*” (page 28). However, “*it has been observed that, very often, programme documents include neither baseline information nor explicit targets or objectively verifiable indicators*” (page 27). Whenever effectiveness can indeed be measured, one of the most frequently cited problems relates to delays in implementation, due to late disbursement of funds or, more often, cumbersome procedures. In this respect, available evidence suggests that the recent de-concentration has had a positive impact. Indeed, in the already mentioned audit of the MEDA program¹⁷, the Court found that “*as a result of devolution Delegations, with their specialised finance and contracts staff now on the spot, can and do play an important role by helping project managers and local administrations to deal with the procedural aspects of procurement*” (page 24).

Efficiency. Efficiency or cost effectiveness has to do with the relationship between the costs of a project and its results/outputs. In its broadest sense, assessing efficiency involves a judgment

¹⁶ ADE, *Evaluation of European Community Support to Private Sector Development in Third Countries*, December 2005

¹⁷ Court of Auditors, *Special report N° 5/2006, concerning the MEDA program*, July 2006.

regarding the overall use of resources for a project, in relations with other possible courses of action. In principle, the calculation of efficiency indicators should not pose problems, as in any project is always possible to establish a link between the resources used and the results achieved (or at least the outputs produced). Given the above, one may be surprised by the fact that many AIDCO evaluation studies (as well as the Court of Auditors' reports) normally provide little hard evidence regarding the cost effectiveness of various interventions. In the vast majority of cases no attempt is made to assess the 'value for money', either because of the intrinsic difficulty of measuring the value of objectives achieved (see comments on effectiveness above) or because alternative courses of actions are not considered, let alone monetized. In other words, hardly any analysis is ever made of whether the same results could have been achieved with less money, or the same budget could have achieved more. Therefore, assessments tend to focus on organizational and management aspects and/or are based on purely qualitative evidence, and in certain cases they appear to be highly subjective. An exception to this trend is represented by the evaluation studies conducted by DG ECHO. Perhaps because they are more narrowly focused on specific operations, these reports typically include a discussion of cost effectiveness, backed by hard evidence (i.e. they provide figures). These analyses may not reach the point of providing a full 'value for money' assessment but certainly provide the reader with information about the orders of magnitude involved.

Sustainability. Sustainability is defined as the capacity of a project to continue to produce effects over time, after donor support is phase out. In other words, assessing sustainability involves a judgment about the possibility of a certain initiative to continue living with its own means without recurring to external support any longer. Sustainability is often highly correlated with relevance. If a project is poorly designed in the first place, it is extremely unlikely that it can achieve sustainability, unless there is a major turn around during implementation. Therefore, sustainability is often problematic when projects are undertaken in 'isolation', without the necessary coordination with the beneficiary government's relevant strategies and policy measures. For instance, the evaluation of EC activities in Bangladesh¹⁸ found that: *"the sustainability of EC's contribution to [government] health strategies will have been slight as such strategies were weak or absent, or else effectively donor-driven and donor-owned, and sufficient political will to improve organisations and structures was lacking."* (page 58). The need to place specific projects in the context of broader development strategies is addressed in an increasingly systematic manner within the framework of the Country Strategy Papers (CSP), and this is reflected in the relatively high marks attributed by the monitors to sustainability in recent times. Still, some problems remain. Often, sustainability is equated to financial self sustainability of the organizations established or strengthened by development interventions. In the case of projects supporting private sector organizations (such as credit unions, micro lending schemes, etc.) this is indeed a valid criterion. However, in the case of projects in the social and environmental sectors expectations regarding financial sustainability are often excessive. Hence, the question raised by the Court in the above mentioned review of environmental projects, of *"whether the Commission's traditional development project approach of funding a project for only a few years, after which it is required to become financially viable, is appropriate to the environment sector"* (page 48).

Impact. Impact is defined as the capacity for a certain project to achieving results beyond the narrow boundaries of the project, through various positive feedback mechanisms (imitation, economic multiplier, etc.). Together with cost effectiveness, impact assessment appears to be the Cinderella of evaluation studies, at least as far as quantitative aspects are concerned. This is largely explained by the lack against which the impact of initiatives can be assessed. This is a recurrent theme in many reports, including country strategy evaluations (e.g. Ghana), thematic evaluations (e.g. food aid) and geographical program assessments (e.g. TACIS). For instance, evaluation of EC

¹⁸ Commission, *Evaluation of the European Commission's Country Strategy for Bangladesh*, November 2003

support to good governance¹⁹ noted a, “shortage of both indicators of outcomes used by the EC for its governance activities and of well-established monitoring and evaluation systems, reducing the scope for assessing contributions made or (systemic) impact achieved” (page 2). Under these conditions, impact evaluation inevitably takes an intrinsically qualitative attitude, focusing on aspects such as the behavioral changes possibly induced by technical assistance projects, entrepreneurs’ greater awareness of the benefits resulting from the use of business support services or the emergence of a regional identity.

4.6 Assessing Overall Aid Performance

Background. Over the last decade, the theme of how to measure the performance of aid activities has been debated at length. Throughout the Western world aid agencies have come under increasing pressure from political authorities and the public opinion alike to provide evidence of their performance, with special emphasis on the quantitative measurement of results achieved in relation with the resources spent. This has spurred a considerable amount of research on effectiveness and impact indicators. The results of such an effort are mixed. On the one hand, most aid agencies (including the Commission services) have developed indicators of performance at the level of individual development initiatives (i.e. at the ‘project level’). On the other hand, attempts to achieve an overall measurement of the impact of aid policies in quantitative terms, and worst still in monetary terms, have been frustrated by serious methodological difficulties. The nature of the problems at hand is illustrated in the Box 4.4 below²⁰.

Box 4.4 Problems in Measuring the Overall Impact of Aid Activities

Practical problems mainly relate to the lack of comprehensive and updated statistical indicators. In many developing countries statistics on aspects such as malnutrition, maternal health, etc. are extremely weak and sometimes non-existent. Furthermore, when they exist, these statistics are collected and/or published at rather long intervals, and they may have more a historical than operational relevance. This statistical gap can be filled by conducting dedicated surveys, but requires resources that are not always available.

Methodological problems are of three orders. First, it is often difficult to establish a clear causal link between aid activities and the evolution of certain phenomena, as other forces are normally at play. While a counterfactual situation can be established fairly easily for a specific project or a cluster of projects, this is often not feasible (or, rather, requires a significant amount of work) for an economy as a whole. Second, the exercise may well turn out to be rather futile in the case of countries where the importance of aid flows is limited, compared with the size of the economy. Third, even when the impact of aid activities can be measured and is meaningful, in many cases it is difficult to establish the contribution of individual donors (the so-called ‘attribution problem’).

The difficulty of establishing all encompassing indicators of the results achieved by aid activities must be acknowledged. However, the limitations evoked above do not apply all the time in all the countries, and practical ways have been devised to establish at least a partial causal link between the resources deployed and their outcomes. In certain cases, an effort has been made to build upon the information collected at the project level, with the subsequent aggregation of results in order to provide a global picture (‘bottom up approach’). In other cases, attempts are made to link the action

¹⁹ Commission, *Thematic Evaluation of EC Support to Good Governance*, June 2006.

²⁰ An excellent review of the methodological problems posed by the measurement of the overall ‘value for money’ of aid activities is provided in a review of DFID operations carried out by Britain’s National Audit Office. See NAO, *Department for International Development, Performance Management - Helping to Reduce World Poverty*, HC 739 Session 2001-2002, 12 April 2002.

of donors with changes in key variables in selected countries ('macro approach'). Examples of these two approaches are provided in Box 4.5 below.

Box 4.5 Pragmatic Approaches to the Measurement of Aid Impact

Macro Approach. The relationship between DFID and political authorities is governed by a Public Service Agreement (PSA), which, *inter alia*, stipulates the indicators to be used for assessing DFID's performance. As part of this arrangement, DFID is required to monitor and report progress towards the achievement of selected quantitative targets in the main countries of operation. In order to limit the 'attribution problem', this requirements applies only to the countries where British aid is a significant share of total aid. As for statistical issues, the emphasis is placed on a small number of indicators related to the Millennium Development Goals (only four, out of a total of more than 30). While the difficulty of deriving a strong causal link between DFID interventions and progress (or lack thereof) in a certain country is acknowledged by both DFID and the UK government, it is nonetheless felt that the availability of at least some key data provides a useful anchor to more qualitative assessments and contributes to enhance DFID's accountability.

Bottom Up Approach. The International Fund for Agriculture Development (IFAD) has been working for sometime at the development of a set of impact indicators at the project level. Once aggregated across the whole spectrum of IFAD projects, the data will provide: (i) an overall measure of IFAD's contribution towards the achievement of the MDG, and, more in general, (ii) a measure of what has been achieved. In order to facilitate data collection, the system is centered on relatively simple indicators of effectiveness (e.g. number of persons or families that have benefited from a certain project) and impact (e.g. number of people possessing a bicycle – retained as an indicator of wealth – before and after the intervention) and will be implemented in a user friendly manner, so as to minimize interference with normal operational activities²¹.

