DFID's Oversight of the EU's Aid to Low-Income Countries

ICAI

Independent
Commission
for Aid Impact

Report 17 – December 2012

Contents

The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

G	**Green:** The programme performs well overall against ICAI's criteria for effectiveness and value for money. Some improvements are needed.
G A	**Green-Amber:** The programme performs relatively well overall against ICAI's criteria for effectiveness and value for money. Improvements should be made.
A R	**Amber-Red:** The programme performs relatively poorly overall against ICAI's criteria for effectiveness and value for money. Significant improvements should be made.
R	**Red:** The programme performs poorly overall against ICAI's criteria for effectiveness and value for money. Immediate and major changes need to be made.

Executive Summary

The EU is the world's second-largest aid donor after the United States, providing aid to more than 150 countries. The UK's contributions to the EU for aid expenditure are approximately £1.4 billion a year, 16% of DFID's total aid spending. The majority of the funding, nearly 70%, is part of the UK's share of the EU's budget and so is not discretionary.

In this review of DFID's oversight of the UK's contributions to EU aid, we have focussed on the impact of EU aid on the ground in low-income countries, through case study visits to Mozambique, Tajikistan and Uganda. In accordance with our remit, we looked at how well the EU manages aid and not the policy issue of whether, or by how much, it should be funded.

Overall *Assessment: Amber-Red* A R

At a policy level, DFID has a clear focus for its engagement with the EU. There is limited evidence, however, of DFID's influence on the delivery of EU aid on the ground. Co-operation with the EU centrally is good but the EU is treated by DFID's country offices as another donor rather than as a route for achieving DFID's goals. There is no effective performance management system in place for EU aid, which limits DFID's oversight. The EU's scale and influence provide an opportunity for development impact which is not yet being effectively harnessed. We conclude that DFID's oversight does not provide the assurance needed, given the substantial scale of the UK's contribution and the limited discretion the UK has about the EU as a route for aid.

Objectives *Assessment: Green-Amber* G A

DFID has a clear focus on improving the way in which the EU assesses and reports on the performance of its development programmes. DFID plans to underpin its strategy with more detailed business cases and targets. It has a strong reputation within the EU and clearly has influence on the EU's development policies. In the countries we visited, we saw examples of how DFID and the EU can structure programmes in a complementary way but this is unlikely to be substantive unless there is a more joined-up approach on country strategies. DFID does not provide clear guidance to its country offices on what it expects of them in respect of EU oversight.

Delivery *Assessment: Amber-Red* A R

The EU's performance management and results framework are weak. As a result, DFID is not getting the assurance it needs and that it achieves elsewhere, for example from the World Bank. Slow decision-making and processes hamper the delivery of results. They put a strain on implementing partners, particularly smaller ones. Limitations to the EU's risk management approach, as well as overambitious project plans, are a significant obstacle to improving the performance of its programmes and projects. The involvement of recipient governments in EU programmes, particularly on planning, is clear. There is less evidence, however, of how intended beneficiaries are involved in the design and assessment of EU programmes. The EU's reliance on local civil society organisations as proxies for beneficiaries' views means that real needs may not be properly understood.

Impact *Assessment: Amber-Red* A R

Weaknesses in the EU's own performance management and results framework make an overall view of the impact of EU programmes difficult to achieve. The evidence from our case study programmes and projects is mixed. There are some positive results but long-term impact and sustainability have not been demonstrated and exit strategies are not clear.

Learning *Assessment: Green-Amber* G A

DFID is using the lessons learned from multilateral aid organisations to help focus its work with the EU and in applying wider good practice, for example on results. There is feedback on EU performance from a sample of DFID's network of offices but this is not systematic. More should be done to make information on EU aid accessible.

Recommendations

Recommendation 1: DFID should set out clearly what action is needed and how long it will take to deliver the same level of assurance on its contributions to the EU as it achieves elsewhere. This should include improvements to the performance management of EU aid and better access to EU information.

Recommendation 2: DFID should give better guidance to DFID country offices on how they should contribute to EU country strategies and to existing co-ordination forums, so as to ensure a better combined impact from UK and EU funds and a greater focus on actual EU performance.

Recommendation 3: DFID should ensure that the EU secures ongoing input from intended beneficiaries and effective intelligence on what is needed on the ground, in order to inform and challenge dialogue with recipient governments.

Recommendation 4: DFID should engage more actively on developing and driving through the EU's planned improvement of its risk management processes, given the potential this has for improving the impact of EU aid.

1 Introduction

Purpose of the review

1.1 The UK's contributions to the European Union (EU) for development assistance are approximately £1.4 billion a year.[1] In assessing the effectiveness of the Department for International Development's (DFID's) oversight of the UK's contributions to the EU, we have focussed on the impact of EU aid on the ground in low-income countries. We have also examined the level of co-operation between DFID and the EU in recipient countries. In accordance with our remit, we looked at how well the EU manages aid and not the policy issue of whether, or by how much, it should be funded.

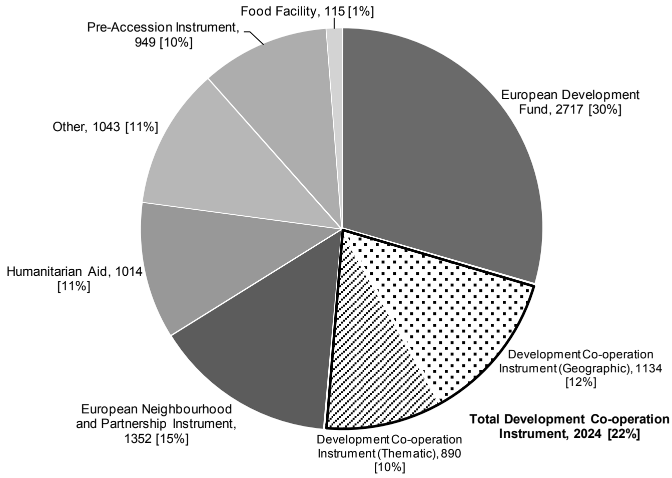
EU aid

1.2 The EU is the world's second-largest aid donor after the United States.[2] The EU provides aid to over 150 countries and delivers a wide range of development programmes through governments, infrastructure projects and funding to non-governmental organisations (NGOs). EU expenditure on aid or Official Development Assistance (ODA) in 2011 was €9.2 billion, equivalent to £8.0 billion.[3] The size of the EU's aid budget, together with its influence on issues such as trade,[4] finance, energy and climate change, makes the potential impact of the EU on developing countries significant.

1.3 EU ODA is not readily attributable to one EU institution or department. Instead, ODA is comprised of a range of funds and instruments. A breakdown of the EU's total ODA into the main funds and instruments is shown in Figure 1.

1.4 The EU budget, made up of contributions from the EU member states, funds all EU ODA instruments except for the European Development Fund (EDF), which is funded separately by member states. The Annex gives more detail about the different funds and instruments, what they are spent on, how decisions are made and the EU organisations involved.

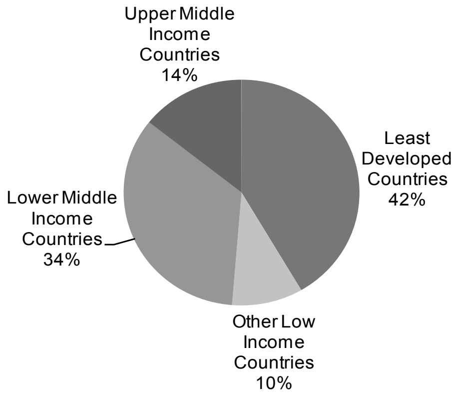
Figure 1: EU ODA disbursed by main funds and instruments in 2011 (€ millions)



1.5 This review concentrates on funding to the EDF and the Development Co-operation Instrument (DCI):

- as shown in Figure 1, these are the two largest funds, accounting for 52% of EU ODA; and
- these two funds, along with Humanitarian Aid, are the largest funds focussed on low-income countries. Overall, about 52% of the EU's ODA is spent in low-income countries (see Figure 2) – for the EDF it is 88% and for the DCI it is 45%.[5]

Figure 2: EU ODA expenditure by country type in 2011 (%)



[1] Data supplied by DFID.

[2] The European Union and EU member states collectively are the largest single bloc of donors to developing countries.

[3] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, European Commission (EC), August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf. See more in the Annex. The exchange rate used is €1.152493 to £1, provided by HM Treasury.

[4] The EU is the main trading partner of many developing countries.

[5] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

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1.6 The EDF is the main instrument for providing EU development aid in the African, Caribbean and Pacific (ACP) countries and the Overseas Countries and Territories.[6] Aid is provided through support to governments, with a significant proportion going directly to government budgets and to major infrastructure projects, such as road building.

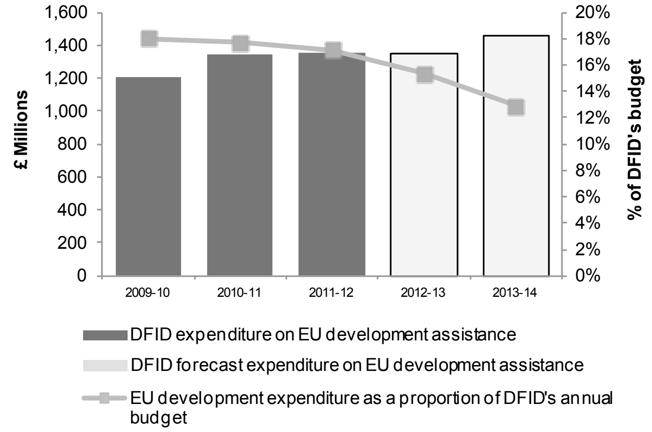
1.7 The DCI was launched in 2007, explicitly to help eradicate poverty and assist developing countries to achieve the Millennium Development Goals (MDGs). It also aims to support democratisation, good governance, the rule of law and human rights. It has a geographical element (focussed particularly on Asia, the Gulf region and Latin America) and a thematic element (which provides grants to NGOs as well as addressing issues such as food security and the impact of environmental change).

1.8 The EDF and DCI are managed by a department of the European Commission called EuropeAid, which leads on development policy and implementation. The European External Action Service (EEAS) is the diplomatic arm of the EU responsible for the over 150 EU Delegations and offices around the world.[7] EuropeAid and the EEAS work together to prepare country development strategies and to plan programmes and projects.

DFID's contributions to EU ODA

1.9 In 2011, the UK's overall contribution to EU development assistance was £1.4 billion. This represented 16% of DFID's total spending in that year.[8] DFID's contributions to EU development assistance have been increasing slightly over the last few years but, as overall UK aid expenditure has been rising, the proportion going to the EU has been falling (see Figure 3).[9] DFID's contributions to the EU make it the largest of DFID's aid partners, with the World Bank the second largest.[10]

Figure 3: DFID's actual and projected contributions to EU development assistance 2009-10 to 2013-14



1.10 The UK contributes to EU ODA in two ways:

- **The EU budget:** the Treasury leads the UK's negotiations on the EU budget, which occur every seven years and are now in progress for the 2014-20 budget cycle. The negotiations cover the proportion of the budget which will go to funding instruments, including those in Figure 1 on page 2. The Treasury calculates that the UK provides about 15%[11] of the EU's main budget expenditure, which was about £934 million[12] in 2011-12; and
- **The EDF budget:** this is set through direct negotiations with EU member states. Although discretionary, member states' contributions tend to be in similar proportions to the EU budget and are committed for an agreed cycle, currently five years. The UK has a 14.82% share of the 10th EDF, covering the period 2008-13. This is the third-largest contribution of the EU's 27 member states, after Germany and

[6] The Overseas Countries and Territories comprise 25 countries and territories – mainly small islands – outside mainland Europe, having constitutional ties with one of Denmark, France, the Netherlands and the United Kingdom.

[7] There were 119 countries with EU Delegations that received EU aid in 2011. DFID's 28 focus countries all have an EU Delegation. *European External Action Service – EU Delegations*, EC, http://eeas.europa.eu/delegations/web_en.htm.

[8] *DFID Annual Report and Accounts 2011-12*, DFID, June 2012, http://www.dfid.gov.uk/Documents/publications1/departmental-report/2012/Annual-report-accounts-2011-12.pdf.

[9] Note that the financial years for DFID and the EU vary. DFID's financial year is from 31 March–1 April, whereas the EU's financial year is the calendar year. Data supplied by DFID.

[10] *DFID Annual Report and Accounts 2011-12*, DFID, June 2012, http://www.dfid.gov.uk/Documents/publications1/departmental-report/2012/Annual-report-accounts-2011-12.pdf. DFID also made direct contributions of about £953 million in 2011-12 to World Bank trust funds (pooled donor resources in countries).

[11] Data supplied by DFID.

[12] *DFID Annual Report and Accounts 2011-12*, DFID, June 2012, http://www.dfid.gov.uk/Documents/publications1/departmental-report/2012/Annual-report-accounts-2011-12.pdf. Note that the figures are not reconcilable to DFID's percentage contributions to the EU budget because DFID does not have actual outturn data available at the time of drafting its own annual report. Instead, it adjusts the budget using actuals for the two previous years.

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France. In 2011, the UK's share of the EDF expenditure was £421 million.[13]

1.11 Given the processes for setting the EU and EDF budgets, DFID has much less discretion about channelling UK aid through the EU than it does for other parts of its budget, including multilateral organisations such as the World Bank.

DFID's oversight of EU ODA

1.12 DFID's Europe Department leads on overseeing the UK's contributions to EU ODA. This has 17 staff covering policy, delivery and results. A team of five in Brussels also works on EU ODA oversight, through engagement with EU institutions and forums, as part of the wider UK representation in Brussels, known as UKREP.

1.13 DFID exercises its oversight through the EU's governance and decision-making processes, which are complex and time-consuming. Oversight activities include:

- working with other government departments to agree joint positions on development issues in Europe;
- building alliances with other member states and agreeing policy and expenditure through EU working groups and the Council of the European Union;[14] and
- supporting DFID colleagues, both centrally and in country offices, to help them pursue their priorities with the EU.

1.14 DFID carried out the Multilateral Aid Review (MAR) in 2011 to assess the value for money (VFM) of UK aid funding through multilateral organisations.[15] For the EU budget, the MAR focussed on the DCI and the Neighbourhood and Pre-accession instruments. Overall, it rated the EU budget elements as 'weak' for their contribution to UK development objectives and as 'satisfactory' for organisational strengths. The EDF was rated as 'strong' in both of these dimensions.

