

## Multilateral Aid Review: Assessment of the European Development Fund (EDF)

### Summary

Organisation: **European Development Fund**      Date: February 2011

### Description of Organisation

The European Development Fund (EDF) supports the implementation of the European Union's (EU's) Cotonou Partnership Agreement and is the main instrument for providing support to African, Caribbean and Pacific (ACP) countries. It also provides funding for the EU's Overseas Countries and Territories. The EDF has a strong poverty focus and 85% of funds go to Low Income Countries. Since 2000, the Cotonou Agreement has governed relations between the 78 ACP countries and the 27 EU Member States.

The EDF began in 1959 and is now in its 10<sup>th</sup> cycle (2008-2013). EDF 10 provides total funding of €22.68 billion. The UK is the third largest provider of funding, and gives a 14.82% share. Although managed by the European Commission, the EDF sits outside of the EU budget. Member State contributions are voluntary and are agreed at the beginning of each new EDF funding period. Negotiations for the successor to EDF 10 will begin in 2011.

The Cotonou Agreement establishes joint parliamentary oversight structures, joint ministerial meetings and joint reporting between ACP states, EU Member States and the European Commission. The UK maintains oversight of the EDF via regular Member State Management Committee meetings.

The EDF provides funding for ACP national programmes as well as regional programmes. It supports various sectors including:

- Economic cooperation and private sector development
- Institutional support such as governance and transparency
- Health and Rural Development
- Environment
- Transport and infrastructure
- Horizontal policies such as human rights, gender and food security
- Integration and regional cooperation

In the MAR, the EDF is reviewed separately from other Commission budget instruments and ECHO (humanitarian aid): it is governed by a separate agreement and it is a voluntary fund. However, as in-country implementation for the EDF, budget instruments and ECHO are all done by the Commission, a number of components, particularly organisational strengths, are similar. Development is a 'shared competence' in the Lisbon Treaty, which allows both the Commission and Member States to act independently on development issues.

Use of acronyms: the review refers to the 'EU' where it talks about shared development policies with the Member States; the 'Commission' where the focus is on the European Commission's work as a donor and implementer; and the 'EDF' where it talks about the Fund itself.

<b>Contribution to UK Development Objectives</b>	<b>Score (1-4)</b>
<p><b>1a. Critical Role in Meeting International Objectives</b></p> <ul style="list-style-type: none"> <li>+ Sheer size (€3.6 bn pa) and strong poverty focus (approximately 85% of funds spent in LICs) make the EDF critical for progress on the MDGs and poverty reduction</li> <li>+ The impact of the EU's non-development policies in trade, agriculture, fisheries, migration, climate change and security are key to ACP economies and can carry more weight than the EDF itself</li> <li>+ The EDF is one of the largest providers of regional support, of key importance for economic integration in Africa and the Caribbean</li> <li>+ The EDF leverages considerable amounts of ODA, including from new EU Member States</li> <li>- The Commission is in an excellent position to ensure better policy coherence, promote best practice and ensure more donor coordination, though so far the picture is mixed for the EDF. Full implementation of the Lisbon Treaty may change this</li> <li>= The size and poverty focus of the EDF and the unique cross-cutting development impact of EU policies make the EDF critical for the delivery of UK development objectives</li> </ul>	<p><b>Strong (4)</b></p>
<p><b>1b. Critical Role in Meeting UK Aid Objectives</b></p> <ul style="list-style-type: none"> <li>+ The EDF is strong on wealth creation, MDGs and governance, with evidence of delivery</li> <li>+ Work on security and climate change is well above average, with potential for positive change</li> <li>+ The EDF gives crucial support to Commonwealth countries: the UK funds 15% of the EDF, the EDF in turn channels 40% of its funds to Commonwealth countries</li> <li>+ The EDF supports the poorest UK Overseas Territories and is their only source of grant funding other than HMG</li> <li>+ The EDF is key to delivery of wider HMG objectives, e.g. climate change, trade and migration policies</li> <li>= The EDF is critical to delivery of the MDGs and wider HMG objectives in UK priority countries</li> </ul>	<p><b>Strong (4)</b></p>
<p><b>2. Attention to Cross-cutting Issues:</b></p> <p><b>2a. Fragile Contexts</b></p> <ul style="list-style-type: none"> <li>+ There is a strong mandate and policy framework for dealing with fragile and conflict-sensitive situations</li> <li>+ Procedures are in place for ensuring fast response and flexibility</li> <li>+ Frequent political dialogues make the Commission uniquely placed to address conflict and fragility at country level</li> <li>- Even with a global in-country presence, fragility work may be affected by the uneven availability of relevant skills in</li> </ul>	<p><b>Satisfactory (3)</b></p>