Assessing EC External Assistance. So far, the analyses of aid activities conducted by the Commission have concentrated only on qualitative aspects, with very few attempts to provide a quantitative measurement of results achieved. As mentioned above, the evaluation studies conducted by the Commission services generally provide only qualitative information, the exception being the DG ECHO evaluations (but then the results achieved are not aggregated to provide an overall assessment). The same applies to other documents. For instance, in recent years, the Annual Reports have included sections on the EC contribution towards the achievement of the MDG, but the analysis has mainly consisted in a listing and brief illustration of EC projects, and the only figures provided relate to inputs (i.e. the money spent) rather than to outcomes. A more systematic treatment is provided in the report prepared for the MDG 'mid term review' held in 2005. The logic on EC actions aimed at the various MDG is explained in a fairly detailed way, and some examples of possible effects are also provided. However, this report also does not attempt to provide any quantification, however partial, of the achievements of EC external assistance. An initial assessment of EC aid impact, benchmarked on the MDG and based on the results of the Mid-Term Reviews of country strategy papers, was mentioned in a document produced by the Commission in 2005²². The document reported fairly positive results, but without elaborating much on the methodology and the use of quantitative indicators, if any. To the best of the Consultant's knowledge, subsequent publications do not seem to have followed up on this aspect. As for the monetization of the results achieved, the only example of cost benefit analysis that the Consultant could locate is an exercise commissioned by DG FISH back in 1997 and related to the impact of fisheries agreements²³.

²¹ Personal communication of the author with personnel of IFAD's Self Assessment Unit.

²² Commission, *Qualitative Assessment of the Reform of External Assistance*, Commission Staff Working Paper, SEC(2005) 963, Brussels, 11.7.2005

²³ IFREMER, *Evaluation of the Fisheries Agreements Concluded by the European Community*, August 1999.

4.7 Concluding Remarks

Aggregate data from the AIDCO monitoring system indicate that, on average, EC-funded projects in developing countries are in fairly good health. More detailed data suggest the existence of problem areas, namely in ACP countries and in the residual category 'other sectors'. In these cases, problems mainly relate to effectiveness, efficiency and impact of EC operations. Projects in the transport sector are still to be regarded 'on track', but their performance has been sliding overtime.

Elements derived from the evaluation studies commissioned by the Commission broadly confirm the positive picture, although several specific problems are identified. The Court of Auditors' reports tend to present a somewhat less rosy picture, but the general outlook is not a negative one. However, it should be noted that in many cases both AIDCO evaluations and the Court's audits do not provide (and seem not to rely upon) hard quantitative evidence about key aspects, such as the cost effectiveness and the impact of various actions. Therefore, it is often difficult to back the scores attributed to projects by the monitors with information that can be more intelligible to the layman.

Regarding the overall impact of the EC external assistance, there is now a considerable body of literature suggesting that univocal, all encompassing measures of performance of the 'bang per buck' type are unfeasible and that exercises aimed at that could well result in a sterile number crunching. However, the undeniable methodological difficulties should not be regarded as a sufficient justification for not providing any sort of quantitative assessment of results. As indicated above, the examples of DFID and IFAD suggest that there is some scope for establishing some link between the amounts allocated to external assistance and the results achieved.

5 COST OF THE AID MACHINERY

5.1 Introduction

Over the last few years the EC ‘aid machinery’ has undergone a major transformation, with the establishment of AIDCO, the transfer of a number of responsibilities from headquarters to the Delegations, the introduction of new programming mechanisms and the simplification and/or systematization of a number of procedures. The positive results of this process (with the stabilization of the *reste à liquider* - RAL, the reduction in payment terms, etc.) are well known and it is not worth reiterating them here. This Section addresses an aspect that has so far received limited attention, namely the cost of the EC ‘aid machinery’. This is complemented by a brief review of some other aspects related the management of aid operations. In particular, Section 5.2 reviews the available evidence on the aid-related administrative costs provided in published documents, Section 5.3 puts the issue of aid-related administrative costs in a comparative perspective, based on data from OECD – DAC, Section 5.4 deals with selected management aspects (size of project size and use of certain forms of contractual arrangements), and Section 5.5 summarizes the findings and recommendations.

5.2 Cost of the Aid Machinery – Evidence from EC Sources

Administrative costs incurred by the EC in relation to its external assistance activities include personnel and other overheads at headquarters and in the Delegations, as well as other costs specific to certain aid programs (e.g. European Agency for Reconstruction, implementation expenses incurred by the EDF, etc.). Administrative expenditures incurred by the Commission are shown in the budget (headings 01 and 49), but they are in aggregate form and in certain cases they may also refer to other functions. Some data on aid related administrative costs are presented in the Annual Reports published by AIDCO. This information mainly refers to administrative costs related to aid to developing countries (ODA), covering both the budget and EDF. For a couple of years, the Annual Reports also provide data on administrative costs related to external assistance to countries in transition (the so called OA) but, as it will be seen below, the accuracy of this information raises some doubts. Also, as the format of the Annual Report has evolved over time, the same data are not systematically provided and there are gaps in the time series. The available evidence is summarized in Table 5.1 below while more detailed data are in Annex D.

Table 5.1 Administrative Costs of EC External Assistance/ODA (Budget + EDF)
(€million)

Type of Flows	2002	2003	2004	2005
Administrative costs related to developing and transition countries (ODA+AO) - Commitments [A]	441	392
Administrative costs related to developing countries (ODA) - Commitments [B]	142	538	461	488
Administrative costs related to developing countries (ODA) - Payments [C]	..	409	531	525
Discrepancy (ODA+OA) vs (ODA only) [A – B]	-20	-96
Difference payments vs. commitments [C – B]	..	-129	+71	+37

Only data on ODA commitments are available for all the years

The information presented in the table leads to the following considerations:

- ➔ it is apparent that there are inconsistencies in the data. Indeed, the figure for administrative costs for the whole EC external policy (developing countries and countries in transition, i.e. ODA + OA) is lower than the corresponding figure for ODA only;

- ➔ although the time series is short and the data are somewhat patchy, there appear to be an upward trend in administrative expenses. However, this trend is probably exaggerated by an abnormally low figure for 2002, for which some under reporting appears likely;
- ➔ there are significant differences between the amounts committed and those actually spent. In 2003 commitments largely exceeded payments, whereas in 2004 and 2005 the opposite was true.

Whatever the absolute value, it is important to put administrative costs in relation with the volume of aid handled, i.e. to compare the cost of the ‘aid machinery’ with its ‘turnover’. The available evidence is provided in Table 5.2 below. Given the inconsistency in the ODA + OA data indicated above, the table focuses on ODA only. Data for 2002, regarded as an outlier, are also excluded.

Table 5.2 Incidence of Administrative Costs of EC ODA
(€million)

Type of Flows	2003	2004	2005
ODA Commitments			
Administrative Costs [A]	538	461	488
Total Aid Volume [B]	8269	7538	9287
Ratio [A]/ [B]	6.5%	6.1%	5.3%
ODA Payments			
Administrative Costs [A]	409	531	525
Total Aid Volume [B]	6331	6926	7497
Ratio [A]/ [B]	6.5%	7.7%	7.0%

Only data on ODA commitments are available for all the years

The data show that during the 2003 – 2005 period the administrative costs related to assistance to developing countries have been in the order of 5% to 8% of aid flows. It is worth noting that in 2004 and 2005 the share of administrative costs was significantly higher in the case of actual payments than for commitments (see Figure 5.1). This is due to two concomitant factors: on the one hand, payments for aid-related administrative costs exceeded commitments by 7% - 15%; on the other hand, payments for aid operations were lower than commitments.

5.3 Cost of the Aid Machinery – Comparative Perspective

Administrative and management costs represent a significant share of total allocations made by western donors to developing countries. In 2004, the total administrative costs incurred by DAC members was around US\$ 3.8 billion, compared with total ODA commitments of some 44 billion²⁴. In this section we briefly review the evidence on aid related administrative costs incurred by some leading donors. The analysis makes use of data from OCSE DAC statistics, which are collected on the basis of a standard definition of administrative costs of aid²⁵.

Overall Trends. Tables 5.3 and 5.4 present data on expenses for aid-related administrative costs for the EC, the three leading EU donors (France, Germany and United Kingdom), the US and Japan in 2000 and 2004. The first table is expressed in US\$ and the second in €. As it can be seen, the significant fluctuations in exchange rates occurred during the early 2000s impact significantly on

²⁴ Unless otherwise indicated, all the data used in this section originate from the OECD DAC Database and refer to ODA commitments.

²⁵ See OECD – DAC, *DAC Statistical Reporting Directives*, Paris, May 2000. For ease of reference, the definition of administrative costs used by DAC is reproduced here in Annex C.

the trends displayed by the various donors. However, irrespective of the currency in which the data are expressed, there seem to be a growing trend in administrative costs and the EC is topping the list in terms of increase in administrative spending.