1.15 The main weaknesses identified for the EU's core budget and the EDF were: variable evidence of delivery and impact against results across regions; and inflexible and cumbersome rules which can hamper the delivery of results. Both of these issues limit the impact of EU aid. DFID is currently following up the MAR and expects to publish its updated report in 2013.

Other reviews of EU aid

1.16 There have been several recent reviews of the EU's development work. In this review, we have drawn particularly on the House of Commons International Development Select Committee's (IDC's) April 2012 report on its inquiry into EU development assistance[16] and on the March 2012 peer review of the development work of the EU by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC).[17] We have also drawn on reports from the European Court of Auditors (ECA).

1.17 Recent reviews and evidence submissions to the IDC's inquiry suggest that the effectiveness of EU aid has improved in recent years. For example, the OECD DAC peer review notes that, since the last review five years ago, the EU has taken steps to make its aid more effective and co-ordinated. These steps included carrying out organisational restructuring, streamlining financial processes, improving co-ordination and working more closely with civil society.[18] The review notes, however, that more progress is needed in a number of areas, including reducing the administrative burden on EU staff and monitoring development results more effectively.

1.18 The IDC's report examined a number of issues, including the comparative advantages of the EU as an aid provider. With regards to the EU as a route for UK aid, the IDC recommended that 'although we have acknowledged that there are some

[13] *DFID Annual Report and Accounts 2011-12*, DFID, June 2012, http://www.dfid.gov.uk/Documents/publications1/departmental-report/2012/Annual-report-accounts-2011-12.pdf.

[14] See the EU governance and decision-making section of the Annex for more detail on the Council of the European Union.

[15] *Multilateral Aid Review*, DFID, 2011, http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf.

[16] *EU Development Assistance, Sixteenth Report of Session 2010-12*, House of Commons, International Development Committee, 2012, http://www.publications.parliament.uk/pa/cm201012/cmselect/cmintdev/1680/168002.htm.

[17] *Development Assistance Committee (DAC) Peer Review of the European Union*, OECD DAC, March 2012, http://www.oecd.org/dac/peerreviewsofdacmembers/50155818.pdf.

[18] *DAC Peer Review of the European Union*, OECD DAC, March 2012, http://www.oecd.org/dac/peerreviewsofdacmembers/50155818.pdf.

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problems with channelling aid through the European Commission, for example the large amount of aid going to middle-income countries and its slow bureaucracy, on balance we are not convinced it is any worse than the other multilaterals DFID funds, for example the World Bank which we have previously reported our concerns on. DFID, however, should continue to press the Commission to improve its aid effectiveness and value for money.'[19]

Methodology

1.19 In this review, we have focussed on the impact of EU aid on the ground in low-income countries and on the EU's work through the EDF and DCI. We did this by examining EU programmes and projects in three case study countries: Mozambique, Tajikistan and Uganda.

1.20 The IDC asked us to complement, rather than duplicate, its report and in particular said that it would be helpful if our study could analyse the extent to which DFID's and the EU's work complement or duplicate in countries where both donors are based. DFID's 28 focus countries all have an EU Delegation.

1.21 The case study countries were, therefore, selected on the basis that:

- they were low-income countries with significant EU development programmes, mainly funded from the EDF and DCI;
- they were countries with a DFID office, so that we could look at co-ordination with the EU. In both Mozambique and Uganda, there are significant DFID programmes. For comparison, we also selected Tajikistan, where DFID's programme is relatively small; and
- they provided a range of development contexts.

1.22 Figure 4 shows comparative information on the country contexts and summarises DFID's and the EU's aid programmes.[20] In each country, we examined a sample of EU development programmes and projects; these are summarised in the Annex. Our review included visits in the field with stakeholders, programme managers and their staff, community leaders and intended beneficiaries.

Figure 4: Case study countries comparison data

	Mozambique	Tajikistan	Uganda
Population	23.7 million	7.8 million	34.5 million
Extreme poor % of population (less than $1.25 per day, World Bank 2010)	60%, down from 75% in 2003	7%, down from 35% in 2003	38%, down from 57% in 2002
ODA as a proportion of government expenditure in 2011	36%	8% (average since 2005)	19%
Total DFID ODA disbursements in 2011	£119.0 million	£10.8 million	£75.3 million
Total EU ODA disbursements in 2011	£83 million	£11.8 million	£105.9 million
Proportion of EU funding from EDF and DCI in 2011	88% EDF, 10% DCI, 2% Other	97% DCI, 3% Other	92% EDF, 2% DCI, 6% Other
EU total country programme and top three sectors by budget	Total: £505 million (2008-13)	Total: £52.2 million* (2011-13)	Total: £368 million (2008-13)
	1. Budget Support (£261m)	1. Social protection and employment (£16m)	1. Budget Support (£156m)
	2. Infrastructure (£109m)	2. Health sector reform (£16m)	2. Infrastructure (£144m)
	3. Rural development (£78m)	3. Private sector development (£13m)	3. Rural development (£50m)
DFID total country programme and top three sectors by budget, of which budget support cross-cuts all three sectors in Mozambique and Uganda (2010-11 to 2014-15)	Total: £330 million, of which £187 million is budget support	Total: £56 million**	Total: £390 million, of which £102 million is budget
	1. Education (£80m)	1. Wealth creation (£29m)	1. Health (£116m)
	2. Wealth creation (£66m)	2. Governance (£17m)	2. Wealth creation (£101m)
	3. Governance (£53m)	3. Health (£3.7m)	3. Governance (£74m)
DFID programme staff	24	5	31
EU programme staff	33	30	30

* The EU includes Tajikistan in its overall Central Asia programme. Over the life of the programme, 2011-13, 29% of the total annual Central Asia programme will be distributed in Tajikistan.
** The figure is an aggregate for DFID's Central Asia programme, accounting for Tajikistan and Kyrgyzstan expenditure.

[19] *EU Development Assistance, Sixteenth Report of Session 2010-12*, House of Commons, International Development Committee, 2012, http://www.publications.parliament.uk/pa/cm201012/cmselect/cmintdev/1680/168002.htm.

[20] Data derived from the World Bank, national ministries of finance, EU country strategy plans, DFID country operational plans and internal organisational figures supplied to us by DFID and EU country offices. EUR to GBP exchange rate provided by DFID, 1.152493 GBP = 1 EUR (for 2011).

1 Introduction

1.23 To support our work in the case study countries, we undertook a light-touch review of DFID's engagement with the EU in Brussels, which included consultations with DFID and EuropeAid staff. This element of our study focussed on DFID's strategy for engagement and its influence on policy. It did not look at how the EU's new structures for aid management are working; this has been covered by other reviews, such as the OECD DAC peer review.

1.24 Throughout the report, we use the term 'centrally' when referring to DFID's work with the EU and EuropeAid in Brussels. When we talk about co-ordination between DFID and the EU and the EU's programmes and projects in the three countries we visited, we use the term 'in-country'.

2 Findings

Objectives

Assessment: Green-Amber

2.1 This section covers:

- DFID's overall strategy for engagement with the EU and progress monitoring against the strategy;
- DFID's influence on EU policy development;
- DFID's oversight of the EU's country development strategies; and
- co-ordination between DFID, the EU and other donors in-country.

DFID's strategy for engaging with the EU

2.2 DFID's high-level plan for engaging with the EU is set out in the Europe Department's *Operational Plan 2011-15.*[21] This flows clearly from DFID's MAR analysis, focussing particularly on improving the EU's approach to:

- measuring, aggregating and reporting the performance and results of EU aid, often referred to as its results framework;
- achieving VFM; and
- making the EU's work and results more transparent, particularly to intended beneficiaries and the public.

2.3 DFID focusses on influencing policy and has more detailed plans to help deliver its priorities. The following plans are in need of further development:

- a strategy to help influence results, set out in a draft document, with an action plan, which contains the key priorities for DFID's work over the short to medium term on improving the EU's results framework. The strategy is being finalised and approved;
- a 2012-13 EU Engagement Strategy is being developed, which will cover MAR-related reform objectives; and
- a business case for secondments of DFID staff to the EU that articulates the purpose, focus and benefits of this programme, at a proposed cost of £14 million over four years.[22] Secondees are targeted at key parts of the EU such as EuropeAid's Quality and Impact Department. The main ways in which the programme is more focussed than previously are: a more strategic approach to which posts UK secondees are offered for; closer oversight and communication with secondees during secondments; and greater thought about how to use the experience gained on their return.

2.4 For the main EU instruments, including the EDF and DCI, DFID plans to develop business cases and logical frameworks (known as logframes), setting out the planned programme inputs and outcomes. These will measure and report on performance of the key elements of DFID's funding to the EU.

2.5 Although DFID's approach needs further development, it does contain the building blocks of a strategy for engagement with the EU and a clear view of the EU's relative strengths and weaknesses.

DFID's monitoring of the strategy

2.6 DFID's overall assessment of the EU's progress has been based on six-monthly follow-up reports of the MAR. This includes feedback from seven DFID country offices, where the EU also has a presence, on their assessment of progress against the MAR. Seeking feedback from country offices is a new approach that involves the DFID office network more formally in assessing EU performance.

2.7 DFID's latest overall assessment was that, on transparency and accountability, the EU is on track to achieve MAR targets based on the progress it has made in external assessments of donor transparency. Whilst DFID reported limited progress in the actual quality or frequency of results reporting and on improvements to efficiency and VFM, it found evidence of improved awareness and openness on results.

2.8 The feedback in July 2012 from DFID country offices on the MAR was that the EU was making adequate progress against MAR objectives, particularly in respect of using results and evaluation to inform programming. DFID also identified improvements to monitoring and evaluation. DFID offices identified that the main

[21] *DFID Europe Department Operational Plan 2011-2015*, DFID, June 2012, http://www.dfid.gov.uk/Documents/publications1/op/eur-dept-2011.pdf.

[22] *DFID Secondments to the EU*, DFID, http://projects.dfid.gov.uk/project.aspx?Project=202319.

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challenges still facing the EU are developing greater financial flexibility and monitoring and reporting against the country strategies.

2.9 DFID plans to monitor progress on the results strategy and action plan through reports to senior management. DFID's first annual review of the secondment programme, completed in May 2012, found that the programme was effective and had achieved all its first-year milestones. Whilst we received positive feedback from EuropeAid management on the contribution of UK secondments, our view is that it is too early to tell whether the new approach is having the planned impact.

DFID's influence on EU policy development

2.10 To assess DFID's influence, we reviewed two key areas where DFID's Europe Department has been active in seeking to shape EU development policy, both of which have the potential to improve the impact of EU aid. These were:

- the results framework; and
- the EU's *Agenda for Change* proposals and the related targeting of funding at lower-income countries.

EU results framework

2.11 DFID wants the EU to establish a robust results framework, similar to those of other leading development agencies. It has been actively promoting this at many levels within EuropeAid and within the EU more widely. DFID has also worked with the EU on an informal basis to discuss and share its experiences of developing a more coherent and integrated approach to results-based management.

2.12 A senior EuropeAid official said that DFID has had 'a catalysing effect' through raising the profile of the issue, which was reflected in the EU's use of UK language on results, monitoring and evaluation. EuropeAid has established a group of experts with involvement from member states, including DFID, to work on the results framework. This had its first meeting in November 2011. There is, however, no agreed date for delivering an improved system and, in the meantime, EuropeAid still does not have an effective results framework.

Agenda for Change and funding proposals

2.13 A significant process of revising and re-focussing EU development policy resulted in a policy document called the *Agenda for Change*, published in 2011.[23] Key conclusions from this Agenda were adopted by EU Development Ministers at the Foreign Affairs Council in May 2012.[24]

2.14 Work commissioned by DFID and undertaken by the Overseas Development Institute was important in shaping the Agenda at an early stage. DFID's input during the consultation phase was also influential and was based on widespread consultation across government departments to develop a clear UK position. DFID wanted more monitoring and evaluation capacity, further engagement with the private sector and a stronger focus on poverty. These priorities are reflected in the Agenda. The Agenda also reflects a convergence of member state thinking on the priorities for change within EuropeAid.

2.15 In the current negotiations with the European Council on the EU's strategy and funding framework for 2014-20,[25] DFID has reported progress in a number of areas, which also reflect the priorities in the *Agenda for Change*, including:

- increased flexibility in the rules and procedures, to enable greater responsiveness to circumstances on the ground whilst maintaining accountability;
- better focus of the DCI on the poorest countries (addressing a key issue from the MAR);
- simpler programming processes; and
- greater alignment with recipient countries' own priorities.

2.16 These aims are now reflected in the Council's position, although they are subject to scrutiny by the European Parliament and the financial budgets have yet to be determined.

[23] *Increasing the Impact of EU Development Policy: An Agenda for Change*, EC, 2011, http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf. See Annex for more details.
[24] *Increasing the Impact of EU Development Policy: An Agenda for Change*, Council of the European Union, 2012, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/130243.pdf.
[25] This is known as the Multiannual Financial Framework (MFF).

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2.17 The extent to which DFID can be credited for the progress made in these policy areas is difficult to quantify. Whilst it can fairly claim to have been influential, DFID recognises that progress at the policy level is only the first step. The effective and timely execution of EU policy on the ground should be the measure of whether objectives have been met.

DFID's oversight of the EU's country strategies

2.18 The EU's country development strategies set out, for each country, its priority areas for development and the programmes and projects that will help to address them. They have generally been prepared every five or six years in the past. From 2014, EU programmes will, where possible, be aligned with the country's own national development plan, while at the same time reflecting the EU's overall planning and funding timetable (every seven years). Given the importance of country programme planning in shaping the focus of the EU's development aid, this is a key opportunity for DFID to influence the EU.

2.19 The process of programming for 2014-20 was underway during our country visits. EU Delegations prepare a draft country strategy based on financial limits and guidance from the centre and consultation with member states in-country. This is then approved in Brussels.

2.20 DFID notifies its country offices of forthcoming EU country strategy development processes. It does not, however, direct country offices to engage on specific issues. The engagement took a different form in each of our case study countries. In Uganda, the DFID country office and the High Commission prepared and formally submitted a joint UK Government response to EU proposals. In Mozambique, the country office met to discuss the EU's initial proposals and produced an internal note to guide staff in their dealings with the Delegation. In Tajikistan, the DFID country office was not aware of the process at the time of our visit, although the consultation had not yet started.

2.21 Country offices do put forward some of DFID's key messages in communicating with EU Delegations on the EU's country strategies. In Uganda and Mozambique, we noticed that issues such as results, VFM and evidence-based programming were raised by country offices as part of the current consultation. This relies, however, on individual country offices or staff members taking the initiative. By giving clearer guidance to its country offices on what it hopes to achieve from the consultation process, DFID could have greater influence over this key process in the EU's development work.