Table 5.3 Administrative Costs of Aid - Commitments
(US\$ million)

Donor	2000	2004	% Change
France	188.7	366.2	+36%
Germany	229.9	251.1	+9%
United Kingdom	189.1	508.0	+182%
European Community	184.4	572.3	+210%
USA	713.0	990.9	+39%
Japan	935.5	671.4	-28%

Table 5.4 Administrative Costs of Aid - Commitments
(€million)

Donor	2000	2004	% Change
France	204.3	294.4	+44%
Germany	248.9	201.9	-19%
United Kingdom	195.0	408.4	+109%
European Community	199.7	460.1	+130%
USA	772.0	796.6	+3%
Japan	1012.9	539.8	-47%

Administrative Costs as Share of Total Aid. In order to control for the growth in aid volumes and for fluctuations in exchange rates, the administrative costs incurred by the various donors have been compared with the value of total ODA commitments. The results are presented in Figures 5.1 and 5.2 below.

Figure 5.1 Share of Administrative Costs in Total Bilateral ODA – 2000

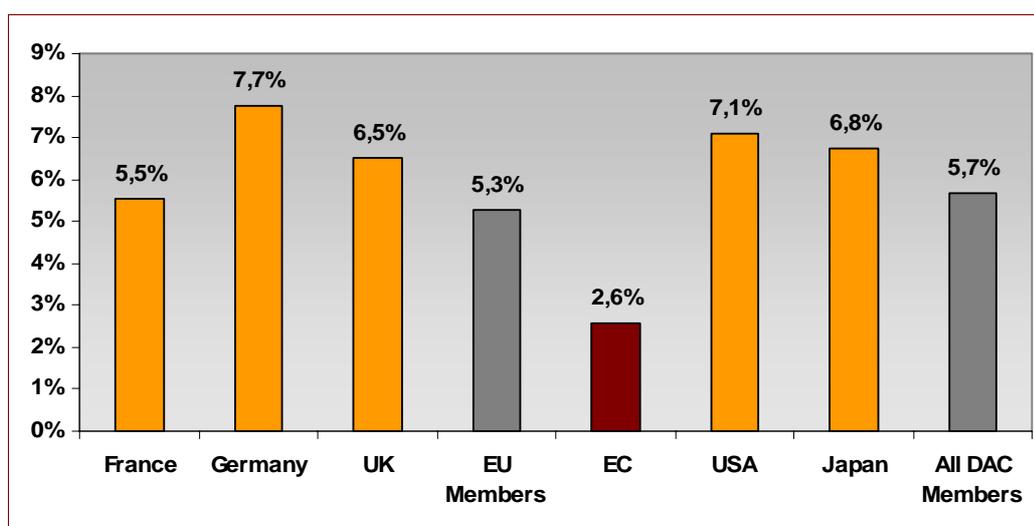
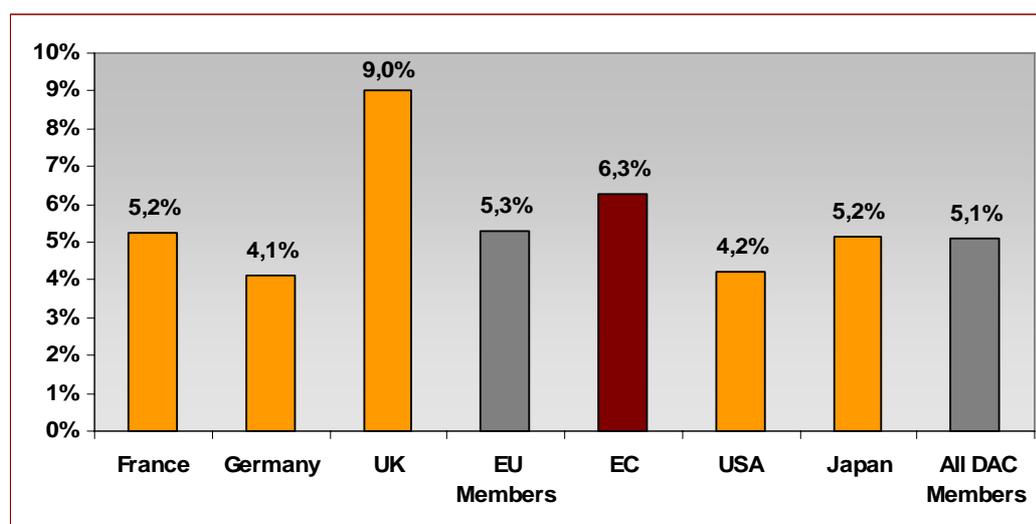


Figure 5.2 Share of Administrative Costs in Total Bilateral ODA – 2004



As it can be seen, between 2000 and 2004 most of the donors managed to reduce the share of aid related administrative expenditure. The only exceptions are the EC and the United Kingdom. The change in the position of the EC is particularly striking. In 2000 the EC was by far the least cost donor in the group, with a share of administrative costs of less than 3%, compared with ratios of 5% to 8% for other donors. In contrast, with an incidence of administrative costs on total aid of 6.3%, in 2004 the EC had become a high cost donor, second only to the United Kingdom. In particular, the EC share of administrative expenditure is well above the corresponding value for the average for EU bilateral donors as well as above the average for all DAC donors.

Productivity. Another fairly common measure of administrative efficiency of donors is represented by the ratio between personnel and the volume of bilateral aid, typically expressed as number of staff per US\$ 10 million of aid. Table 5.5 summarizes the available evidence for the year 2004²⁶.

Table 5.5 Productivity of Donors - 2004
(US\$ million)

	Total Bilateral ODA	Total Staff	Staff per US\$ 10 million ODA
France	6,999	2,070	3.0
Germany	6,115	6,550	10.6
United Kingdom	5,620	2,938	5.2
EC	9,099	3,539	3.9
USA (2002)	12,200	7,920	6.5
Japan (2003)	14,458	2,097	1.5

According to this indicator, with an average of slightly less than 4 staff per US\$ 10 million of aid, the EC appears to be in an intermediate position, performing better than the UK, the US and Germany and bit less efficiently than France and Japan. However, these data should be interpreted with caution, as there seem to be differences across donors in the definition of the 'head count'. This seems to be especially the case of Germany, whose seemingly very low productivity

²⁶ Data for the EC and the EU member states are from the EU Donor Atlas 2006. Data from the US and Japan are from the respective DAC Peer Reviews.

(almost 11 staff per US\$ 10 million) is dramatically at odds with the evidence of low (and declining)²⁷.

5.4 Selected Issues

Size of Projects. The Annual Report and other Commission documents do not provide any information on the average size of projects, but a trend towards larger projects can be easily gauged from even a cursory review of tenders published by AIDCO or the reading of various planning documents. This development has been welcomed by the Commission and various working documents contain a number of more or less explicit negative remarks regarding the too many small projects implemented in the past²⁸. This view is also echoed in several evaluation studies.

The move towards larger projects has been favored on several grounds, such as the possibility of achieving a greater impact, the higher visibility of larger initiatives, and the reduction in transaction costs. The idea that larger projects achieve a (comparatively) larger impact seems to suggest the existence of economies of scale in aid projects. This may well be the case in a number of fields, but in order to fully demonstrate the presence of economies of scale, the impact of projects should be measured in the first place. And, as indicated by the analysis provided in Section 4 above, unfortunately this is not normally the case. The visibility argument certainly has some merit, especially in sectors characterized by ‘hard’ interventions (one big bridge is more likely to hit the headlines and to be remembered by the general public than a series of trails). But the real force behind the trend towards bigger projects appears to lie in the reduction of transaction costs related to the identification, preparation, contracting and monitoring of projects. It is a well known secret in the aid industry that the transaction costs for a project of, say, €500,000 (a small project by EC standards) are not much different from those of a project worth €5 million.

Whatever the merits of larger projects, it is important to note that the growth in project size may also have negative side effects. Especially in the case of technical assistance initiatives, large projects may result from the aggregation of several logically separated initiatives, involving the pursuit of several objectives and/or the interaction with too many beneficiaries. The point is neatly illustrated by the comments formulated by the Court of Auditors’ audit of TACIS projects in Russia, which noted that *“Instead of launching several, well-defined and focused projects, multiple tasks were incorporated into one set of ToR with loose connection or no synergy at all”*. As a result *“implementation faced a number of problems because lack of cooperation between the federal and regional authorities or lack of cooperation between different federal and between different regional authorities was usual”*.

Contractual Arrangements. The emphasis placed on the reduction of transaction costs in the management of development interventions has pushed the Commission to make extensive use of the so called framework contracts (FWC). FWC are contracts for the provision of services in a certain field of intervention (say consulting services or emergency operations) without having recourse to standard tendering procedures or through simplified tendering procedures. FWC are signed with contractors (enterprises or NGO) which have been selected through open tenders or other pre qualification mechanism and typically cover periods of 2 to 4 years.

²⁷ Our interpretation is that in the case of Germany personnel data include the staff of GTZ. However, GTZ is largely involved in the direct implementation of projects whereas other donors rely to a greater extent on external contractors. This interpretation appears compatible with data presented in OECD – DAC, *Peer Review of Germany*, Paris, 2006.

²⁸ See for instance the comment in the 2005 Annual Report *“The Commission seeks to improve the efficiency and impact of its programmes by increasing the focus on a limited number of areas of intervention, and by avoiding the dissipation of its aid in a large number of small unrelated projects”*, page 13.

In the field of external assistance, the Commission has a variety of FWC and FWC-like arrangements currently in existence. For instance, DG ECHO has entered into long term arrangements (Framework Partnership Agreements - FPA) with some 180 NGO and other entities that can be involved in the implementation of emergency aid operations. Since the late 1990s EuropeAid has been using FWC for the provision of short terms consulting expertise in a wide range of areas (from macroeconomic affairs and government reform to the preparation of TOR and the evaluation of tenders). At present, some 15 to 20 FWC are managed by AIDCO, for a (grossly) estimated annual value in the order of €65 million²⁹.

The massive recourse to FWC invites some comments. There is no doubt about the appropriateness of the FPA adopted by DG ECHO. In emergency aid, speed of action is essential and there is no time to go through standard tendering procedures. Also, by having established stable FWC-type arrangements with a large number of organizations, DG ECHO is in the position of selecting the entities best placed to conduct a specific operation in a specific country, duly taking into account past experience. The case for FWC is less clear cut for operations managed by AIDCO. In this case FWC contracts are typically stipulated with large consortia, coordinated by a leading firm. On the one hand, the leading firm operates as the interface with the relevant Commission services, on the other, it acts as a sort of procurement agent vis-à-vis the consortium members. There is evidence that this mechanism involves significant overheads, which may go up to 25%-30% of the value of fees. As consulting companies are no charities, it is obvious that these overheads have to be reflected either in higher prices paid or in a lower quality of experts mobilized under the FWC, negatively impacting on the 'value for money' received by the Commission.

5.5 Concluding Remarks

It is obvious that the reorganization of the EC external aid could not be achieved at no cost. However, the data regarding the administrative costs incurred by the Commission in recent times suggest that some overshooting might have occurred. As mentioned above, the data presented here must be regarded as tentative and must be interpreted with care. Also, there seems to be a discrepancy between the data on administrative costs (which place the EC at par with the high cost development agencies) and the data regarding the number of staff per volume of aid handled, which on the contrary suggest that the Commission is still understaffed. While the difference may be partly explained by the higher unit cost of EC personnel, this does not seem to tell the whole story and closer look at the issue might be warranted.

The other aspects mentioned are not intrinsically related to the reorganization process but are also worth come consideration. The trend towards larger projects is certainly justified on some grounds but it is important to consider the side effects of the quality of projects. Similar considerations apply to the use of 'user friendly' types of contractual arrangements, such as the framework contracts. As both trends have been and still are justified by the need to reduce transaction costs for an understaffed and under budgeted Commission, maybe the evidence provided in this Report regarding administrative costs, once duly verified, might lead to some re-thinking.

²⁹ This is the figure that was indicated in the procurement notice for the last large tender launched by AIDCO (EuropeAid//119860/C/SV/multi).

6 ROLE OF NGO IN EC EXTERNAL ASSISTANCE

6.1 Introduction

The role of non governmental organizations (NGO) in development cooperation activities has dramatically increased over the last few decades. It has been estimated that at the beginning of the 2000s there were about 46,000 international NGO in operations, compared with the some 13,000 in existence at the beginning of the 1980s, with a 250% growth³⁰. The staggering growth in numbers has been paralleled by an expansion in the scope and nature of NGO development activities and by a dramatic increase in financial resources handled by NGO. In the early 2000s, the UNDP estimated that no less than US\$ 7 billion worth of aid resources were annually channeled through NGO³¹.

The assessment of the role of NGO in the EC external assistance is an aspect explicitly mentioned in the TOR and the theme is tackled in this part of the Study. In particular, Section 6.2 provides an overview of EC programs in which NGO are involved, Section 6.3 provides an estimate of the amount of EC resources channeled through NGO, Section 6.4 deals with the performance of NGO.

6.2 NGO's Involvement in the EC Development Policy

Overview. The EC development cooperation budget has been providing funding to NGO for over 30 years. The most established channel for this funding is 'NGO Co-financing' scheme, created back in the mid 1970s to provide financing for NGO initiatives in developing countries (and later extended to cover awareness enhancing actions in the EU). A somewhat similar program is the 'decentralized cooperation' facility, now managed by the Delegations and open also to southern NGO (as well as to other local governments and other 'non state actors', NSA). NGO are also traditionally involved in the implementation of humanitarian aid initiatives funded by the DG ECHO budget and in food aid and food security projects. Over time, the broadened scope of the EC external assistance has opened additional opportunities for NGO. Therefore, NGO have become significantly involved in the implementation of thematic programs, such as the European Initiative for Democracy and Human Rights (EIDHR) and the health, environment, migration, and gender-related programs. Finally, NGO have been involved in the implementation of certain components of geographical programs as well as of EDF-funded activities. A summary presentation of NGO's involvement in various EC development programs is provided in the following pages.

NGO Co-Financing. The 'NGO Co-financing' program is the oldest EC instrument providing financing to NGO and to date one of the few funding mechanisms deliberately reserved to NGO. Established in 1976, this budget line (at that time B7-6000, later 21 02 03, currently 21 03) received increasing allocations until the mid 1990s. Over the last decade, annual allocations have been remained broadly stable, hovering around €200 million. One of the program's salient features is the 'right of initiative' granted to NGO, that are free to propose initiatives for co-financing, without having to follow stringent guidelines. As a result, the program can be characterized as a sort of 'facility', fully demand-driven. The 'right of initiative' principle was confirmed *inter alia* by the Council Regulation 1568/98, which provided the legal basis for the program. The program has always been very popular among NGO and the number of funding requests has always greatly exceeded available funds, to the point that the program has sometimes been described as a "victim of its own success"³². Initially, NGO received funds on the basis of spontaneous proposals, which were submitted to the EC in a fairly unstructured way. Starting with 2000 a call for proposals (CFP)

³⁰ Data from the *Yearbook of International Organizations* quoted in Baccaro Lucio, *Civil Society, NGO and Decent Work Policies: Sorting Out the Issues*, Discussion Papers, ILO, Geneva.

³¹ 2001UNDP, *Human Development Report 2002 – Deepening Democracy in A Fragmented World*, New York, 2002

³² Concord. "Reform of the B7-6000 Budget line: The Palermo Seminar", *Topical Issue*, December 2003.

mechanism was introduced. Under this budget line the bulk of the funding is aimed at co-financing NGO initiatives in developing countries. Some 10% of the funds are used for the financing of public awareness and information campaigns on development-related issues in Europe. Over the years, hundreds of NGO projects have been financed by the scheme. The nature and scope of these projects is extremely varied, defying any attempt to establish a typology. In the past, the average size of projects was relatively small (according to some calculations, around €300,000) but this has changed over time. According to some sources, in 2003 the average size of grants awarded was around €600,000, which, assuming a 75% average co-financing ratio, implies an average project size of some €800,000.

Humanitarian Aid. NGO have been actively cooperating in the implementation of humanitarian aid actions since the early 1990s. At present, ECHO keeps a roster of NGO partners, with which it has entered long term Framework Partnership Agreements (FPA). Additional funding to NGO is provided as part of the disaster preparedness program (DIPECHO), on the basis of CFP. The size of contracts varies, but the largest NGO have been entrusted with the implementation of programs worth up to €15 million/year.

Thematic Programs. NGO involvement in thematic programs can be summarized as follows:

- ➔ ***Decentralized Cooperation.*** Launched in 1992, this program was aimed at promoting participation, decentralization and social dialogue in developing countries. It is a comparatively small program, with annual allocations of a few millions. Following de-concentration, since 2004 the program has been managed by the Delegations. Funds are awarded on the basis of on CFP open to both ENGO and SNGO;
- ➔ ***Food Aid and Food Security.*** Food Aid and Food Security (FA&FS) is another area in which NGO have been traditionally cooperating with the EC. In particular, since the early 1980s part of the EC food aid program has been handled by *EuronAid*, a specialized agency established by some 35 European NGO. NGO are also active in the implementation of food security programs, with funding awarded on a CFP basis;
- ➔ ***Human Rights and Democracy.*** NGO actively participate in the implementation initiatives in the areas of development and consolidation of democracy, strengthening of the rule of law and respect of human rights, namely as part of EIDHR. Funding is provided mainly through CFP open to NGO and other NSA and managed either centrally (“macro projects”, with budgets in the €300 – 1,500,000 range) or by the Delegations (“micro projects”, with budgets between € 10 and 100,000);
- ➔ ***Environment, Population and Health.*** NGO as well as other entities (NSA, government bodies, international organizations) are allowed to participate in the CFP for the implementation of projects aimed at protecting the environment in developing countries (with special reference to tropical forests), combating poverty-related diseases (tuberculosis, HIV/AIDS), and enhancing reproductive health. The size of projects varies significantly across programs, ranging between € 500,000 and €2-3 million;
- ➔ ***Other Thematic Programs.*** NGO participate in the implementation of a wide range of other thematic programs (*Aeneas* on migration, anti personnel mines, fight against drugs, gender equality, etc.). Funds are allocated through CFP. Again, the size of projects varies significantly, with a range for *Aeneas* of €500 – 2,000,000.