Co-ordination between DFID, the EU and other donors in-country

2.22 At country level, the EU and DFID mainly work together and with other donors through formal donor co-ordination mechanisms. While these vary somewhat between countries, the main ones include EU-specific co-ordination forums and wider donor working groups:

- EU Member States' Co-ordination Structures consist of regular meetings between the Delegation and the member states' Heads of Mission (generally Ambassadors, High Commissioners or equivalent) and Heads of Co-operation (generally the head of the aid programme in-country) to discuss EU-specific issues. Issues for discussion at forthcoming meetings in our case study countries included future EU programming, the *Agenda for Change* and preparation for dialogue between the EU and recipient government officials; and
- Donor Co-ordination Forums may focus on general budget support or on a sector, such as health. Some working groups consist exclusively of donors, while others include representatives of recipient governments.

2.23 In all three case study countries, the EU and DFID[26] were seen by recipient governments and other donors as highly active in co-ordinating forums and groups. For example, the EU currently chairs, and DFID recently chaired, the Joint Budget Support Framework Task Force in Uganda. Structures tend, however, to become complex and cumbersome, particularly where there are many donors. Figure 5 on page 10 shows an example of formal co-ordination structures in Mozambique.

[26] To a lesser extent in Tajikistan, given the relatively small scale of the DFID programme.

2 Findings

Figure 5: Key joint dialogue forums in Mozambique

Forum	Frequency
Development Partners Group	Monthly
G19 Head of Mission/Head of Co-operation	Monthly
EU Head of Mission/Head of Co-operation	Monthly
General Budget Support 'Political Dialogue'	Quarterly
Political Dialogue under Cotonou	Bi-annually
Joint Steering Committee	Monthly
Economists Working Group (+4 subgroups)	Fortnightly
29 Sector Working Groups	Variable
Thematic sub-sector groups	Variable

2.24 Outside the formal co-ordination structures, EU and DFID staff in-country co-operate informally on specific topics of common interest. For example:

- DFID and EU Delegation economists in Mozambique worked together to map the activities of different donors in the increasingly important area of extractive industries, as a basis for determining a joint donor approach;
- the EU in Mozambique invited a DFID staff member to present DFID's experience of social protection at a regional EU meeting; and
- the EU asked DFID in Uganda to help identify specialists in the road sector.

2.25 Recipient governments are, in general, positive about the effectiveness of donor co-ordination mechanisms, as a joint donor group reduces the need for bilateral meetings with each donor. The need for a consensus donor view can, however, lead to lengthy processes of co-ordination. This increases the likelihood that the issue will be formally addressed but also risks watering down strong messages, particularly on political matters where donors may have different views.

2.26 Stakeholders to whom we spoke were also generally positive about the co-operation between DFID and the EU. More than three-quarters of the responses from stakeholders were that DFID worked well with the EU across a range of dimensions 'often or almost always'.[27]

[27] Survey data collected by the ICAI review team in Mozambique, Tajikistan and Uganda in July and August 2012.

2.27 Co-ordination is important and necessary but there are clearly challenges in making it as streamlined as possible. The effectiveness of donor co-ordination forums depends heavily on the personalities, experience and commitment of staff leading the groups and their government counterparts. Forums that are focussed on specific topics, such as some of the sector working groups, appeared more effective than general discussion groups. We noted also that the focus of co-ordination on EU matters is mainly about wider policy and country context issues rather than the effectiveness and impact of EU aid.

2.28 In addition, we did not see evidence in our case study countries that wider EU levers, such as trade and energy policies, were being effectively integrated into the co-ordination and planning of development programmes.[28] Senior EU Delegation staff recognised the limited consideration of the application of these levers to date.

Complementarity of programmes between DFID, the EU and other donors in-country

2.29 The *EU Code of Conduct on the Division of Labour* is an EU initiative on co-operation to which member states also signed up as individual bilateral donors.[29] EU member states were encouraged to select only two 'focal sectors' beyond general budget support and support to civil society. Guidelines were also given on how many member states should be in each sector (no more than three). The aim of the Division of Labour initiative was to simplify donor co-ordination and to ensure that donors focussed on areas of comparative advantage. One example of exiting a sector was the decision by DFID to withdraw from the roads sector in Mozambique, given that the EU has a greater capacity for engagement at a technical level.

2.30 Overall, formal progress on the Division of Labour initiative has been limited in the countries we visited. Initially, there was extensive mapping of donors by sector but, in practice, no major

[28] This use and integration of other levers is known by the EU as Policy Coherence for Development (see Annex for further explanation).
[29] *EU Code of Conduct on Division of Labour in Development Policy*, COM (2007) 72 final, EC, 2007, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0072:FIN:EN:PDF.

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rationalisation occurred. This was attributed in part to a lack of recipient government enthusiasm for the process and to different donor planning cycles, making exits difficult to achieve without disruption.

2.31 Despite lack of progress on the formal Division of Labour exercise, an informal division of labour among donors in-country has emerged over time and there is some evidence of complementarity between EU and DFID activities. A major focus for the EU is large infrastructure projects, while DFID has a strong focus on service delivery, such as in health and private sector development.

2.32 There is also some evidence of complementarity between the EU and DFID within sectors. Figure 6 highlights one example from Uganda.

Figure 6: Example of DFID–EU complementarity

DFID and the EU have a jointly initiated programme of support to local private sector road contractors to strengthen their technical ability to participate in road projects. It ensures that more of the contracts go to national companies, building the capacity of the Ugandan road-building and maintenance industry.

2.33 Complementarity is unlikely to be more substantive until there is a more joined-up approach at the country strategy level. DFID and the EU plan to undertake joint planning of programmes around recipient government development strategies in a number of pilot countries.

2.34 We found that both in co-ordinating structures generally and in discussions on the Division of Labour, DFID offices tend to treat the EU in the same way as other donors rather than as a route for achieving DFID's goals. DFID provides information at key points in the programming cycle and on certain specific issues. It does not, however, provide systematic guidance on how DFID country offices should contribute to EU country strategies and to existing co-ordination forums, so as to ensure a better combined impact from UK and EU funds.

Delivery

Assessment: Amber-Red

2.35 This section considers what assurance DFID seeks and receives on the delivery and impact of EU aid programmes and projects. It examines:

- what processes the EU uses to manage and monitor its aid programmes and DFID's assessment of and reliance on them;
- the risk management of EU programmes and projects;
- assessment and improvement of efficiency and VFM; and
- how DFID seeks assurance that recipient governments and intended beneficiaries are properly engaged by the EU.

DFID's reliance on EU processes

2.36 DFID does not oversee EU programmes and projects directly but assesses and relies on the EU's own processes for managing and monitoring aid. The EU uses four main types of processes to oversee the delivery of aid:

- **Programme and project management:** this relates to the daily management of operations. It includes processes such as procurement and risk management and is usually undertaken through a contractual arrangement, for example with the recipient government or a private contractor;
- **Financial management:** this focusses on the appropriate application of the EU's financial regulations, covering all transactions made at Delegation and project level;
- **Performance management:** this covers the supervision of programmes and projects and the assessment and reporting of performance. A number of tools and approaches are used which are set out in Figure 7 on page 12; and
- **Audits:** these include organisational and financial audits of projects or implementing partners, carried out internally at Delegation level or externally by independent auditors. The ECA undertakes regular audits at Delegation level and of overarching issues and themes.

2.37 DFID monitors its financial commitments and disbursements to the EU, the EU's own commitments and its progress in spending them. In assessments of the effectiveness of its contributions to the EU, DFID has relied on the available information on performance (for example the Results Oriented Monitoring (ROM) system), case studies of results achieved and the MAR assessment. The introduction of a logframe approach to monitoring DFID's contributions, referred to in paragraph 2.4, should ensure a more routine assessment by DFID in future. The paragraphs below cover DFID's assessment of and reliance on the EU's financial and performance management in more detail.

Figure 7: The EU's performance management tools

- Internal monitoring by EU Delegations, through formal and informal contacts and ad-hoc field visits to projects and stakeholders;
- Standardised external monitoring (Results Oriented Monitoring), organised centrally by EuropeAid and rolled out annually at country level;
- Internal reporting, including bi-yearly reporting by EU Delegations (External Aid Monitoring Report) and the country programme mid-term reviews;
- Local evaluation of projects, performed at project or EU Delegation level, usually at project mid-term or end; and
- External thematic or country programme evaluations, organised centrally by the Evaluation Unit of EuropeAid.

Financial management

2.38 In the MAR, DFID assessed financial accountability in EU-funded activities as 'strong and well established'. The OECD DAC peer review found that there was 'a strong focus on financial accountability'.[30] The annual reviews of the ECA also indicate an increased robustness within EU aid's financial management chain.[31]

2.39 In-country, we found that DFID offices and other development partners believe EU financial management to be sound. For instance, a representative of the United States Agency for International Development in Tajikistan commented that 'the EU sets real conditions' for their payments and 'sticks to them'. Recipient government representatives recognised that EU Delegations are keen to apply their financial processes in the strictest way. Our observations of how the EU performed contractual and financial management support these views.

2.40 The EU focus on financial management reflects a strong drive to improve this aspect from the UK and other member states. A new regulation in 2002 laid down the legal foundations of the financial reform of the EU budget.[32] DFID is now working to improve transparency and achieve greater VFM in the new EU development instruments which are under preparation for the next financial cycle, covering 2014-20.[33]

Performance management

2.41 The EU's performance management processes, although extensive, have a number of weaknesses. DFID's analysis is reported in the MAR and is detailed in a draft document on its influencing strategy. Improvement in these systems is one of the main focusses of DFID's engagement with the EU. Progress is being assessed in the MAR follow-up.

2.42 The ECA and the OECD have also identified performance management as a key area for improvement. The OECD DAC peer review, for example, found that the EU's 'focus on financial accountability, while crucial, does not provide stakeholders with evidence on how EU development co-operation is achieving results'.[34]

2.43 Our analysis of weaknesses in the performance management system is given in the Annex. It is based on evidence from existing reviews and our

[30] *DAC Peer Review of the European Union*, OECD DAC, March 2012, http://www.oecd.org/dac/peerreviewsofdacmembers/50155818.pdf.

[31] *Has the Devolution of the Commission's Management of External Assistance from Its Headquarters to Its Delegations Led to Improved Aid Delivery?*, European Court of Auditors, Special Report, 2011, http://www.europarl.europa.eu/document/activities/cont/201105/20110504ATT18702/20110504ATT18702EN.pdf.

[32] *Council Regulation n1605/2002 of 25 June 2002 on the Financial Regulation Applicable to the General Budget of the European Communities*, EC, 2002, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2002:248:0001:0048:en:PDF.

[33] A Financial Regulation is the main point of reference for the principles and procedures governing the establishment and implementation of the EU budget and the control of the European Communities' finances. The Implementing Rules contain more detailed and technical rules for the day-to-day implementation of the Financial Regulation. See: http://ec.europa.eu/budget/biblio/documents/regulations/regulations_en.cfm.

[34] *DAC Peer Review of the European Union*, OECD DAC, March 2012, http://www.oecd.org/dac/peerreviewsofdacmembers/50155818.pdf.

own assessment. Crucial issues are the lack of integration between and the varying objectives of the different performance management tools; and the lack of quantitative analysis underpinning evaluations.

2.44 Overall, the EU's performance management system does not provide solid evidence of the performance and impact of EU aid and does not provide the assurance DFID needs for effective oversight. This contrasts with the assurance DFID has over its contributions to the World Bank and the Asian Development Bank, whose performance management systems have both improved significantly in recent years.

2.45 In-country, DFID offices interact with EU programmes and projects when these have a direct impact on DFID's programmes, for example with co-funded projects and budget support activities. DFID local offices also have some knowledge of active EU projects in sectors in which they are both working but, in such cases, the quality of information available in DFID offices on these EU projects is still not high. Generally, performance of EU programmes and projects is not a focus of DFID offices or the various EU co-ordination groups and meetings.

Risk management of programmes and projects

2.46 Risk management is an essential part of good programme and project management. It allows for the reality of changing circumstances or poor assumptions in plans to be addressed and corrected, so that objectives are achieved and outcomes are delivered for intended beneficiaries. The EU itself has identified that poor risk management and overambitious project plans are two of the biggest problems undermining the delivery of its programmes and projects.[35]

2.47 Risks are currently identified at the programme or project preparation phase, usually with some discussion of potential mitigation measures. These tend to reflect internal management risks rather than the real risks faced given the country and programme context. Risk analysis and management plans are not updated periodically on the basis of the actual experience of implementation. Instead, once programmes begin to go wrong, they often remain uncorrected. As a result, intended outcomes are less likely to be achieved.

2.48 For example, we looked at the risk assessment for a project in Tajikistan on loans to small farmers. The risk assessment was weak and rather generic and the mitigation measures were inadequate. The risk assessment states, for example, that 'the lack of flexibility in the project implementation may cause a substantial risk to achieving the project results'[36] but does not indicate how this risk will be managed. There was no evidence of formal follow-up or re-assessment of the risks identified.

2.49 The EU intends to move to a new risk management system in 2013. The system aims to integrate a wider and more realistic range of risks covering, for example, state fragility and policy failure risks. We noted that the EU's lengthy funding cycles, while useful in providing stability, can lead to very unresponsive programming and limited accountability among recipient organisations over the life of the plan. This needs to be addressed as part of the new approach.

2.50 In preparing the new system, the EU has drawn on DFID's best practices, including DFID's Fiduciary Risk Assessments,[37] recognising that better risk assessments will help inform better intervention design and monitoring. The new approach needs further development and a clear implementation plan. DFID does not have a strategy or plan for engaging on this issue centrally or in-country, despite the potential of the new approach to make a positive difference to effective implementation.

2.51 In one of the countries we visited, we heard several references to allegedly corrupt activities by an individual member of the government

[35] *Annual Report 2011 on the European Union's Development and External Assistance Policies and Their Implementation in 2010*, SEC (2011) 880 final, EC, July 2011, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/annual-report-2011_en.pdf.

[36] *Support to Private Sector in Tajikistan (20-586), Action Fiche no. 3, Annual Action Plan*, EC, 2009, http://ec.europa.eu/europeaid/documents/aap/2009/af_aap_2009_tjk.pdf.

[37] Fiduciary risk is defined by DFID '...as the risk that funds are not used for the intended purposes; do not achieve value for money; and/or are not properly accounted for. The realization of fiduciary risk can be due to a variety of factors, including lack of capacity, competency or knowledge; bureaucratic inefficiency; and/or active corruption.' *How to Note*, DFID, 30 January 2008, http://www.dfid.gov.uk/Documents/publications1/how-to-fiduciary-fin-aid.pdf.

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associated with the aid programme. These references were made by a number of donors and other stakeholders we interviewed. Neither DFID nor the EU team has received specific allegations concerning this individual and neither, therefore, has undertaken any investigation. We remain concerned, however, that the influence of this individual poses a challenge to the safeguarding of donor funds. Although DFID is taking some steps to deal with corruption generally in this country, in our view there were insufficient proactive measures being taken by DFID or the EU to analyse or deal with the specific risk associated with this individual. We have informed the appropriate authorities.

Assessment and improvement of efficiency and VFM

2.52 A number of reviews have raised concerns about the often slow or cumbersome nature of the EU's processes, including procurement. The IDC, for example, noted that 'there still seemed a long way to go' to reduce bureaucracy on procurement. The OECD DAC peer review recommended 'further streamlining of approval procedures'.[38] One of DFID's current concerns is the slow disbursement of EDF funds against commitments. In 2011, the payments made were €432 million (12%) less than committed.[39]

2.53 In-country, we noted that EU ways of working slowed down implementation of projects and that the consequences for costs can be high. An example is set out in Figure 8. The requirement for EDF programmes to liaise with governments through separate lead government officials, known as National Authorising Officers, can also unnecessarily complicate matters, as they seem to many to represent an additional interface that does not add value.

2.54 The complexity of processes puts a strain on implementing partners. The overall perception is that EU processes are a real obstacle to accessing funds, particularly for civil society organisations (CSOs) when, according to the EU's objectives, CSOs should be among the ones to benefit.

Figure 8: Cumbersome EU procurement procedures

It took nearly two years from the invitation to tender to contract signing for the Milange–Mocuba Road in Mozambique. During this time, the costs of asphalt-related items rose by 41%, which reduced the amount of road that the project could build in the current phase.

2.55 The EU does not have a specific definition of VFM nor does it track VFM on a formal basis, either centrally or locally. EU staff members tend to relate the concepts of VFM to the OECD DAC criteria of efficiency and effectiveness.[40] DFID is focussing on improving the EU's approach to VFM via its work on results through, for example, improving how the ROM and other systems can incorporate VFM measures. In-country, we did not find significant evidence of a shared analysis of cost-effectiveness or of pro-active discussion on VFM.

2.56 There can be a tension between the need for stringent compliance with financial procedures and speed and efficiency. The evidence at the moment is that the EU is not resolving this effectively. The *Agenda for Change* includes plans for streamlining operational procedures but this has not yet made a significant difference at country level. The related issue of the EU's administrative costs was raised by the IDC and it remains one of DFID's highest priorities to reduce them. DFID continues to negotiate on its value-for-money agenda as part of the process for agreeing the EU budget for 2014-20 but this will need to be sustained for some time to have the desired effect.

Working with recipient governments and involving intended beneficiaries

2.57 As a matter of both policy and good practice, DFID and the EU, together with other donors, try to ensure that their work is driven by the needs of the recipient country. This means ensuring that development programmes and country strategies are owned by recipient governments and support

[38] *DAC Peer Review of the European Union*, OECD DAC, March 2012, http://www.oecd.org/dac/peerreviewsofdacmembers/50155818.pdf.
[39] *Communication from the Commission to the Council, Financial Information on the European Development Fund (COM (2012) 386 FINAL)*, 10 July 2012, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0386:FIN:EN:PDF.

[40] *DAC Criteria for Evaluating Development Assistance*, OECD DAC, http://www.oecd.org/development/evaluationofdevelopmentprogrammes/49756382.pdf. The criteria on efficiency and effectiveness cover much of our understanding of value for money, see http://icai.independent.gov.uk/wp-content/uploads/2010/11/ICAIs-Approach-to-Effectiveness-and-VFM.pdf.

the emergence of national capability. Similarly, it means ensuring that programmes properly involve and reflect the needs of the intended beneficiaries through design, implementation and evaluation stages.

2.58 In-country, we found clear evidence of structured relationships with recipient governments. Where budget support is used, much of this takes place through the co-ordination groups discussed in paragraphs 2.22 to 2.28. The principles underpinning the EDF include equity of partners and ownership of development strategies. We found that these were reflected in the programming approach in Mozambique and Uganda.[41]

2.59 The EDF programming on roads in Mozambique, for example, directly derives from the national road sector strategy, which explicitly links investments in the road network to national poverty reduction objectives. In Tajikistan, where most of the funding is channelled through the DCI, development strategies were aligned with government priorities but only a limited number of government officials were involved because of centralised control by a small number of officials.

2.60 We saw less evidence of the involvement of intended beneficiaries in the design and monitoring of programmes. EDF processes require the involvement of representatives of CSOs.[42] This was not operating effectively in the EDF-based programmes of Mozambique and Uganda. For example, CSOs in Uganda commented that they were told about the future 2014-20 EU programming at a very late stage. As a consequence, they were unable to organise themselves and give substantial consolidated comments.

2.61 EU officials both centrally and in-country were clear that CSOs are commonly used as proxies for intended beneficiaries. CSOs, however, vary greatly in maturity, in the extent to which they can represent beneficiaries and in their remit. This creates a risk that the real needs and expectations of intended beneficiaries are not properly understood.

2.62 For grants to NGOs, the procurement guidance is clear about the expectation of beneficiary involvement. In practice, based on our case study projects, the extent and quality of involvement varied considerably. This depended on the attitude of the NGO, as oversight by the EU was generally limited.

2.63 EU Delegations monitor projects through field visits to project sites and through consultation with stakeholders, including intended beneficiaries. Budget constraints within Delegations mean that only priority projects can be monitored. Logistical problems, for example safety-based restrictions on using local flights (as was the case in Mozambique), also hinder the capacity to conduct field visits. The lack of effective monitoring of programmes and projects on the ground was raised by the ECA.[43] This failing further undermines the extent to which intended beneficiaries are effectively involved in the delivery of EU aid.

2.64 Overall, the clear and increasing focus of the EU on dialogue with governments reinforces the need for that dialogue to be properly informed by the voice and involvement of beneficiaries. It also needs effective intelligence on what is really happening on the ground.

Impact *Assessment: Amber-Red* A R

2.65 This section examines what EU performance management systems can tell us about the impact of EU programmes. In the section on delivery, we noted that weaknesses in the EU's performance management systems make it impossible to provide an overall assessment of the impact of EU aid. We summarise here what the available information tells us. It provides some, if limited, assurance of impact.

[41] *Republic of Mozambique – European Community – Country Strategy Paper and National Indicative Programme for the Period 2008-2013*; *Republic of Uganda – European Community – Country Strategy Paper and National Indicative Programme for the Period 2008-2013*, EC, http://ec.europa.eu/development/icenter/repository/scanned_mz_csp10_en.pdf; http://ec.europa.eu/development/icenter/repository/scanned_ug_csp10_en.pdf.

[42] Often referred to in EuropeAid as examples of 'non-state actors'.

[43] *Has the Devolution of the Commission's Management of External Assistance from Its Headquarters to Its Delegations Led to Improved Aid Delivery?*, European Court of Auditors, Special Report, 2011, http://www.europarl.europa.eu/document/activities/cont/201105/20110504ATT18702/20110504ATT18702EN.pdf.

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2.66 This section also assesses the evidence of impact from our case study programmes and projects. Overall, the evidence is mixed. There are some positive results but long-term impact, sustainability and exit strategies are less clear.

What EU performance systems tell us about the impact of EU programmes and projects

2.67 The most comprehensive information available on the impact of EU-funded activities is through the ROM system. In 2011, over 1,300 EU-funded actions were ROM-monitored, representing a third of all interventions or a quarter of the total portfolio in financial terms.[44]

2.68 In 2011, most projects were assessed as 'good performers' in all sectors (see Figure 9). Within this, there is a large proportion of projects with difficulties or poor performance in the production sectors (38%), support to government and civil society (30%) and cross-cutting sectors (29%).

2.69 These assessments are not truly measures of impact, however, because ROM monitoring is generally carried out during a project's implementation phase. In 2011, only 193 ROM assessments were carried out after project completion. This means that ROM assessments of impact are only an estimation of the future potential impact; and earlier assessments tend to be more optimistic. We have set out other weaknesses in the ROM system in the Annex. Other sources of information on the impact of EU aid are the country and thematic evaluations undertaken by EuropeAid's Evaluation Unit. These are difficult to aggregate but there is a summary of findings in EuropeAid's annual report. For example, education evaluations found that 'EU investments were successful in increasing enrolment but the quality of schooling was often poor and learning achievements remain limited'.

2.70 Road evaluations found that 'in most cases time and transport cost were reduced' and 'accessibility to rural markets and facilities' was improved. Road evaluations also noted, however, that 'the sustainability of major infrastructure remains a major challenge' and that further progress was needed in 'shifting the focus from road to transport logistics', regulation and governance.[45] Overall, given the issues outlined above, DFID has only limited assurance on the impact of EU aid.

Figure 9: ROM impact assessments in different sectors in 2011[46]

Performance of ongoing (national) projects by sector	Very good or good performance	Performing with problems or not performing	Number of reports produced
Education	73%	26%	36
Health	83%	17%	58
Water and sanitation	77%	23%	59
Government and civil society	70%	30%	326
Social services (welfare, employment, low-cost housing)	78%	22%	59
Infrastructure	77%	23%	107
Production sectors (financial services, manufacturing)	63%	38%	134
Cross-cutting sectors (environment, rural development)	71%	29%	120
General budget support and food assistance	80%	21%	77
Total	75%	25%	976

Impact of our case study programmes and projects

2.71 To provide a perspective on the impact of EU programmes on the ground, we have set out below a summary of our findings on the impact of the programmes and projects we reviewed. They were selected to provide a range of programme and project examples that the EU delivers around the world. The findings cover general budget support, road-building and grants to NGOs, as well as support to farmers in Tajikistan. In the Annex, we have given more detail about EU aid programmes and the basis of our selection of case studies.

General budget support

2.72 General budget support (GBS) is a core part of EU ODA. The EU disbursed a total of €742 million in GBS in 2011.[47] The impact on the ground of a specific GBS programme is, by nature, difficult to assess or attribute, given that it flows through

[44] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

[45] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

[46] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf. Note that the data in Figure 9 are from the EuropeAid Annual Report and that, due to rounding, the sums of some categories do not equal 100%.

[47] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

government systems and supports government programmes.

2.73 GBS is provided by DFID and the EU in two of the countries we visited, Mozambique and Uganda. The EU and DFID share a number of objectives with regard to GBS, including:

- **Poverty reduction:** in both Uganda and Mozambique, poverty as measured by household survey data has been falling in recent years, although inequality (particularly regional and urban-rural) has been increasing. Of 40 key targets chosen by donors to monitor the national development plan, the Government of Mozambique fully achieved, on average, 50%. Progress was shown in around 30% of others in recent years. Of 100 targets in Uganda, on average 50-60% were achieved annually.
- **Public finance reform:** both Mozambique and Uganda have made progress in improving public finance systems, as highlighted in World Bank published reports and annual reviews by GBS donors. Challenges remain, however, particularly in Uganda. The EU has withheld its public finance reform-related annual performance tranche[48] in the last three years. This is due to delays in implementing anti-corruption policies, procurement legislation and improvement to the credibility and transparency of its national budget-setting process and of its areas of spending.

2.74 There is little evidence that the leverage GBS gives donors has been used in both countries to achieve results around specific governance or sensitive issues. Some progress has been made on the passing of anti-corruption legislation, support for multi-party political representation and action taken over financial mismanagement in the health sector in Mozambique. In Uganda, donors have lobbied for action on a high-level corruption case related to major construction projects built for a Commonwealth Heads of Government meeting in Kampala. Progress has stalled, however, on the recovery of funds, completion of criminal investigations and initiation of prosecutions. Following this and other recent investigations into government corruption, all donors have suspended budget support in Uganda.

2.75 While GBS can enable donors to put pressure on governments over specific issues, it is a fairly blunt tool. For example, although the anti-corruption legislation has been passed in Mozambique, there are concerns about whether it will be used effectively. Overall, there is no evidence that more general donor concerns about the governance environment are being addressed in this way.

2.76 In both Uganda and Mozambique, there is evidence that government delivery systems are being strengthened. This can be seen in progress on implementing public finance reform and also in the expansion of service delivery. Health workers that we interviewed in Mozambique pointed to improved access to anti-retrovirals, systemic improvements in obtaining results of blood tests (use of fax to receive results, even in remote areas), improvements in availability of medication and every district in the country now having a doctor. This suggests a degree of sustainability of GBS, as systemic improvements impact on domestic resources as well as aid.

2.77 Improvements in public financial management and service delivery, together with potential income streams from natural resources, provide elements of an eventual exit strategy from GBS. Improving government revenues through securing new tax streams from natural resources is vital in both countries. In Uganda, a proposal by the EU to link future GBS levels directly to oil revenues is currently under discussion, with GBS being scaled down as revenues flow to the Ugandan treasury. It is essential that the EU and DFID use this window of opportunity, before natural resources revenues come online, to put in place effective exit strategies.

Road-building projects

2.78 The EU is one of the few donors with the capacity to operate at the necessary scale on road-building and the ability to engage with recipient countries on related transport policies. Capital investment for

[48] For an explanation of how this works, see paragraphs 42-47 of the Annex.

2 Findings

road-building is expensive: each kilometre of road tarmac costs about €0.8 million in Uganda.[49]

2.79 In both Mozambique and Uganda, roads carry 80-90% of the transport load. EU assistance on roads aims to support economic development and to improve access to essential services, focussing on key arteries:

- in Uganda, rehabilitating the Northern Corridor, a road between the Democratic Republic of Congo, Rwanda, Uganda and Kenya; and
- in Mozambique, ensuring a connection from Malawi to the sea (the port of Quelimane in the northeast of the country), building a shortest route to the extractive industries in the Tete area. This also gives access from the fertile agricultural lands along the route to markets in Mocuba, Quelimane and Beira and in the wider region, including chronic food deficit areas.

2.80 For both of these road projects, the initial cost–benefit analyses showed very strong net present values of up to US$60 million in the case of Mozambique and US$9.7 million for Uganda.[50] This suggests good prospects for cost-effectiveness.[51]

2.81 In both cases, works were substantially delayed; for about a year in Mozambique. The contractors indicated that this was partly due to the EU's lengthy processes and decision-making. The works have also been delayed by land and housing compensation issues. These are being addressed with the respective road administrations.