Geographical Programs. NGO are allowed to bid for grants under a variety of programs with a country or national focus. Examples include the ‘EU Partnership for Peace’ program in the Middle East, the TACIS-LIEN program, and actions in support to civil society and democratic stabilization in the Western Balkans. NGO are also allowed to participate in the CFP for some EDF-funded programs at the national level (e.g. Haiti’s “*programme de rehabilitation et de relance economique post-crise*” and Madagascar’s “*Appui aux Communes et Organisations Rurales pour le*

Développement du Sud”) as well as in the CFP for the EU-ACP facilities (water, energy and microfinance).

6.3 Funding Allocated to NGO

There is no single, readily available source providing an indication of the resources allocated to initiatives implemented by NGO in the field of development cooperation. In 2000 a Commission paper on the partnership between European institutions and NGO³³ estimated the funding going to NGO active in development cooperation at some € 400 million, but without providing any breakdown. A much higher amount, about € 1,376 million, was provided in the Commission communication on NSA of 2002. However, this figure includes amounts allocated to NSA other than NGO (cultural associations, trade unions, universities, etc.) as well as EDF funding. The issue was recently analyzed in a study by the European NGO platform Concord issued in May 2006³⁴. Aimed at responding to criticisms about the ‘excessive’ share of resources attributed to NGO, the Concord study estimated the total funding going to NGO at €681 million.

As part of the Study, the Consultant revisited the issue and an effort was made to estimate the amount of funding provided to NGO by various EC programs, with reference to 2005. It should be pointed out at the outset that the information basis available is less than ideal. However, due to the stringent timetable for the Study, it was not feasible to obtain additional information from the relevant Commission services. The results of this exercise are summarized in Table 6.1 below.

Table 6.1 Funds Allocated to NGO - 2005

Programs (budget headings³⁵)	NGO Funding (€million)	Comments
<i>NGO Co-Financing</i> (21 03)	201	The amount includes some €20 million that were “under reserve” as well as a modest amount of direct funding.
<i>Decentralized Cooperation</i> (21 05)	6	The total budget reserved for CFP open to NGO participation was €7.2 million. Based on results from previous years, the share of funding going to NGO is estimated at about 85%.
<i>Humanitarian Aid</i> (23 02)	333	The total of ECHO “funding decisions” was € 653 million, of which 51% went to NGO.
<i>Food Aid and Food Security</i> (21 02)	69	The amount allocated to NGO is indicated in the Annual Program and includes € 16 million for food aid and € 53 million for food security operations.
<i>Human Rights and Democracy</i> (19 04)	76	The total budget reserved for CFP open to NGO participation was 84.5 million, of which €49 for macro projects and 35.5 million for micro projects (i.e. local CFP). Based on results from previous years, the share of funding going to NGO is estimated at about 90%. In previous years NGO also secured some direct funding, but this is neglected here.
<i>Social Infrastructure and Services</i> (21 04)	37	The total budget reserved for CFP open to NGO participation was €57.2 million, of which 39.4 for poverty-related diseases and 17.8 for reproductive health. Based on results from previous years, the share of funding going to NGO is estimated at about 65%

³³ Commission, *The Commission and Non-Governmental Organizations: Building A Stronger Partnership*, Commission Discussion Paper, Bruxelles, 2000.

³⁴ Concord, *The Truth Behind the Figures – What the official figures tell us about European Community aid and NGOs*, Bruxelles, May 2006.

³⁵ In the case of many programs, budget headings have changed over time. Here reference is made to the budget headings indicated in the Preliminary Draft Budget for 2007 of May 2006.

<i>Environment and Tropical Forests</i> (21 05)	34	The total budget reserved for CFP open to NGO participation was €48 million, of which 11 for the environment and 37 for tropical forests. Based on results from previous years, the share of funding going to NGO is estimated at about 70%. In previous years NGO also secured some direct funding, but this is neglected here.
<i>Migration</i> (19 02)	9	The total funding reserved for CFP open to NGO participation was 44.4 million. Based on CFP results from the previous year, the share of funding going to NGO is estimated at about 20%
<i>Other Thematic Programs</i> (21 04, and 21 05)	6	Total funding reserved for CFP open to NGO participation includes € 2.7 million for landmines, € 2.9 for gender related actions, and €2.0 for drug-related activities. Based on CFP results from previous years, the share of funding going to NGO is estimated at about 80%
<i>Geographical Programs</i> (19 08, 19 09, 19 10, and 22 02)	50 - 133	The lower amount is taken from the estimate developed by Concord. The higher amount is an extrapolation from 2000 – 2001 Commission figures for funding to all NSA, assuming that NGO account for only 33% of the total (and excluding EDF and South Africa)
Total	821 - 904	

All in all, it can be estimated that funding attributed to NGO is in the order of €800 - 900 million, i.e. some 10 - 11% of the budget devoted to external assistance. When the EDF and aid to South Africa are taken into account, the total figure is likely to come close or even pass the one billion benchmark.

The bulk of this funding (possibly, as high as 80-85%) has been provided to European NGO (ENGO), while the rest has gone to “southern” NGO (SNGO). However, within the framework of most programs ENGO are required (or, at least, warmly suggested) to associate with their southern counterparts and this, inevitably, involves a transfer of funds. The share of funding going to SNGO is expected to increase in the future, as a result of the recent decision of untying EC aid, which opened to competition also budget lines that had been traditionally the preserve of ENGO, such as the NGO Co-financing program.

The number of NGO involved in aid and the number of projects implemented by these entities cannot be easily estimated. DG ECHO keeps a list of some 180 NGO with whom partnership agreements were finalized, but it appears that only some of these NGO are regularly involved in humanitarian aid actions. In the case of the ‘NGO Co-financing’ program, literally hundreds of NGO benefited from EC funding, although lately numbers seem to have been declining. In the case of thematic programs, the number of grants awarded annually to NGO ranges from 5 to 20 plus, depending upon the size of the program. While the number of NGO that have benefited in one form or another from EC funding can be counted by hundreds rather than tens, there appear to an increasing concentration. Indeed, a cursory inspection of grant awards lists reveals the recurrence of familiar names.

6.4 Performance of NGO

In this section we review the available evidence regarding the performance of NGO as implementers. Given the extreme variety of activities in which NGO are involved, the evidence about their performance is scattered across literally dozens of evaluation reports. Therefore, this analysis does not claim to be exhaustive and deliberately focuses on a few selected aspects.

Relevance. The ‘NGO Co-financing’ program is explicitly aimed at poverty reduction. Hence, it is reasonable to expect that projects proposed for funding by NGO be concentrated in geographical

areas (countries and regions) displaying a high degree of deprivation. However, an evaluation study conducted in 2000 found evidence of a limited correlation between the geographical distribution of funds and the actual prevalence of poverty. Indeed, the list of the top ten beneficiaries included countries such as Brazil, Chile and Peru, whose overall conditions certainly cannot be defined as critical, and only three sub Saharan countries (Uganda, Kenya and Ethiopia). The report suggested that such a lack of focus on the poorest countries could be attributable to political motives and/or to the existence of networks of well established contacts. Data for the period covered by this Study are not available but there are indications that the situation might have improved in this respect. Indeed, since the early 2000 the calls for proposals published by AIDCO anticipate a geographical allocation of funds (45% - 50% for ACP countries, 20%-25% for Asia and smaller shares for other regions) that appears more in line with the objective of combating poverty.

Effectiveness. A part from differences in performance that can be attributed to project or program specific elements, two factors appear to have a significant influence on NGO's ability to deliver results. The first one relates to existence of a stable and fruitful cooperative relationship between ENGO and SNGO. Conditions have largely changed since the early days when ENGO were heavily involved in field activities and nowadays a large part of the operational tasks are left to SNGO partners, with many ENGO acting in a sort of "general contractor" capacity. In this respect, the situation appears to be mixed. More established ENGO have developed a stable network of partners that can be rapidly activated and perform reasonably well. In other cases, the 'North South partnership' is simply a tactical move, prompted by the desire of securing funding. In these cases, the risk of delays in implementation, misunderstanding between field and HQ, and quarrels about the allocation of project funds is high, with negative repercussions on project implementation. The second factor impacting on effectiveness has to do with the NGO's (especially, SNGO's) ability of establishing good working relationship with beneficiary country's institutions. The theme is particularly touchy in heavily politicized environments and/or in fields where the action of NGO can be perceived as an attempt to create parallel services to those provided by the government. No sweeping generalization can be made, as the experience provides evidence of both positive and negative cases. A negative example is provided by Bangladesh, where a change in the political landscape (as well as the emergence of serious cases of mismanagement in local NGO) led to an overall reassessment of the role of EC-funded NGO. This was reflected in programming documents, such as the CSP and National Indicative Program, which proposed to reduce direct funding to NGO programs where these compete with Government services, namely in health and education³⁶. On the other hand, in several Latin American countries, NGO have been able to overcome initial scepticism, if not outright opposition, from government bodies and succeeded in achieving project objectives.