2.82 Intended beneficiaries (including community representatives, district and community health officers and local authorities) told us that they were satisfied with the development of these roads. The roads are having an impact on the local economy. For example, we saw new small informal markets along the Mocuba road and new services provided to incoming workers and traders.

2.83 Community leaders we spoke to were, however, expecting 'more interaction with the authorities before the works start', as they were not always informed of the exact nature and timing of the works. Local authorities indicated their concern that the construction would affect their sanitation system.

2.84 Road construction tends to bring with it a large number of migrant workers and is associated with increased prevalence of HIV/AIDS. Both projects include health and prevention programmes designed to mitigate this risk. We noted that the available results of HIV/AIDS tests in Rubaare, a town known for prostitution along the Northern Corridor in southern Uganda, had not yet shown any significant changes in HIV infection a year into construction.

2.85 Maintenance is a major challenge to the sustainability of the EU's investment, as many road networks have expanded well beyond the size and standard the country can afford to maintain.

2.86 EU mitigation strategies in Mozambique included building the road to last 20 years rather than the usual ten and encouraging reforms in the sector, such as improving road regulation.[52] In Uganda, DFID and the EU jointly initiated a project to increase the ability of national companies to undertake work on roads (see Figure 6 on page 11). The EU also provides technical expertise to support the management of the Uganda Road Fund, which is responsible for maintaining national roads. These are positive initiatives but remain partial answers to the main sustainability issue, which is ensuring sufficient national funding for maintenance.

Grants to NGOs

2.87 EU grants to NGOs are funded through the EDF and DCI. In our case study countries, we focussed on DCI grants to NGOs, which were a small proportion of the overall EU programme in two of our focus countries (Uganda and Mozambique) and a more significant instrument in the third (Tajikistan).

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[49] *Feasibility Study, Detailed Design and Supervision of the Reconstruction of the Northern Corridor Route*, COWI, March 2009.

[50] Cost–benefit analyses incorporated assumptions about traffic growth, volumes of non-motorised traffic and generated traffic and benefits to diverting traffic.

[51] The net present value is the present value of the predicted financial inflows and outflows in a project or investment. It is used to analyse potential profitability and benefits and is an indicator used to determine if the project is suitable for funding.

[52] *Reconstruction of Sections of the Northern Corridor Route*, *Action Fiche*, EC, http://ec.europa.eu/europeaid/documents/aap/2009/af_aap_2009_uga.pdf.

2 Findings

2.88 Grants to NGOs are provided following a call for proposals which specifies the EU's objectives and criteria against which proposals will be assessed. It is at this stage that the EU can ensure that key aspects such as effectiveness, sustainability, results focus and beneficiary voice are included as conditions for funding.

2.89 Reports from NGO recipients of grants in our case study countries highlighted impacts such as:

- 2,553 old people obtained official documentation to ensure access to public healthcare services (Helpage in Mozambique);
- 150 young people were supported with vocational training, toolkits and apprenticeships (AVSI in Uganda); and
- greater efficiency in energy consumption was achieved through the use of new stoves, reaching 33,000 families and saving up to US$50 per family per year (ACTED in Tajikistan).

2.90 We interviewed a number of current and previous beneficiaries of the activities of NGOs receiving EU grants. These included young people currently employed (or productively self-employed) following graduation from a vocational training college supported by NGOs who received EU grants. Beneficiaries stated that they believed they would not have found employment without the support of the EU-funded project. They said that they used their earnings to save for the future, pay school fees for younger siblings and help aged relatives.

2.91 We found that NGO projects tend to be small in scale, not co-ordinated and treated in a fairly hands-off way by the EU Delegation once the contract is signed. It is, therefore, difficult to say how effective or impactful support to NGOs is as a whole. An overall assessment of effectiveness and impact, perhaps through a sample of projects, is lacking, together with greater clarity on what the programme of grants is trying to achieve.

Agriculture loans in Tajikistan

2.92 The Tajik Agricultural Financing Framework (TAFF) delivers training and technical advice and provides credit facilities to small farmers (farming fewer than ten hectares or 25 acres) in order to modernise and diversify their production.

2.93 TAFF is seen as a major player in the sector, as it 'changed the way credit is seen in the country' according to those interviewed. In two years, nearly 4,000 farmers have benefited from TAFF loans, for a total of US$17 million, or an average loan of US$4,250 per farmer. Farmers increased their income thanks to improved production, with a return of up to US$500 per hectare (depending on the crop). TAFF covered up to 31,000 hectares.[53]

2.94 The project created 21 private Technical Advisory Groups to provide advice on how to be an independent farmer. These are new private businesses that generate small profits, charging US$10 per hectare for their services.

2.95 The methodology developed by TAFF is now used as a benchmark by microcredit institutions in the whole country, allowing access to agricultural credit to be better harmonised.

2.96 Despite TAFF's efforts, credit regulatory frameworks remain weak. In the absence of established market institutions, there is the risk that the introduction of tradable land-use rights will be abused and there was anecdotal evidence that this was happening in Tajikistan. More caution needs to be exercised when engaging in these policy areas.

Learning *Assessment: Green-Amber*

G A

2.97 This section covers what DFID has learned:

- from working with major multilateral donors;
- from its experience of working with the EU; and
- from working with the EU in-country and across DFID's network of offices.

2.98 We also consider the EU's own approach to learning.

Learning from work with major multilateral donors

2.99 There is good evidence that DFID has applied lessons from its work with major multilateral donors to its work with the EU. DFID has taken the lessons from the MAR and focussed its engagement strategy on the issues identified. The current work to monitor progress against MAR

[53] *Tajik Agricultural Finance Framework (TAFF) Final Report*, Frankfurt School of Management, February 2010.

2 Findings

objectives will support DFID's updated MAR assessment in 2013.

2.100 DFID is applying expertise it has gained from working with multilateral donors, for example using the Asian Development Bank results framework as good practice for the Experts Group working on the EU's results framework. DFID has also provided the EU Evaluation Unit with insight from its work with the evaluation teams from major multilateral organisations.

Learning from experience of working with the EU

2.101 DFID has applied lessons from its previous work with the EU through its focus on engaging and sharing best practice on results and performance management. DFID's secondment programme (see paragraph 2.3) has developed from the previously ad hoc and arm's-length approach to be something better focussed on helping to achieve DFID's objectives.

2.102 There is also recognition by DFID of the need to develop clearer, more robust and more assertive business cases for the oversight of the UK's substantial contributions to the EU. This could be supported by a more explicit analysis of what has and has not worked in engaging with the EU in the past.

2.103 Wider issues of concern on the EU's management of development assistance have generally been well articulated and accepted, for example in the reports of the IDC and the OECD DAC. In our view, the greatest challenge is getting agreement on how and particularly when these concerns will be addressed.

2.104 DFID's response to the IDC's report describes the plans it has to address many of the recommendations and how they can be further developed.[54] A key question considered by the IDC was the comparative advantages of channelling aid through the EU. Although not an issue we have addressed directly, in our examination of how DFID and the EU work together, we have seen the potential for exploiting the comparative advantages of the EU in terms of scale, reach and complementarity of focus. For this potential to be realised, DFID needs to be more proactive, through its network of offices, on issues such as country strategies and the best mix of interventions to meet the development needs of the recipient country.

Learning from experience with the EU in-country and across the network of DFID offices

2.105 While the relationship between the EU and DFID in-country is good, both formally and informally, there is no systematic process in place for DFID to learn from its interactions with the EU at country level. For example, while there is considerable interaction among donors, this tends to be limited largely to programming and co-ordination. There is no systematic attempt to discuss evidence of practical lessons learned from implementation.

2.106 Learning among DFID offices tends to happen informally, with staff members offering advice as needed to colleagues in offices facing similar issues. There is no clear agenda of issues that DFID wants its offices to raise with the EU. There is also little attempt to share knowledge about effective influencing strategies. The MAR follow-up, which includes feedback from seven DFID offices, is a useful exception to this, being a formal process for consolidating knowledge about the EU at country level.

Learning within the EU and EuropeAid

2.107 We found that EU staff, both centrally and in-country, were generally open to learning from DFID and other member states. We note that, within the EU, there are examples of initiatives to develop and share knowledge and best practice on development issues.

2.108 These include a joint initiative between the EU and some member states (including the UK) on European Research for Development to build better links between the European research community and policymakers. Another example is Capacity for Development, an online knowledge-sharing and collaboration platform set up by

[54] *Third Special Report: EU Development Assistance: Government Response to the Committee's Sixteenth Report of Session*, House of Commons, International Development Select Committee, 2012, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmintdev/427/42702.htm.

EuropeAid.[55] This was part of a wider initiative to develop capacity of its development partners such as NGOs and recipient governments.[56] These initiatives are not well publicised and could be better exploited, including by DFID.

2.109 Feedback from the centre to Delegations on technical issues, lessons learned and emerging good practice appeared limited. There was also little evidence that the EU makes good use of the insights of its network of Delegations.

2.110 There is more that could be done to make information on EU aid accessible. For example, despite the fact that one of the purposes of the ROM is external accountability, ROM reports are not publicly available. ROM results are summarised in EuropeAid reports but analysis, for example, by country or on aid to fragile or low-income countries, is not accessible. In Figure 10, we note how this compares to multilateral organisations such as the World Bank and Asian Development Bank.

Figure 10: Sharing information – comparison of EU and multilateral donors

A comparative analysis of the available information on donors' websites shows that the EU shares less information on its activities, projects and results than multilateral organisations such as the World Bank and Asian Development Bank (ADB). The ADB, for instance, publishes full country portfolios with detailed project records including data sheets, project contractual documents, monitoring and evaluation systems and complete evaluation studies. Financial data are also available, including on each individual procurement per project. The ADB also manages a web-based forum where people affected by ADB-funded projects can directly address concerns.

[55] See: http://capacity4dev.ec.europa.eu/home.

[56] *Donor Capacity Development Innovation: EC*, OECD, 2010, http://www.oecd.org/development/governanceanddevelopment/44895548.pdf.

3 Conclusions and Recommendations

Conclusions

3.1 DFID's oversight of the UK's contribution to EU aid spending has a clear focus on improving the way in which the EU assesses and reports on the performance of its development programmes. Overall, however, DFID's oversight does not provide the assurance needed, given the substantial scale of the UK's contribution and the limited discretion the UK has about the EU as a route for aid. DFID's oversight is not based on the same quality of information it has for the oversight of the World Bank or Asian Development Bank. It is hard to see how DFID's influence is making a difference to EU aid on the ground.

3.2 We recognise the constraints imposed by the EU system and decision-making processes. We also note that DFID is planning to underpin its strategy with more detailed business cases and targets. It should, however, aspire more clearly to the same levels of performance by the EU as it expects and has pushed for with other agencies and providers.

3.3 The potential prize from effective engagement and influence is enormous. It includes assurance to UK taxpayers, leverage of the contributions of other member states and the opportunity to make a substantial impact on poverty around the world. Current thinking on development in the future reinforces the likely importance and potential of the EU's wider levers, such as trade and energy policies and support on developing the private sector; and, therefore, the value of effective engagement.

3.4 DFID's approach to engagement is focussed very much at the policy level, which reflects the way it has historically engaged with the EU. Whilst DFID can fairly claim to have made progress in a number of EU policy areas, it is important (and recognised by DFID) that progress at the policy level is only the first step. DFID should work through the EU to deliver its objectives in developing countries in a more structured way, viewing the EU as an opportunity to increase the impact of UK funding.

3.5 DFID's network of offices and its scale and reputation as a donor provide a platform for a more substantive and practical engagement to improve the implementation and impact of EU aid. An example is risk management, which the EU has identified as the biggest obstacle to achieving programme and project objectives. Another example is VFM and efficiency, which again are widely acknowledged problems but where very slow progress is being made.

3.6 In-country, the focus of DFID–EU co-ordination is in general about wider policy and country context issues rather than the effectiveness and impact of EU aid. Co-ordination structures are often cumbersome. DFID offices tend to treat the EU in the same way as other donors rather than as a route for achieving DFID's goals. We noted that there was no systematic guidance on how DFID should engage with Delegations in-country, for example in shaping the scale and focus of DFID's programme in relation to that of the EU.

3.7 Finally, we note that there is a clear and increasing focus by the EU and DFID on dialogue with governments, which is an appropriate basis for planning development programmes. This approach, however, reinforces the need for effective intelligence about what is really happening and what is needed on the ground, in order to inform and challenge the dialogue with governments. It is vital that the voice of beneficiaries is central to that dialogue.

Recommendations

Recommendation 1: DFID should set out clearly what action is needed and how long it will take to deliver the same level of assurance on its contributions to the EU as it achieves elsewhere. This should include improvements to the performance management of EU aid and better access to EU information.

3.8 Pressing for a clear and urgent timetable for the implementation of an improved EU results framework is an important starting point. Also, as secondments are a key part of DFID's strategy, DFID needs to build on the progress and plans to date to ensure that it matches the seniority, calibre and duration of secondments to the needs and scale of the task, which we have set out above in our conclusions. Areas of potential such as work with the private sector and on improving tax systems should be considered for greater focus.

3 Conclusions and Recommendations

3.9 Opportunities for DFID to enhance its strategy include:

- learning from past EU efforts to improve the results framework, including an assessment of what has hindered progress previously and of the EU's capabilities and plans in these areas;
- using existing sources of information, such as the ROM and local and central evaluations, as well as intelligence from DFID's network of offices, to provide more timely and rigorous assessments of EU performance;
- more routine monitoring and reporting against deadlines, for example for the draft influencing strategy and logframes for instruments and funds;
- using existing processes, to which the EU has signed up, to assess improvement, for example tracking how political dialogue has improved under the Cotonou Agreement; and
- pressing for more public access to EU documents on performance, such as ROM reports and in-country evaluations.

Recommendation 2: DFID should give better guidance to DFID country offices on how they should contribute to EU country strategies and to existing co-ordination forums, so as to ensure a better combined impact from UK and EU funds and a greater focus on actual EU performance.

3.10 DFID's scale and expertise mean that, in many countries, it will be the best placed amongst member states and donors to influence the EU. Ways that DFID can be more proactive at the country level include:

- developing and sharing the influencing strategy with country offices, so that they can focus their inputs to EU country strategy programmes accordingly;
- closer working on performance and results, for example through DFID's new in-country results officers working with their EU counterparts;
- using existing co-ordination forums to achieve more substantive progress on dividing up sectors and activities between DFID, the EU and other donors, particularly where there are many donors;
- making better use of insights from across country offices to ensure that DFID is alert to opportunities and risks to implementation and that it understands what works well in practice;
- more joint analyses of common issues facing the EU and DFID in-country, for example on sector and context analysis, political economy and ways of securing appropriate beneficiary voice; and
- pressing for better sharing and use of intelligence from the network of EU Delegations and use of knowledge-sharing systems such as Capacity for Development.

3.11 We have not examined the oversight of the EU Delegations where ODA is spent but there is no DFID office. There are around 90 other countries in addition to the 28 on which DFID focusses. There is engagement by DFID staff with the UK embassies and High Commissions in some of these other countries. DFID should consider how oversight of EU contributions to these countries might be improved through better engagement of UK representatives, particularly in countries where the development challenges are greatest.

Recommendation 3: DFID should ensure that the EU secures ongoing input from intended beneficiaries and effective intelligence on what is needed on the ground, in order to inform and challenge dialogue with recipient governments.

3.12 DFID should make further efforts to strengthen the involvement of relevant CSOs, intended beneficiaries and communities in strategy development and in the design, implementation and evaluation of programmes and projects. This involvement should not be restricted to single consultations for the purpose of administrating EU aid programming processes.

3.13 In addition, DFID should explore with the EU the best ways to ensure that dialogue with governments is informed by good intelligence from intended beneficiaries, including regular assessments from the field.

Recommendation 4: DFID should engage more actively on developing and driving through the EU's planned improvement of its risk

management processes, given the potential this has for improving the impact of EU aid.

3.14 DFID should focus on improving the EU's risk management and other processes to make EU interventions more flexible throughout the design and implementation stages, particularly at inception. This should be done through more explicit engagement on the development and roll-out of the Project and Programme Cycle Management guidance and through support to collaborative learning, for example the EU's Capacity for Development platform. As part of this, DFID should ensure that changes do not increase the administrative burden of procedures.

3.15 DFID should also press for improvements to risk management that help to address overambitious project plans and the risks inherent in the EU's lengthy funding cycles, which can lead to very unresponsive programming and limited accountability among recipient organisations over the life of the plan.

Annex

1. The first part of this Annex provides an overview of the organisation and operations of the EU's development work, covering:
   - the main funding streams for EU development aid;
   - more detail on the funding streams most relevant to this review, the EDF and DCI;
   - EU institutions responsible for development aid;
   - governance and decision-making for development aid;
   - EU policy on development; and
   - the main weaknesses in the EU's performance management system for development aid.

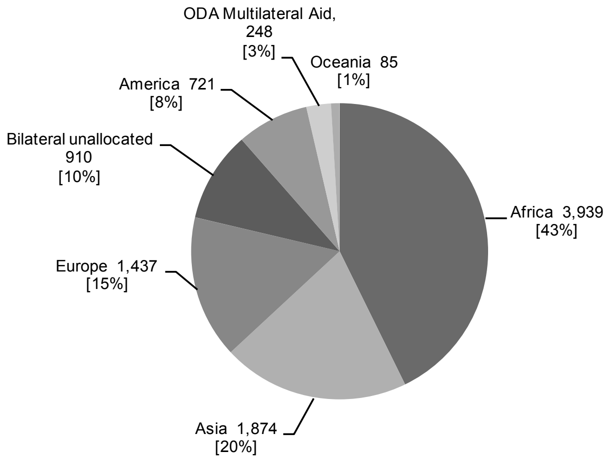
2. The second part summarises the in-country case studies that informed this review.

The main funding streams for EU development aid

3. EU development aid is not funded by any one EU organisation but by a range of funds or instruments, managed by a number of EU organisations. Overall, the EU spent €10.3 billion on development assistance to other countries in 2011.[57] €9.2 billion, or 89%, of this was ODA.[58] DFID's responsibility is for the ODA element of EU development. Figure A2 on page 26 shows a breakdown of the main instruments and provides details of each one.

4. EU development assistance covers a wide geographical range. Figure A1 shows the EU's total spending on ODA by region. The region receiving the most ODA was Africa. Overall, 52% of the EU's ODA is spent in the least developed and other low-income countries (see Figure 2 on page 2).

Figure A1: EU ODA expenditure by region in 2011 (€ millions)[59]



[57] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

[58] Official Development Assistance or ODA is defined by the OECD DAC as financial flows to countries i) which are provided by official agencies or donors and ii) where the transactions promote economic development and welfare of developing countries and are concessional in nature (i.e. grants). See: http://www.oecd.org/dac/aidstatistics/officialdevelopmentassistancedefinitionandcoverage.htm.

[59] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

Annex

Figure A2: Summary of the main EU development aid funds and instruments[60]

Title	Description	Source and term of funding	Budget for current term	ODA expenditure in 2011	ODA expenditure in 2011 as a proportion of total EU ODA
European Development Fund (EDF)	The EDF is the main instrument for providing EU development aid in the African, Caribbean and Pacific countries and the group of countries known as the Overseas Countries and Territories.[61]	Separate contributions by EU member states, 2008-13	€22.7 billion	€2.7 billion	30%
Development Co-operation Instrument (DCI)	The DCI is the second main funding source for EU ODA. The DCI was launched in 2007, primarily to help eradicate poverty and assist developing countries to achieve the Millennium Development Goals.	EU budget, 2007-13	€16.9 billion	€2.0 billion	22%
The European Neighbourhood and Partnership Instrument (ENPI)	The ENPI focusses on regional integration in ten Mediterranean and six Eastern European countries and Russia.	EU budget, 2007-13	€11.2 billion	€1.4 billion	15%
Humanitarian Aid Instrument	The Humanitarian Aid Instrument is managed by the European Community Humanitarian Office and provides emergency assistance and relief to the victims of natural disasters or armed conflict.	EU budget and contributions from the EDF	Approxim-ately €1 billion per year[62]	€1.0 billion	11%
Instrument for Pre-accession Assistance (IPA)	The IPA offers assistance to countries engaged in the accession process to the EU and is managed by the EU's Directorate General Enlargement.	EU budget, 2007-13	€12.9 billion	€949 million	10%
Food Facility	The Food Facility is designed to respond rapidly to problems caused by soaring food prices in developing countries.	EU budget, 2008-11[63]	€1 billion	€115 million	1%
Other instruments	Other instruments funded by the EU budget include the European Instrument for Democracy and Human Rights, the Instrument for Stability (designed to address global security and development challenges) and the Nuclear Safety Co-operation Instrument.	EU budget, 2007-13	€3.7 billion	€1.0 billion	11%

[60] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf; *How We Finance*, EuropeAid, http://ec.europa.eu/europeaid/how/finance/index_en.htm.

[61] The Overseas Countries and Territories are 25 countries and territories – mainly small islands – outside mainland Europe, having constitutional ties with one of Denmark, France, the Netherlands and the United Kingdom.

[62] The European Commission budget for humanitarian aid comes from the EDF and the general EU budget. If necessary, the Commission may also ask the budgetary authority (from Parliament and the Council) to increase its funding in order to respond to a humanitarian crisis. See: http://ec.europa.eu/echo/funding/finances_en.htm.

[63] The Food Facility was a Regulation adopted by the European Parliament and the Council in December 2008, during the EU budget or MFF term 2007-13.

Annex

The funding mechanisms most relevant to this review

5. This review concentrates on funding to the EDF and the DCI. Accounting for 52% of EU ODA, these are the two largest funds or instruments and are more focussed on low-income countries.

European Development Fund (EDF)

6. The EDF was set up in 1957 under the Treaty of Rome to assist African countries, some with historical links to member states, to grant financial and technical assistance. The EDF delivers its aid mainly through grants and through risk capital and loans to the private sector (managed by the European Investment Bank).

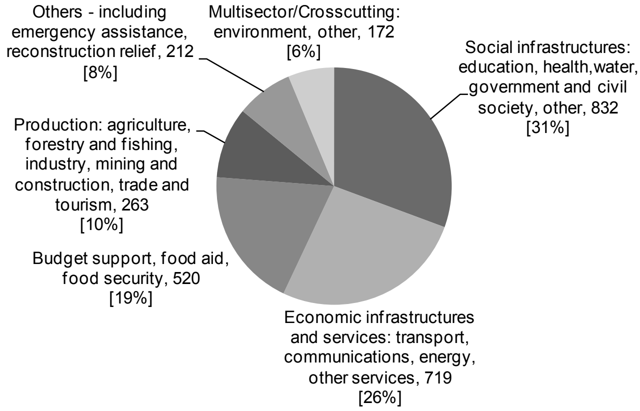
7. The EDF is the main instrument for development co-operation under the Cotonou Partnership Agreement made between the members of the ACP Group of States (currently comprising 78 countries) and the EU and its member states. It was signed on 23 June 2000 in Cotonou, Bénin and revised in 2007. The partnership is focussed on reducing poverty through sustainable development and the gradual integration of the ACP countries into the world economy.

8. The 78 ACP countries are represented in the ACP–EU Joint Parliamentary Assembly. This international assembly brings together the elected representatives of the European Community (the Members of the European Parliament) and the elected representatives of the ACP countries.

9. Since the first EDF (1959-64), there have been nine successive EDF cycles. The EDF has expanded to cover the Overseas Countries and Territories. We mainly focussed on programmes under the 10th EDF (2008-13).

10. The 10th EDF has a budget of €22.7 billion for 2008-13. In 2011, the EDF disbursed €2.7 billion in ODA. The sectoral split of this spending is shown in Figure A3. 87% of the EDF is spent in low-income countries.[64]

Figure A3: EDF ODA spending by sector in 2011 (€ millions)[65]



11. Each EU member state makes voluntary contributions to the fund outside the EU budgeting process. The UK is the third-largest provider of funding and gives a 14.82% share or €3.4 billion for the 10th EDF, after Germany and France which provide 20.50% and 19.55% respectively.[66]

12. Since 2000, funding is based on a system of rolling programming, which gives the beneficiary countries greater responsibility for determining objectives, strategies and operations for programme management and selection. The 10th EDF includes, for the first time, incentive funding that countries can request on top of their base allocation for improving their governance; in particular, effective management of their financial, tax and legal systems.

13. The European Commission published its communication regarding the preparation of the 11th EDF in December 2011.[67] This contained

[64] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

[65] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

[66] *Internal Agreement between the Representatives of the Governments of the Member States, Meeting within the Council, on the Financing of Community Aid under the Multiannual Financial Framework for the Period 2008 to 2013 in Accordance with the ACP-EC Partnership Agreement and on the Allocation of Financial Assistance for the Overseas Countries and Territories to Which Part Four of the EC Treaty Applies – 10th EDF, L247/32*, EC, 2006, http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_247/l_24720060909en00320045.pdf.

[67] *Preparation of the Multiannual Financial Framework Regarding the Financing of EU Cooperation for African, Caribbean and Pacific States and Overseas Countries and Territories for the 2014-2020 Period (11th European Development Fund)*, EuropeAid, 2012, http://ec.europa.eu/europeaid/how/finance/documents/comm_european_development_fund_en.pdf.

proposed funding of €34.3 billion for the period 2014-20.

The Development Co-operation Instrument (DCI)

14. In contrast to the EDF, the DCI was only launched recently, in 2007, consolidating a number of previous funding instruments. The EU created the DCI to renew its commitment to the Millennium Development Goals, namely the eradication of poverty and the promotion of good governance.

15. The DCI forms part of the EU budget and is funded as part of the EU's multi-annual budget-setting process. Its allocation for the 2007-13 cycle is €16.9 billion. In 2011, DCI ODA expenditure was €2.1 billion. 45% of the DCI is spent in low-income countries.

16. The DCI operates mainly through geographic and thematic programmes:

- **Geographic programmes:** totalling €10.1 billion of spending over the cycle (60% of the total), these support 47 developing countries in Latin America, Asia, the Gulf region (Iran, Iraq and Yemen) and South Africa (see Figure A4).
- **Thematic programmes:** totalling €5.6 billion of spending (33% of the total), these programmes address issues such as food security, the impact of environmental change and migration and asylum, as well as providing grants to NGOs (see Figure A5).

17. The DCI also provides assistance to developing countries following the reform of the EU sugar regime. This accounts for the remainder of DCI spending (€1.2 billion or 7% of the total).

Figure A4: DCI geographic ODA expenditure by sector in 2011 (€ millions)[68]

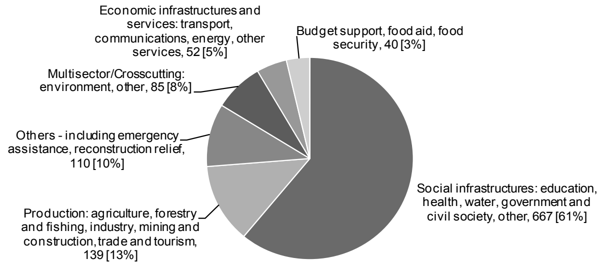
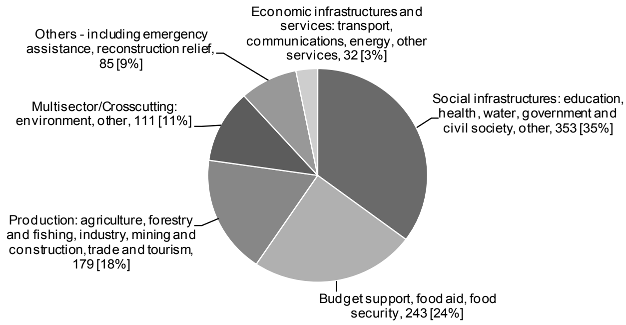


Figure A5: DCI thematic ODA expenditure by sector in 2011 (€ millions)[69]



EU institutions responsible for ODA

18. The EU has 33 departments called Directorates General (DG) which cover various policy areas. For EU development aid, the key DGs that propose, influence and implement policy are:

- **DG-Development and Co-operation** (or EuropeAid) was formed on 3 January 2011 from the merger of two of the EU's former DGs: the Directorate General for Development and Relations with ACP States and the EuropeAid Cooperation Office. It is the main entity responsible for formulating EU development policy and delivering aid and is responsible for the EDF, DCI, ENPI and the Food Facility. In 2011, EuropeAid managed 68% (nearly €7

[68] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

[69] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

billion) of the EU's total expenditure on development assistance;

- **DG-Humanitarian Aid** (ECHO) was created in 1992 and is responsible for managing the Humanitarian Instrument. Over the last five years, ECHO's annual budget has averaged €1 billion and, in 2011, its aid reached nearly 150 million people in over 80 countries;[70] and
- **DG-Enlargement** manages the bulk of the EU's financial assistance to EU candidate and potential candidate countries, as well as managing the process of joining the EU. It also manages financial assistance to new member states during a transition period following accession. It manages the Pre-Accession Instrument along with the DG for Regional Policy and the DG for Agriculture and Rural Development.