Efficiency. The higher efficiency of NGO compared with government entities is one of the arguments most frequently put forward by supporters of NGO. The argument is usually based on considerations regarding the lower costs of personnel, the higher operational flexibility, and the greater commitment of NGO staff and volunteers. The problem with NGO's efficiency is that it has been more often stated than demonstrated. One of the few comprehensive reviews of NGO operations located in the literature³⁷, notes that the greater efficiency claim "*do not seem to stand systematic scrutiny*", adding that "*there is no systematic evidence that NGO are most cost effective than government institutions*" (page 13). A more favorable opinion is expressed by an earlier study conducted on behalf of DAC and based on a series of country studies carried out in both developed and developing countries³⁸. But even in this case the author is led to comment that "*Overall, the*

³⁶ Commission, *National Indicative Programme of European Community Support 2006 – Bangladesh*, 2006.

³⁷ Baccaro Lucio, *Civil Society, NGO, and Decent Work Policies: Sorting Out the Issues*, ILO Discussion papers, Geneva, 2001.

³⁸ Roger C. Riddell et alius, *Searching for Impact and Methods: NGO Evaluation Synthesis Study*, OECD, Paris, 1997.

comments were favourable to NGOs, though they tended to focus more on explaining why NGO projects were more cost-effective than on providing evidence to confirm that they were!" (page 26). A recurrent theme is the lack of adequate information to properly assess cost effectiveness. The point was raised *inter alia* in a recently released NAO 'value for money' report on DFID's NGO support operations³⁹. The report notes that "*only three projects [out of the fifteen] we assessed contained comparative cost assessments in their documentation*" (page33). But, at least, these three cases provided satisfactory evidence of value for money.

In the case of EC funded operations, bits and pieces of evidence about NGO performance as project implementers can be found in a variety of evaluation studies focusing on areas/themes where NGO operate. Evaluation studies carried out by AIDCO are usually of a 'strategic level' and they hardly provide any hard quantitative evidence, with the partial exception of evaluations of EIDHR evaluations. By far the best source is represented by the evaluations carried out by DG ECHO. These studies show a varying degree of efficiency across NGO involved in the same project and at the same time. This is sometimes the result of different approaches of how to deal with emergency situations, and a distinction is often drawn between NGO operating in a 'development mode' and those acting in an 'emergency mode'. For instance, the evaluation of ECHO operations in Sri Lanka and Tamil Nadu⁴⁰ found that support costs of a sample of international NGO varied greatly, ranging between 18% and 71%, with an average of 34%, while the share of funding going directly to beneficiaries ranged between 29% and 83%, with an average of 66%. The sheer magnitude of the variation found in this is probably the best indicator that NGO, just as any other component of the aid industry, are an extremely diverse lot, including poor as well as excellent performers.

³⁹ NAO, *Working with Non-Governmental and other Civil Society Organisations to promote Development*, HC 1311 Session 2005-2006, 6 July 2006

⁴⁰ AGEG, *The Evaluation of ECHO's Actions in Sri Lanka and in the Tamil Refugee Camps in Tamil Nadu, India*, July 2005

ANNEX A – BASIC DATA ON EC EXTERNAL ASSISTANCE

Table A.1 EC External Assistance – Commitments
(€million)

DG	Programs	2000	2001	2002	2003	2004	2005
ECFIN	Macroeconomic assistance + EBRD	-	7	-	-	91	17
AGRI	Pre-Adhesion - SAPARD	529	540	555	560	229	252
ENERG	Intelligent energy for Europe programme						8
ENV	LIFE (European Financial Instrument Environment)					14	15
RTD	Combating major diseases + specific measures in support of International Cooperation					54	81
FISH	International fisheries agreements	124	194	190	186	175	176
REGIO	Pre-adhesion ISPA	1.016	1.121	1.109	1.129	453	525
TAXUD	Customs cooperation and international assistance					1	1
EAC	Education					19	20
PRESS	PRINCE					5	
JAI	Refugee/Migration						76
RELEX	Anti-personnel mines	8	12	12	18	19	16
	Rapid reaction mechanism		20	24	24	26	29
	ECIP	2			-	0	-
	Human Rights	94	105	110	112	135	135
	New Independent States	561	448	444	447	504	515
	Mediterranean	1.048	909	783	782	1.003	1.075
	Latin America	278	300	333	342	312	329
	Asia	481	408	575	558	611	834
	Evaluation/Coordination/Anti-fraud	12	10	23	23	13	16
	Common Foreign & Security Policy (CFSP)	42	33	33	54		
	RELEX-other specific actions	36	56	101	52	132	167
	Subtotal	2.561	2.300	2.439	2.413	2.755	3.114
TRADE	External Trade Relations					15	17
DEV	Food Aid	458	461	506	439	420	406
	Co-financing NGO	200	197	203	207	209	207
	Environment	32	42	49	42	50	59
	Integrating gender issues in the development co-operation				3	3	3
	Social infrastructure and services		27	13	99	104	131
	Capacity building for ICT and sustainable energy				2	-	-
	South Africa	124	122	124	127	135	155
	Bananas ACP	44	44	44	40	37	35
	Evaluation of the results of Community Aid					6	12
	Coordination & promotion of awareness on development issues	8	4	4	4	5	8
	DEV - other specific action					14	21
	Global Health Fund	45	60	-			
	Decentralized cooperation	3	5				
	Subtotal	914	961	943	962	985	1.037
ELARG	Pre-Adhesion - PHARE	1.569	1.651	1.683	1.703	980	971
	Pre-Adhesion – Turkey, Malta & Cyprus	8	26	148	186	245	288
	Pre-Adhesion – Other specific action					36	19
	Pre-Adhesion – multi-country horizontal programmes						83
	Western Balkans	860	825	821	703	663	519
ECHO	Humanitarian Aid	490	523	520	586	521	633
	Other external chapters of community policy	32	33	30	36		
	TOTAL	8.102	8.182	8.438	8.464	7.240	7.853
	EDF	3.757	1.554	1.768	3.728	2.648	3.511
	GRAND TOTAL	11.859	9.736	10.206	12.192	9.888	11.364

Table A.2 EC External Assistance – Payments
(€million)

DG	Programs	2000	2001	2002	2003	2004	2005
ECFIN	Macroeconomic assistance + EBRD	6	-	8	8	36	67
AGRI	Pre-Adhesion - SAPARD	-	31	124	263	574	812
ENERG	Intelligent energy for Europe programme						1
ENV	LIFE (European Financial Instrument Environment)					12	11
RTD	Combating major diseases + specific measures in support of International Cooperation					26	30
FISH	International fisheries agreements	127	192	186	188	177	173
REGIO	Pre-adhesion ISPA	3	203	398	429	568	751
TAXUD	Customs cooperation and international assistance					1	0
EAC	Education					18	18
PRESS	PRINCE					2	
JAI	Refugee/Migration						13
RELEX	Anti-personnel mines	6	4	10	13	9	14
	Rapid reaction mechanism		6	26	14	23	26
	ECIP	6			0	0	1
	Human Rights	53	54	96	103	96	121
	New Independent States	555	423	395	403	359	432
	Mediterranean	473	579	843	748	1.125	1.122
	Latin America	195	152	182	290	314	376
	Asia	323	383	454	469	526	681
	Evaluation/Coordination/Anti-fraud	6	9	17	17	16	13
	Common Foreign & Security Policy (CFSP)	23	30	31	31		
	RELEX-other specific actions	35	70	64	36	87	109
	Subtotal	1.676	1.710	2.118	2.126	2.554	2.895
TRADE	External Trade Relations					13	16
DEV	Food Aid	442	484	417	443	419	494
	Co-financing NGO	131	161	153	154	137	121
	Environment	42	34	38	44	21	47
	Integrating gender issues in the development co-operation				2	1	2
	Social infrastructure and services		11	17	74	67	91
	Capacity building for ICT and sustainable energy				2	1	1
	South Africa	110	99	119	118	116	138
	Bananas ACP	3	17	34	17	7	10
	Evaluation of the results of Community Aid					6	7
	Coordination and promotion of awareness on development issues	8	3	4	3	5	4
	DEV - other specific action					9	15
	Global Health Fund	45	-	60			
	Decentralized cooperation	6	4				
	Subtotal	787	813	841	858	791	930
ELARG	Pre-Adhesion - PHARE	1.201	1.168	1.101	1.547	1.748	1.228
	Pre-Adhesion – Turkey, Malta & Cyprus	-	3	19	58	201	257
	Pre-Adhesion – Other specific action					11	25
	Pre-Adhesion – multi-country horizontal programs						5
	Western Balkans	676	920	749	502	510	345
ECHO	Humanitarian Aid	541	561	474	516	499	580
	Other external chapters of community policy	32	25	33	29		
	TOTAL	5.050	5.625	6.052	6.525	7.739	8.159
	EDF	1.548	2.067	1.853	2.427	2.464	2.544
	GRAND TOTAL	6.598	7.692	7.905	8.952	10.203	10.703

ANNEX B – DATA ON PROJECT PERFORMANCE

B.1 Introduction

In this Annex we reproduce the data from the Commission monitoring system that served as a basis for the analysis of project performance presented in Section 4. In particular, the tables presented in Section 4.2 are structured by evaluation criterion, while the data presented in Section 4.3 refer to geographical areas and sectors. In the tables, scores below the minimum acceptable of 2.5 are in red. For ease of reference, the definition of the evaluation criteria is reproduced in the box below.