19. Many other DGs are involved in development policy or have an impact on developing countries, for example the DG for Trade, the DG for Agriculture and Rural Development and the DG for Climate Action Policy.

20. In addition to the DGs, the **European External Action Service** (EEAS) also plays an important role in managing EU development assistance. The EEAS is an EU institution formed in December 2010, as part of the implementation of the Treaty of Lisbon,[71] to act as a formal EU foreign affairs department. It is equivalent, for example, to the Foreign and Commonwealth Office in the UK. Its purpose is to support the EU's High Representative for Foreign Affairs and Security Policy.

21. The EEAS supports the EU's network of over 150 Delegations and offices around the world, maintaining diplomatic relations and promoting EU foreign policy objectives.[72] The EEAS and EuropeAid jointly develop multi-annual country strategy programmes for EU development assistance expenditure in-country.

22. As well as direct grant funding, the EU provides development assistance through the **European Investment Bank** (EIB). In 2010, the EU provided €289.6 million to the EIB for subsidised loans and investment capital.[73] The EIB is owned by the 27 member states and its shareholders and their finance ministers make up its Board of Governors. The EIB borrows money on the capital markets and lends it at a competitive interest rate. It supports projects that aim to improve infrastructure, energy supply or environmental standards, both inside the EU and in neighbouring or developing countries. At the end of 2011, the EIB had made loans totalling €395 billion.[74] About 90% of loans go to programmes and projects within the EU.

23. The EU also makes funds available through the **European Bank for Reconstruction and Development** (EBRD), which in 2011 received €55.24 million from EuropeAid.[75] The EBRD is owned by 63 countries, the EU and the EIB. It has a Board of Governors, one from each owner, generally a minister of finance. Its aim is to help countries in central Europe, the western Balkans and Central Asia become open market economies, including, for example, Tajikistan. The EBRD's authorised capital is €21 billion and its gross spending reached €6.7 billion in 2011 with a total of €18.7 billion of outstanding loans.[76]

24. Figure A6 on page 30 sets out the key elements in the structure and governance of EU aid. We discuss the governance, decision-making and oversight in further detail in the next section.

[70] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

[71] Background on the 2009 Treaty of Lisbon: http://europa.eu/lisbon_treaty/index_en.htm.

[72] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

[73] *Financial Contributions of EuropeAid to EIB*, EuropeAid, January 2011, http://ec.europa.eu/europeaid/who/partners/international-organisations/documents/eib_2010_en.pdf.

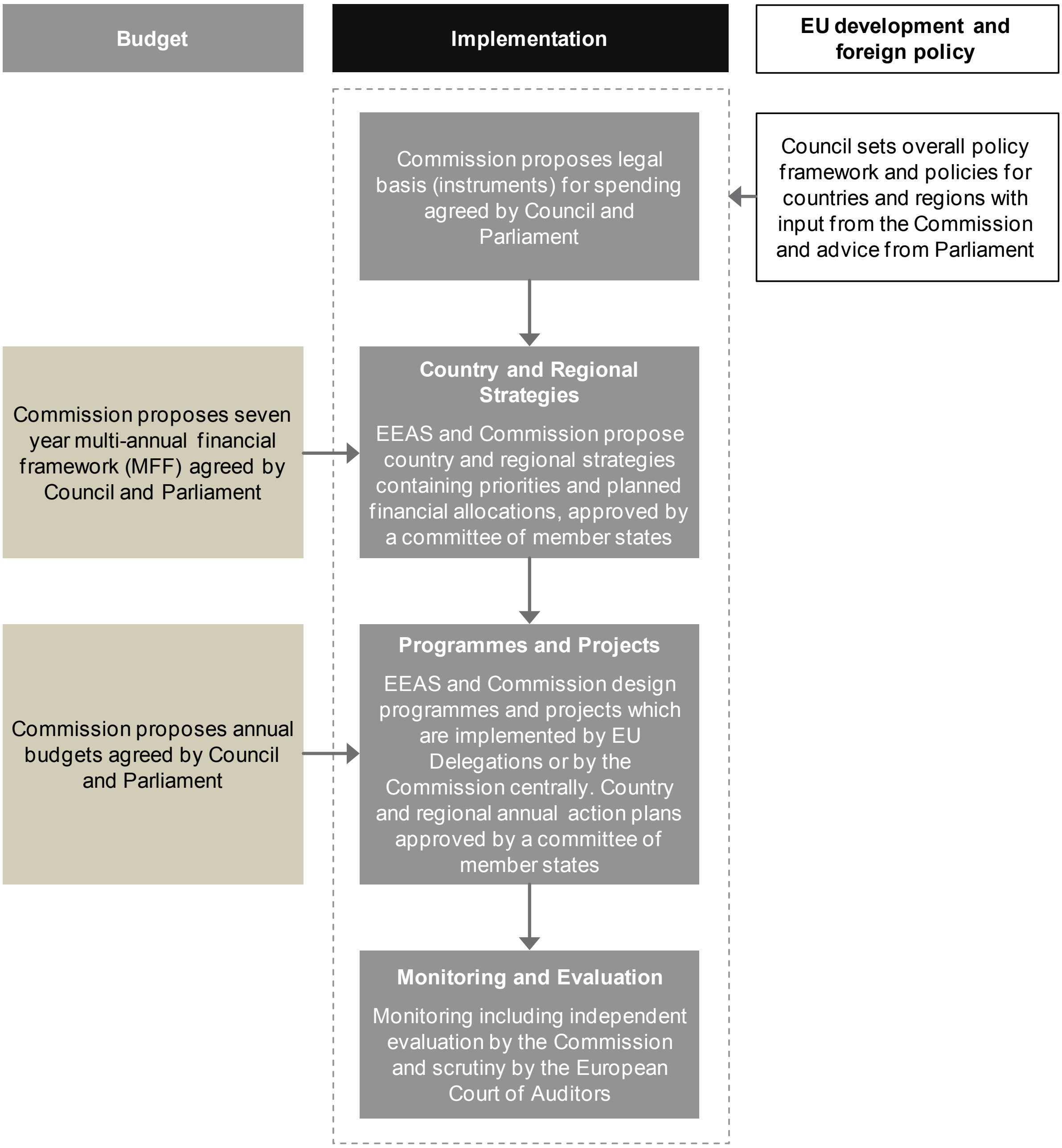
[74] *Key Statutory Figures*, EIB Group, 2011, http://www.eib.org/about/key_figures/index.htm.

[75] *Financial Contributions of EuropeAid to ERBD 2011*, EuropeAid, August 2011, http://ec.europa.eu/europeaid/who/partners/international-organisations/documents/ebrd_2010_en.pdf.

[76] *Financial Report 2011*, European Bank for Reconstruction and Development, http://www.ebrd.com/downloads/research/annual/fr11e.pdf.

Annex

Figure A6: The structure and governance of EU aid



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Governance and decision-making

25. The Council of the EU enacts legislation (along with the European Parliament) and sets aid and development policy.[77] The Council has representation from 27 ministers from the member states. Presidency of the Council rotates every six months.

26. Legislative decisions are taken by a qualified majority and also require the agreement of the European Parliament. The process involves several readings of the legislation, possibly leading to a conciliation process if agreement cannot be reached between the two.

27. The Council fixes the EU development policy framework in which EuropeAid operates, while the EU's budget (co-decided by the Parliament and the Council) provides the funds for the external assistance programmes which EuropeAid manages.

28. EU aid programmes are also governed through specific committees, according to the funding instrument. These management committees also include representatives of member states and are an important forum for the management of their respective budgets. They approve:

- Strategy Papers for the period of the funding cycle (e.g. 2008-13 for the EDF and 2007-13 for the DCI). These include Country Strategy Papers or Regional Strategy Papers, for the African, Caribbean and Pacific countries and other non-EU countries with Regional Strategy Papers;
- Indicative Programmes which are attached to the Country or Regional Strategy Papers, providing detailed programmatic information; and
- detailed Annual Action Programmes for each year of the programming period.

29. For the EDF committee, voting powers are set according to each member state's contribution to the EDF (see Annex paragraph 11). Programmes are approved by a majority vote of two thirds. For the DCI, there is a similar committee made up of representatives of the member states and chaired by a EuropeAid representative. Decisions are made through qualified majority voting, principally weighted by the populations of the member states.[78] A member of the EIB also attends this committee.

30. The DCI Committee and the European Parliament receive agendas, Country Strategy Paper drafts and other programming documents at the same time. The European Parliament has a right of scrutiny over programmes but does not formally approve individual strategies, programmes or projects.

31. Within EuropeAid, Quality Support Groups provide quality control to projects and programmes under design. They use a standardised evaluation approach based on the OECD Development Assistance Committee's criteria to assess whether the programming requirements have been met.[79] According to the subject matter, other Commission departments may give their opinion through inter-service consultation. This would be the case, for instance, with the Directorate-General for Climate Action on projects with a climate change component.

32. The European Parliament is one of the EU institutions responsible for scrutinising EuropeAid's activities. The Committee on Development is a standing committee of the European Parliament responsible for promoting and monitoring the development policy of the EU. The Parliament plays a particularly important role during the budget setting process, as it is jointly responsible for this with the Council.

33. The European Court of Auditors (ECA) assists the European Parliament and the Council in overseeing the implementation of the EU budget. Its work includes external audits of EuropeAid, EU Delegations and their programmes.

[77] The Council of the European Union is distinct from the European Council, the latter being constituted by EU Heads of State.

[78] *The Council of the European Union*, Consilium – the Council of the European Union, http://www.consilium.europa.eu/council?lang=en.

[79] *Official Development Assistance – Definition and Coverage*, OECD DAC, http://www.oecd.org/dac/aidstatistics/officialdevelopmentassistancedefinitionandcoverage.htm.

Annex

34. The European Anti-Fraud Office is responsible for anti-fraud policy. It independently investigates allegations of fraud and serious misconduct against the members and staff of EU institutions and bodies.

The EU's development policy

35. The *European Consensus on Development* was agreed by the European Commission, the EU Council and the European Parliament in December 2005.[80] The document provided a common framework of principles and actions to guide EU and member states' development policies and their implementation. These include a focus on reducing poverty, with the MDGs as a basis; development based on democratic values; and aligning EU aid with recipient countries' own development strategies.

36. *The EU Code of Conduct on Complementarity and Division of Labour in Development Policy* was a policy adopted by the European Council and by representatives of member states in May 2007.[81] The policy aimed to address the issue of overlap and duplication of development programmes which leads to administrative burdens and high transaction costs in recipient countries. The adopted policy contained broad guidelines which establish the principles of complementarity in development aid.[82]

37. A commitment to policy coherence for development is embedded in the *European Consensus on Development* adopted in December 2005. Under the commitment, the EU recognises that some of its policies can have a significant impact outside the EU that either contributes to or undermines its development policy. The EU has sought to take into account development objectives in its wider polices and realise synergies between them. In 2009, the EU agreed to make the coherence for development agenda more structured and to focus on five priority areas which would best support the achievement of the MDGs.[83] These were:

- trade and finance;
- climate change;
- food security;
- migration; and
- security.

38. The EU reports every two years on progress made on policy coherence for development, the most recent report being in 2011.[84]

39. In April 2010, the EU issued a new development policy focussing on action to help developing countries achieve their MDGs on time. This 12-point action plan gave priority to countries most off track, including those in conflict or fragile situations. At the same time, the EU adopted a principle to strengthen the link between tax and development policies and enhance good governance in the tax area (transparency, exchange of information and fair tax competition). The EU is also committed to supporting the expansion of the private sector in developing countries.

40. In November 2010, the European Commission published the consultation document paper *EU Development Policy in Support of Inclusive Growth and Sustainable Development*.[85] This paper presented options on ways to make EU development policy a catalyst for helping developing countries generate inclusive and sustainable growth.

41. In October 2011, following this consultation process and including input from the UK, the Commission launched the communication

[80] *The European Consensus on Development*, joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission, 2006, http://ec.europa.eu/development/icenter/repository/european_consensus_2005_en.pdf.

[81] *EU Code of Conduct on Division of Labour in Development Policy*, EC, 2007, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0072:FIN:EN:PDF.

[82] The EU defines complementarity as 'the result of an optimum Division of Labour between various actors in order to achieve optimum use of human and financial resources for enhanced aid effectiveness, i.e. to attain country strategy objectives and achieve better results in poverty reduction'.

[83] *Policy Coherence for Development – Establishing the Policy Framework for a Whole–of–the-Union Approach*, EC, 2009, http://ec.europa.eu/development/icenter/repository/COM_2009_458_part1_en.pdf.

[84] *EU 2011 Report on Policy Coherence for Development*, EC, 2011, http://ec.europa.eu/europeaid/what/development-policies/documents/eu_2011_report_on_pcd_en.doc.pdf.

[85] *EU Development Policy in Support of Inclusive Growth and Sustainable Development: Increasing the Impact of EU Development Policy*, EC, 2010, http://ec.europa.eu/development/icenter/repository/GREEN_PAPER_COM_2010_629_POLITIQUE_DEVELOPPEMENT_EN.pdf.

Increasing the Impact of EU Development Policy: An Agenda for Change.[86] This set out a more strategic EU approach to reducing poverty including a more targeted allocation of funding. Council conclusions from the *Agenda for Change*, which will help to guide the current Multi-Annual Financial Framework (2014-20) negotiations, were adopted by EU Development Ministers at the Foreign Affairs Council in May 2012.[87]

42. Budget support is a major mode of delivery for EU aid that has grown in volume in the last two decades. It directly supports the policy and spending programmes of recipient governments, either through support to the recipient government's overall poverty reduction and growth strategies (GBS) or support to specific sectors, such as health (sector budget support).

43. The MDG Contract is a longer-term, more predictable form of GBS that the EU launched in 2008 at the start of the 10th EDF. The MDG Contract has two funding components – fixed and performance related. These are set out in memoranda of understanding between the EU (and other GBS donors) and the recipient government.

44. The fixed element is related to ongoing delivery against eligibility criteria covering:

- the national development plan relating to poverty reduction, which includes the achievement of MDG-related targets;
- policies to ensure macro-economic stability; and
- public financial management reform.

45. Progress on achievement of the three criteria is assessed annually through joint government–donor reviews.

46. The performance element comprises an annual performance tranche linked to public financial management reform and an element linked to achievement of specific MDG targets. These are assessed in the third year of the contract, which affects the funding provided in the remaining three years. This is designed to provide incentives to improve performance in these areas, while also ensuring the predictability of GBS to support better government budgeting.

47. In 2011, the EU set out a new policy on budget support, called *The Future Approach to EU Budget Support to Third Countries*.[88] This sets out more stringent eligibility rules and assessment guidelines than the EU had previously used. These covered sustainability of aid (with a focus on tax and other revenues); transparency (for example making budgets and payments more public); understanding and anticipating policy failure through better risk management; and promoting fundamental values (for example on human rights and democracy).

Weaknesses of the EU performance management system

48. This section sets out an analysis of weaknesses in the EU's performance management system based on evidence from our own assessment and existing reviews from the OECD DAC, the House of Commons International Development Select Committee and the European Court of Auditors.

49. On the **internal monitoring** of projects by EU Delegations:

- the quality of contractor project monitoring and evaluation is not assessed during project selection; and
- there is no set methodological approach to field monitoring visits by EU project managers which makes the quality of field visits vary within and across Delegations.

50. On the **external monitoring** through the ROM:

- the ROM serves multiple purposes which are not consistent with each other. For example,

[86] *Increasing the Impact of EU Development Policy: An Agenda for Change*, EC, 2011, http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf.

[87] *Increasing the Impact of EU Development Policy: An Agenda for Change*, Council of the European Union, 2012, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/130243.pdf.

[88] *The Future Approach to EU Budget Support to Third Countries*, EC, 2011, http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/documents/future_eu_budget_support_en.pdf.

projects can be selected for monitoring in order to make specific recommendations about the management of a project; to provide a quick overall portfolio assessment to help decision-making; to help identify good practice; to provide a basis for external accountability through publishing aggregated results of assessments; and, given that projects are selected in different ways, the summarised data are not comparable enough to provide a robust basis for overall conclusions.

51. On the **internal reporting** on programmes and projects:

- the major EU online system (CRIS: Common external Relations Information System) is primarily structured to meet financial reporting purposes and sharing of contractual documents. It does not provide a strong basis for supporting comparative information on results; and
- the main criteria used centrally for monitoring EU Delegations' performance are financial (i.e. commitments and payments against the initial yearly forecasts). EU Delegations indicated that there is a lack of feedback on the technical aspects of their internal reporting.

52. On the approach to **evaluations**:

- guidelines for evaluation prepared by EuropeAid's Evaluation Unit are not consistently followed at Delegation level. EU programme managers indicated that there were too many guidelines to be able to follow them consistently;
- the review process for evaluations is not consistently applied. For instance, evaluations commissioned at project level are often not reviewed by Delegations and project evaluations commissioned at Delegation level are not reviewed at central level;
- when an evaluation report is accepted, it is not clear how Delegations address conclusions and recommendations. Recommendations are not systematically tracked by Delegations and there are no summaries of evaluations done at country level. This lack of tracking reduces the benefit of the feedback from evaluations; and
- from our case-study projects, there was evidence of delayed project mid-term evaluations, where recommendations were issued when projects were nearing completion.

53. Across all the tools – internal monitoring, the ROM and evaluations – the EU's approach is mainly qualitative and lacks quantitative analysis and baseline data to underpin a clear assessment of progress and impact. This also limits the extent to which analysis across the tools supports improved strategies, policies and practices at all levels.

54. The performance management tools are not effectively joined up or co-ordinated to provide an integrated picture of performance. The respective objectives and roles across ROM monitoring, Delegation-level evaluations and the work of the central Evaluation Unit are not clear. The lack of integration is also illustrated in the way in which the concepts and definitions are not consistently used between them.

Selection of in-country case studies

55. Our selection of programmes and projects in-country was based on:

- coverage of both DCI and EDF funding sources;
- programme or project size; and
- programmes and projects that are typical of the ways in which EU aid is managed and spent.

56. In 2011, the EU spent €742 million on budget support to developing countries. In both Mozambique and Uganda, budget support operations were the largest single programme in-country. Comparably, DFID also has large budget support programmes in Mozambique and Uganda. Budget support is a key element to the 10th EDF programme, accounting for €510 million of spending in 2011.[89]

[89] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

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57. Infrastructure and road-building accounted for €689 of EU ODA in 2011. In both Mozambique and Uganda, road-building programmes are the second-largest area of EU programme expenditure. EDF infrastructure and road-building expenditure in 2011 was €579 million.[90]

58. Funded through the EDF and DCI, grants to NGOs are a small proportion of the overall EU programme in two of our focus countries (Uganda and Mozambique), while they are a significant instrument in the third (Tajikistan). The projects we saw in the two African countries were funded through the DCI thematic programme and the Tajikistan projects were funded through the DCI geographical programme.

59. All expenditure in Tajikistan is funded through the DCI. This includes sector budget support and programmes contracted through other parties, as well as grants to NGOs. Figure A7 on page 36 provides summary information on 11 case study projects we examined on the ground in Mozambique, Tajikistan and Uganda. The financial information has been provided by the EU.

[90] *Annual Report 2012 on the European Union's Development and External Assistance Policies and Their Implementation in 2011*, EC, August 2012, http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2012_full_en.pdf.

Annex

Figure A7: Summary of case study projects

Project details	Project purpose, design and implementation
1. Country: Mozambique **Project:** MDG Contract (Budget Support) **Budget:** €327 million (maximum); 2009-14	The MDG Contract aims to support the implementation of Mozambique's poverty reduction strategy and the achievement of the MDGs. Specific objectives include increasing the predictability of EU budget support and encouraging the achievement of the MDGs and public financial management reforms. The MDG Contract has one fixed and two variable tranches (the MDG tranche and the Annual Performance tranche). The EU will disburse the MDG tranche in years four to six of the project, with a proportion of the total available (€45 million over three years) directly linked to the achievement by year three of specific MDG-related targets. The EU disburses the Annual Performance tranche (€6 million per year) annually across years two to six, in full, only if public financial management targets for the previous years are met. The EU uses targets taken from existing government monitoring systems.
2. Country: Uganda **Project:** MDG Contract **Budget:** €175 million; 2008-13	The overall objective of the MDG contract is to support the Ugandan Government's National Development Plan, the key national planning document aimed at poverty reduction and economic development. It also aims to support policies that promote macroeconomic stability and improvements in government service delivery. The 10th EDF funds the MDG contract. The MDG contract aligns with the Joint Budget Support Framework task force that consists of budget support donors in Uganda. The EU disburses funds over a six-year period. First, the EU disburses the base tranche of €124 million or 70% of the total budget on an annual basis for the life of the agreement. Second, the EU then disburses variable tranches in years two to six for 9% or €15 million and in years four to six a total of €36 million is available or 21% of the total contract. These variable tranche payments are disbursed on performance indicators that the government must meet. These indicators are assessed through the Joint Assessment Framework, the tool that Joint Budget Support Framework donors use to assess government performance.
3. Country: Mozambique **Project:** Milange–Mocuba road **Budget:** €85 million; 2009-12 (with possible extension)	The Milange–Mocuba road project has strategic relevance for the country's regional economic integration, in particular with Malawi and Zambia. It aims to lower transport time and cost and increase accessibility to social services. It also complements other large EU-financed infrastructure projects in the region, such as the construction of the Zambezi Bridge in Caia, the Namacurra–Rio Ligonha road and the Nampula–Nacala road. The project includes a social component in order to mitigate known negative impacts, for example HIV/AIDS monitoring and awareness training on gender-based violence.
4. Country: Mozambique **Project:** Road Sector Budget Support **Budget:** €12 million; 2007-12	This budget support aims to contribute to poverty reduction by enhancing road infrastructure, in line with the economic development pillar of Mozambique's Poverty Reduction Strategy. The strategy supports the establishment of an appropriate, well-managed, cost-effective and sustainable road network in Mozambique. The supporting implementation plan (for 2007-09) stressed that the most critical condition for successful implementation of the programme is not funding but demonstrating implementation capacity. The maintenance of unclassified roads plays a key role in increasing accessibility for rural people to services. Mozambique plans to make this the responsibility of its districts.
5. Country: Uganda **Project:** Northern Corridor road improvement project **Budget:** €122 million; 2011-14	The project aims to support the general objective of economic development and poverty reduction, through decrease of transport costs (vehicle operating costs, passenger and freight tariffs), increase of rural accessibility and increase of road safety and work opportunities. The Government of Uganda has given roads a central position in its development initiatives. The Northern Corridor road illustrates how the EU focusses on international corridors, connecting production centres or catchment areas for international ports and/or airports with the national transport network. The project focusses on a total of 124 km of the 650 km road.

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Project details	Project purpose, design and implementation
6. Country: Uganda **Project:** CrossRoads **Budget:** €3 million; 2011-14	DFID and the EU collaborate in the CrossRoads project. The total of £13.15 million includes £2.75 million of funding from the EU. It aims to: ■ increase the capacity of small and medium-sized businesses to perform routine maintenance; ■ enhance domestic growth of the construction industry; and ■ improve the delivery of road works. The CrossRoads Secretariat work is guided by the Roads Industry Council, which consists of representatives of the public and private sectors and from civil society. The Secretariat activities include: ■ setting up a sustainable construction guarantee fund (to increase access to finance by road contractors); ■ promoting vocational training; and ■ supporting private sector operating equipment hire schemes. The majority of the 2011 targets relate to the establishment of baselines, market assessments and surveys.
7. Country: Uganda **Project:** Expanded and Comprehensive Information and Technical Education in Northern Uganda **Budget:** €684,304; 2010-12	This project is part of a portfolio of EU grants to NGO projects in and around Gulu, the second-largest city in Uganda, located in the formerly volatile north. The project is run and managed by AVSI, a Milan-based NGO focussed on education. The project supports 100 beneficiaries a year, who are enrolled at a local vocational training school. The project aims to identify those students most in need and provide additional assistance beyond that provided to all students at the school. AVSI has partnered with the Companionship of Works' Association, a local NGO formed in 1988. The programme consists of: ■ partnering with a local vocational institution (to develop teachers and sponsor pupils); ■ working with local officials from disadvantaged areas to sponsor pupils at the vocational training facility (where they provide food and accommodation); ■ providing 'starter toolkits' to graduates of the vocational training facility to help them find jobs; and ■ sponsoring and arranging local apprenticeship opportunities for pupils. The local vocational institution is at full capacity with 420 students, all of which have their fees paid by DFID and 100 of which are also supported by AVSI (for the extra life skills training, toolkits and work experience placements). AVSI chooses students to support using criteria based on geographic location (i.e. they come from the target districts). They then identify the most vulnerable via interviews (to find out which are, for example, child mothers, double orphans, living with HIV or disabled) and finally via a ballot amongst village leaders.
8. Country: Mozambique **Project:** Fulfilling Entitlements to Health for Vulnerable Groups **Budget:** €750,000; 2008-11	The project aimed to contribute to a sustained improvement in health status and well-being of vulnerable older people and their families. There were three main areas of intervention: ■ access to health services (training paralegals, helping beneficiaries obtain documents and training health workers in geriatric care); ■ community health interventions (training community health workers, construction and rehabilitation of latrines, wells, small irrigation systems and distribution of seeds and agricultural tools); and ■ contributing to policy and good practice on health for older people (studies at community level on older people's health, radio programmes and the creation of a national forum for older people). The project was implemented in 39 communities, in three provinces, in collaboration with five local NGOs.

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Project details	Project purpose, design and implementation
9. Country: Uganda **Project:** Building Skills: Changing Futures **Budget:** €695,631; 2010-current	This project is financed by one of a number of EU grants to NGO projects in and around Gulu, the second-largest city in Uganda, located in the north. It aims to support young people: ■ with the necessary technical, business and life skills to enable them to join the labour market; and ■ to become self-employed. War Child Holland leads the Building Skills project with four other local partners: African Revival, Echo Bravo!, Gulu Youth Development Association and Restoring Northern Uganda.
10. Country: Tajikistan **Project:** Poverty Alleviation in Rural Areas of Khatlon and Sughd **Budget:** €6 million; 2010-12	The project aims to contribute to alleviating poverty in Sughd and Khatlon provinces through addressing income deficiencies and lack of economic opportunities in a participatory and sustainable way. Its detailed objectives are to: ■ reduce social exclusion through community participation and local government capacity-building; ■ improve social welfare, including care for children and adults with disabilities and other vulnerable categories of people; ■ improve rural livelihoods by supporting local economic development measures; and ■ increase rates of satisfaction for basic needs such as potable water and sanitation by improving local infrastructure. The programme has six independent projects implemented by six different partners.
11. Country: Tajikistan **Project:** Tajik Agricultural Finance Framework **Budget:** €7 million; 2010-13	The Tajik Agricultural Financing Framework (TAFF) represents the Technical Assistance component of the second phase of the EU and EBRD-financed project to support the restructuring of the agricultural sector, including the cotton sub-sector. The project aims to reduce poverty and ensure longer-term economic growth by enhancing business growth, job creation and income opportunities for the rural population. This is a programme that supports the liberalisation of the economy, of which land reform (privatisation) is a part. TAFF designed and implemented four types of loan products for Tajik farmers. Credit products for small farmers did not exist before TAFF and farmers needed to rely on private moneylenders. Farmers can also access farming advice services and machinery in order to maximise the use of their land and diversify their production. The training and coaching of 78 loan officers in assessing agricultural loans is designed to equip local microcredit institutions with the internal capacity to deliver.

Abbreviations

ACP	African, Caribbean and Pacific countries
ADB	Asian Development Bank
CSO	Civil society organisation
DCI	Development Co-operation Instrument
DFID	Department for International Development
DG	Directorate General
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	European Court of Auditors
ECHO	Humanitarian Aid Department of the European Commission
EDF	European Development Fund
EEAS	European External Action Service
EIB	European Investment Bank
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
GBS	General budget support
IDC	International Development Select Committee
IPA	Instrument for Pre-Accession Assistance
MAR	Multilateral Aid Review
MDG	Millennium Development Goal
MFF	Multiannual Financial Framework
NGO	Non-governmental organisation
ODA	Official Development Assistance
OECD DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
ROM	Results Oriented Monitoring
TAFF	Tajik Agricultural Financing Framework
VFM	Value for money

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