Box B.1 Evaluation Criteria

Relevance. Relevance assesses the consistency of the objectives of a development project with the beneficiary country's needs and requirements.

Effectiveness. Effectiveness relates to the extent to which the objectives of a development project were achieved or are expected to be achieved.

Efficiency. Efficiency (also referred to as cost effectiveness or value for money) measures how economically the resources devoted to a development project were converted into results.

Sustainability. Sustainability relates to the probability that the benefits resulting from a development project will continue to flow after the assistance has been completed.

Impact. Impact refers to the overall, positive and negative, primary and secondary, intended or unintended long term effects produced by a development project.

B.2 Data by Evaluation Criteria

Table B.1 Relevance – Geographical Areas

	2001	2002	2003	2004	2005	%Change
Western Balkans	2.17	2.40	2.61	2.70	2.74	+26%
NIS Countries	..	2.60	2.63	2.67	2.81	+8%
MEDA Countries	2.21	2.80	2.85	2.89	2.84	+28%
ACP Countries	2.57	2.51	2.59	2.64	2.75	+7%
Asia	2.72	2.50	2.68	2.71	2.80	+3%
Latin America	2.70	2.83	2.94	2.83	2.82	+4%
Average	2.57	2.62	2.68	2.71	2.79	+9%

Table B.2 Relevance – Sectors

	2001	2002	2003	2004	2005	%Change
Trade and Development	..	2.60	2.70	2.74	2.84	+9%
Regional Integration	..	2.64	2.72	3.00	2.82	+7%
Macroeconomic and Social	..	2.58	2.81	2.75	2.83	+7%
Transport	..	2.83	2.70	2.58	2.75	-3%
Food Security & Rural Dev.	..	2.64	2.59	2.64	2.78	+4%
Good Governance	..	2.62	2.60	2.64	2.78	+6%
Other	..	2.65	2.48	2.71	2.64	-
Average	..	2.62	2.68	2.71	2.79	+6%

Table B.3 Effectiveness – Geographical Areas

	2001	2002	2003	2004	2005	%Change
Western Balkans	2.33	2.05	2.60	2.63	2.82	+21%
NIS Countries	..	2.30	2.75	2.83	2.84	+23%
MEDA Countries	2.27	2.85	2.85	2.83	2.89	+27%
ACP Countries	2.64	2.60	2.61	2.73	2.59	-3%
Asia	2.93	2.80	2.71	2.73	2.79	-5%
Latin America	2.86	2.93	2.91	2.90	2.78	-3%
Average	2.67	2.69	2.72	2.79	2.77	+4%

Table B.4 Effectiveness – Sectors

	2001	2002	2003	2004	2005	%Change
Trade and Development	..	2.63	2.73	2.72	2.74	+3%
Regional Integration	..	2.66	2.71	2.86	2.83	+6%
Macroeconomic and Social	..	2.69	2.80	2.76	2.70	-
Transport	..	3.00	2.81	2.90	2.75	-3%
Food Security & Rural Dev.	..	2.75	2.62	2.66	2.72	-1%
Good Governance	..	2.61	2.65	2.68	2.82	+8%
Other	..	2.95	2.90	2.76	2.67	-9%
Average	..	2.69	2.72	2.79	2.77	+3%

Table B.5 Efficiency – Geographical Areas

	2001	2002	2003	2004	2005	%Change
Western Balkans	2.25	2.40	2.60	2.68	2.79	+24%
NIS Countries	..	2.40	2.60	2.73	2.79	+16%
MEDA Countries	2.40	2.68	2.69	2.76	2.81	+17%
ACP Countries	2.53	2.39	2.47	2.46	2.39	-6%
Asia	2.63	2.60	2.55	2.56	2.68	+2%
Latin America	2.53	2.86	2.62	2.71	2.55	+1%
Average	2.51	2.56	2.56	2.64	2.65	+6%

Table B.6 Efficiency – Sectors

	2001	2002	2003	2004	2005	%Change
Trade and Development	..	2.51	2.57	2.62	2.67	+6%
Regional Integration	..	2.58	2.60	2.88	2.74	+6%
Macroeconomic and Social	..	2.55	2.65	2.65	2.65	+4%
Transport	..	2.67	2.64	2.67	2.58	-3%
Food Security & Rural Dev.	..	2.65	2.44	2.56	2.70	+2%
Good Governance	..	2.49	2.49	2.56	2.70	+8%
Other	..	2.40	2.62	2.63	2.37	-1%
Average	..	2.56	2.56	2.64	2.65	+4%

Table B.7 Sustainability – Geographical Areas

	2001	2002	2003	2004	2005	%Change
Western Balkans	2.33	2.10	2.46	2.65	2.81	+20%
NIS Countries	..	2.30	2.83	2.89	2.91	+26%
MEDA Countries	2.39	2.91	2.87	2.92	2.94	+23%
ACP Countries	2.51	2.38	2.52	2.59	2.66	+6%
Asia	2.73	2.70	2.60	2.67	2.84	+4%
Latin America	2.68	2.78	2.92	2.85	2.82	+5%
Average	2.55	2.60	2.70	2.77	2.83	+11%

Table B.8 Sustainability – Sectors

	2001	2002	2003	2004	2005	%Change
Trade and Development	..	2.40	2.76	2.80	2.87	+20%
Regional Integration	..	2.73	2.70	2.97	2.91	+7%
Macroeconomic and Social	..	2.53	2.72	2.69	2.77	+6%
Transport	..	2.50	2.60	2.42	2.76	+10%
Food Security & Rural Dev.	..	2.63	2.65	2.54	2.78	+6%
Good Governance	..	2.49	2.62	2.60	2.82	+13%
Other	..	2.70	2.86	2.84	2.72	+1%
Average	..	2.60	2.70	2.77	2.83	+9%

Table B.9 Impact – Geographical Areas

	2001	2002	2003	2004	2005	%Change
Western Balkans	2.33	2.10	2.49	2.74	2.87	+23%
NIS Countries	..	2.40	2.78	2.87	2.86	+19%
MEDA Countries	2.25	2.82	2.82	2.81	2.91	+29%
ACP Countries	2.59	2.52	2.57	2.52	2.45	-5%
Asia	2.83	2.60	2.59	2.76	2.64	-7%
Latin America	2.71	2.83	2.90	2.89	2.92	+8%
Average	2.59	2.62	2.70	2.75	2.75	+6%

Table B.10 Impact – Sectors

	2001	2002	2003	2004	2005	%Change
Trade and Development	..	2.54	2.75	2.78	2.79	+10%
Regional Integration	..	2.65	2.73	2.88	2.74	+3%
Macroeconomic and Social	..	2.62	2.81	2.78	2.66	+2%
Transport	..	2.71	2.77	2.71	2.69	-1%
Food Security & Rural Dev.	..	2.65	2.54	2.65	2.73	+3%
Good Governance	..	2.50	2.67	2.72	2.80	+12%
Other	..	3.00	2.86	2.87	2.48	-17%
Average	..	2.62	2.70	2.75	2.75	+5%

B.3 Data by Regions and Sectors

Table B.11 Performance Indicators – Western Balkans

	2001	2002	2003	2004	2005	%Change
Relevance	2.17	2.40	2.61	2.70	2.74	+26%
Effectiveness	2.33	2.05	2.60	2.63	2.82	+21%
Efficiency	2.25	2.40	2.60	2.68	2.79	+24%
Sustainability	2.33	2.10	2.46	2.65	2.81	+20%
Impact	2.33	2.10	2.49	2.74	2.87	+23%
Average	2.28	2.20	2.55	2.68	2.81	+23%

Table B.12 Performance Indicators – NIS Countries

	2001	2002	2003	2004	2005	%Change
Relevance	..	2.60	2.63	2.67	2.81	+8%
Effectiveness	..	2.30	2.75	2.83	2.84	+23%
Efficiency	..	2.40	2.60	2.73	2.79	+16%
Sustainability	..	2.30	2.83	2.89	2.91	+26%
Impact	..	2.40	2.78	2.87	2.86	+19%
Average	..	2.40	2.72	2.80	2.84	+18%

Table B.13 Performance Indicators – MEDA Countries

	2001	2002	2003	2004	2005	%Change
Relevance	2.21	2.80	2.85	2.89	2.84	+28%
Effectiveness	2.27	2.85	2.85	2.83	2.89	+27%
Efficiency	2.40	2.68	2.69	2.76	2.81	+17%
Sustainability	2.39	2.91	2.87	2.92	2.94	+23%
Impact	2.25	2.82	2.82	2.81	2.91	+29%
Average	2.30	2.81	2.82	2.84	2.88	+25%

Table B.14 Performance Indicators – ACP Countries

	2001	2002	2003	2004	2005	%Change
Relevance	2.57	2.51	2.59	2.64	2.75	+7%
Effectiveness	2.64	2.60	2.61	2.73	2.59	-3%
Efficiency	2.53	2.39	2.47	2.46	2.39	-6%
Sustainability	2.51	2.38	2.52	2.59	2.66	+6%
Impact	2.59	2.52	2.57	2.52	2.45	-5%
Average	2.57	2.48	2.55	2.59	2.57	=

Table B.15 Performance Indicators – Asia

	2001	2002	2003	2004	2005	%Change
Relevance	2.72	2.50	2.68	2.71	2.80	+3%
Effectiveness	2.93	2.80	2.71	2.73	2.79	-5%
Efficiency	2.63	2.60	2.55	2.56	2.68	+2%
Sustainability	2.73	2.70	2.60	2.67	2.84	+4%
Impact	2.83	2.60	2.59	2.76	2.64	-7%
Average	2.77	2.63	2.64	2.69	2.75	-1%

Table B.16 Performance Indicators – Latin America

	2001	2002	2003	2004	2005	%Change
Relevance	2.70	2.83	2.94	2.83	2.82	+4%
Effectiveness	2.86	2.93	2.91	2.90	2.78	-3%
Efficiency	2.53	2.86	2.62	2.71	2.55	+1%
Sustainability	2.68	2.78	2.92	2.85	2.82	+5%
Impact	2.71	2.83	2.90	2.89	2.92	+8%
Average	2.70	2.85	2.86	2.84	2.78	+3%

Table B.17 Performance Indicators – Trade and Development

	2001	2002	2003	2004	2005	%Change
Relevance	..	2.60	2.70	2.74	2.84	+9%
Effectiveness	..	2.63	2.73	2.72	2.74	+3%
Efficiency	..	2.51	2.57	2.62	2.67	+6%
Sustainability	..	2.40	2.76	2.80	2.87	+20%
Impact	..	2.54	2.75	2.78	2.79	+10%
Average	..	2.54	2.70	2.73	2.78	+9%

Table B.18 Performance Indicators – Regional Integration

	2001	2002	2003	2004	2005	%Change
Relevance	..	2.64	2.72	3.00	2.82	+7%
Effectiveness	..	2.66	2.71	2.86	2.83	+6%
Efficiency	..	2.58	2.60	2.88	2.74	+6%
Sustainability	..	2.73	2.70	2.97	2.91	+7%
Impact	..	2.65	2.73	2.88	2.74	+3%
Average	..	2.65	2.69	2.93	2.81	+6%

Table B.19 Performance Indicators – Macroeconomic and Social

	2001	2002	2003	2004	2005	%Change
Relevance	..	2.58	2.81	2.75	2.83	+7%
Effectiveness	..	2.69	2.80	2.76	2.70	=
Efficiency	..	2.55	2.65	2.65	2.65	+4%
Sustainability	..	2.53	2.72	2.69	2.77	+6%
Impact	..	2.62	2.81	2.78	2.66	+2%
Average	..	2.59	2.75	2.72	2.72	+5%

Table B.20 Performance Indicators – Transport

	2001	2002	2003	2004	2005	%Change
Relevance	..	2.83	2.70	2.58	2.75	-3%
Effectiveness	..	3.00	2.81	2.90	2.75	-3%
Efficiency	..	2.67	2.64	2.67	2.58	-3%
Sustainability	..	2.50	2.60	2.42	2.76	+10%
Impact	..	2.71	2.77	2.71	2.69	-1%
Average	..	2.74	2.70	2.65	2.71	-1%

Table B.21 Performance Indicators – Food Security and Rural Development

	2001	2002	2003	2004	2005	%Change
Relevance	..	2.64	2.59	2.64	2.78	+4%
Effectiveness	..	2.75	2.62	2.66	2.72	-1%
Efficiency	..	2.65	2.44	2.56	2.70	+2%
Sustainability	..	2.63	2.65	2.54	2.78	+6%
Impact	..	2.65	2.54	2.65	2.73	+3%
Average	..	2.66	2.57	2.61	2.71	+2%

Table B.22 Performance Indicators – Good Governance

	2001	2002	2003	2004	2005	%Change
Relevance	..	2.62	2.60	2.64	2.78	+6%
Effectiveness	..	2.61	2.65	2.68	2.82	+8%
Efficiency	..	2.49	2.49	2.56	2.70	+8%
Sustainability	..	2.49	2.62	2.60	2.82	+13%
Impact	..	2.50	2.67	2.72	2.80	+12%
Average	..	2.54	2.61	2.64	2.78	+9%

Table B.23 Performance Indicators – Others

	2001	2002	2003	2004	2005	%Change
Relevance	..	2.65	2.48	2.71	2.64	=
Effectiveness	..	2.95	2.90	2.76	2.67	-9%
Efficiency	..	2.40	2.62	2.63	2.37	-1%
Sustainability	..	2.70	2.86	2.84	2.72	+1%
Impact	..	3.00	2.86	2.87	2.48	-17%
Average	..	2.74	2.74	2.76	2.57	-6%

ANNEX C – DEFINITION OF ADMINISTRATIVE COSTS⁴¹

Line I.A.1.11 Administrative costs not included elsewhere (code 820)

1.26 Administrative costs of development assistance programs not already included under other ODA items. These should be calculated using the "institutional" approach, i.e. the *total current* budget outlays of institutions responsible for the formulation and implementation of Members' aid programs, or a *pro rata* allocation in the case of ODA activities financed out of other budgets.

1.27 The coverage of administrative costs comprises:

- i. the administrative budget of the central aid agency or agencies, and of executing agencies wholly concerned with ODA delivery;
- ii. portion of the administrative costs of multi-purpose executing agencies represented by their aid disbursements as a proportion of their total gross disbursements;
- iii. administrative costs related to the aid program borne by overseas representatives and diplomatic missions.

Allowance should be made, where possible, for offsetting receipts.

1.28 The costs of diplomatic staff assigned to wholly aid-related duties in developing countries should be included in full. Where individual officers perform aid-related duties part-time, a ceiling applies of 50 per cent of the total costs incurred in respect of them, unless the actual costs can be ascertained in the form of a charge to the aid budget. The representation costs of delegations to international organisations may be included only if they are financed by an aid agency. The cost of receiving LDC dignitaries should be omitted.

1.29 The salaries component of administrative costs includes *either* i) pension payments made to retired staff whose salaries, had they remained at work, would have counted as administrative costs, *or* ii) the current cost (including estimated unfunded costs) of the future pensions to be paid to serving staff.

1.30 The costs of premises, computer and word-processing equipment and motor vehicles are measured *either* i) as provided for in the budget of the ministry or agency concerned as a direct cost, *or* ii) as an actual or imputed write-off for amortisation, but not as a combination of the two. In respect of premises in the donor country, only the costs of maintenance and upkeep of buildings currently used for development activities may be reported as ODA. All construction costs are excluded, unless the building concerned is to be donated to a developing country for development purposes.

⁴¹ Reproduced from OECD – DAC, *DAC Statistical Reporting Directives*, Paris, May 2000, page 18.

ANNEX D – DATA ON ADMINISTRATIVE COSTS

Table D.1 Administrative Costs of EC External Assistance
(€million)

Type of Flows	2002	2003	2004	2005	%Change
ODA + AO (commitments)	..	..	441	392	
<i>AIDCO</i>	..	..	328	320	
<i>Other DG</i>	..	..	113	72	
ODA only (commitments)	142	538	461	488	
<i>AIDCO</i>	136	372	175	362	
<i>Other DG</i>	6	166	285	125	
ODA only (payments)	..	409	531	525	
AIDCO	..	249	250	404	
Other DG	..	160	281	120	
Discrepancy ODA + OA vs ODA Only	-20	-96	
Difference payments vs. commitments	..	-129	+71	+37	

Source: Annual Reports

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