<p>EU Delegations and incoherence with wider EU policies</p> <ul style="list-style-type: none"> <li>= There is a strong framework for support to fragile states but mixed capacity to implement this consistently</li> </ul> <p><b>2b. Gender Equality</b></p> <ul style="list-style-type: none"> <li>+ The Commission is committed to gender equality with a mainstreaming approach across numerous policy areas</li> <li>- The 2010-15 Gender Equality Action Plan commits the Commission to ambitious development targets, but the impact is not yet known</li> <li>- There is little evidence of a uniform approach to gender equality in country, and no gender-disaggregated data available</li> <li>= The impact of the ambitious policies in place is uncertain</li> </ul> <p><b>2c. Climate Change and Environmental Sustainability</b></p> <ul style="list-style-type: none"> <li>+ A strong policy framework for addressing and prioritising climate change and sustainable development. A strategy to set and monitor specific objectives will be developed in 2011</li> <li>+ Results on environmental and sustainability concerns are reported on a country-by-country basis, but not aggregated</li> <li>- Guidance on climate change and the environment mainstreamed across all external assistance, although too early to judge impact</li> <li>= There is a strong policy framework and guidance but there is not yet evidence of impact</li> </ul>	<p><b>Weak (2)</b></p> <p><b>Satisfactory (3)</b></p>
<p><b>3. Focus on Poor Countries</b></p> <ul style="list-style-type: none"> <li>+ This was assessed centrally by comparing the multilateral's country by country spend with an index that scores developing countries based on their poverty need and effectiveness (the strength of the country's institutions). The EDF scores well because almost 65% of its resources go to countries in the top quartile of the index such as low income African countries.</li> <li>- The EDF does not get the top score by virtue of the resources it spends in the Caribbean and in the Pacific – countries which fall predominantly into the other quartiles of the index.</li> </ul>	<p><b>Satisfactory (3)</b></p>
<p><b>4. Contribution to Results</b></p> <ul style="list-style-type: none"> <li>+ A recent Commission study shows substantial MDG-related results</li> <li>+ EDF budget support and MDG Contracts show risk-taking and increased results focus</li> <li>+ Six year cycles with a focus on LICs and regular reviews make the EDF strategic and its project objectives ambitious</li> <li>- Commission rules are inflexible and cumbersome and this hampers management's ability to strive for results, though</li> </ul>	<p><b>Satisfactory (3)</b></p>

<p>comprehensive project monitoring helps turn around problem parts of the portfolio</p> <ul style="list-style-type: none"> <li>- There is variable quality of output monitoring at country level; data is not sufficiently aggregated across countries and the EDF as a whole</li> <li>= The EDF is ambitious and there is indirect evidence of impact, although work is needed to systematically demonstrate delivery and aggregate results</li> </ul>	
<b>Organisational Strengths</b>	
<p><b>5. Strategic and Performance Management</b></p> <ul style="list-style-type: none"> <li>+ The Commission works from a clearly articulated mandate and strategies</li> <li>+ There is strong internal management, though with complex oversight structures (Council, European Parliament, Court of Auditors, and joint Cotonou structures etc.)</li> <li>- No clear overall results-framework is in place</li> <li>- HR policies are transparent and based on merit, though there is a continued challenge with recruiting development-specific expertise</li> <li>- There is a strong evaluation function, though insufficient uptake of recommendations</li> <li>= Despite strong strategies, there is no results framework and inconsistent use of lessons learned</li> </ul>	<b>Score (1-4)</b> <b>Weak (2)</b>
<p><b>6. Financial Resources Management</b></p> <ul style="list-style-type: none"> <li>+ The EDF allocates transparently on a needs and performance basis, based on published criteria. It has highly predictable, six-year programming cycles</li> <li>+ Funds are generally released on schedule and this continues to improve. Annual disbursement levels are now close to commitment levels</li> <li>+ The EDF only draws on Member States' funds when its cash balance falls below a specific level</li> <li>+ Financial accountability is strong and well established</li> <li>- The number of non-performing projects remains well below 10% of the portfolio, but there is limited leeway to redirect these funds</li> <li>- There is limited flexibility after programming of funds and continued complaints of cumbersome procedures, as well as the unresolved cliff-edge issue at the end of the funding cycle.</li> <li>= There is best practice in allocating funds and effective financial management, though limited flexibility once decisions are made</li> </ul>	<b>Satisfactory (3)</b>
<p><b>7. Cost and Value Consciousness</b></p> <ul style="list-style-type: none"> <li>+ High levels of budget support with results-based tranches encourage partner countries to look at value for money issues</li> </ul>	<b>Satisfactory (3)</b>

<ul style="list-style-type: none"> <li>+ The sweeping reforms ten years ago make the Commission work as 'One': programming, peer reviews, planning, procurement, independent implementation, monitoring and evaluation are the same across the board for the EDF and budget instruments and partly allow the Commission to reduce the number of development staff</li> <li>+ Administration costs are moderate at 6%, and the number of staff working on development has dropped, with outputs remaining at same level</li> <li>- The focus on cost control (procurement, cap on consultancy fees, etc) can minimise cost but can also limit quality and limit effect of value for money</li> <li>- Non-budget-support assistance has less of a focus on value for money</li> <li>= There is a growing focus on value for money, though there is still room for improvement</li> </ul>	
<p><b>8. Partnership Behaviour</b></p> <ul style="list-style-type: none"> <li>+ The EDF is built on a unique partnership model, with joint institutions and ownership. One of the main pillars of the Cotonou Agreement is political dialogue</li> <li>+ DFID MAR country visits found strong appreciation for the EDF's partnership approach, visibility and responsiveness, with improving performance on alignment</li> <li>+ Budget support is based on mutually agreed targets rather than invasive conditions and allows for alignment with country priorities</li> <li>- There is limited financial delegated authority in-country: decisions are mainly taken in Brussels. There is still insufficient use of country systems, though this is improving</li> <li>= The EDF is based on a unique and respected partnership model and alignment with country priorities</li> </ul>	<p><b>Strong (4)</b></p>
<p><b>9. Transparency and Accountability</b></p> <ul style="list-style-type: none"> <li>+ The Commission's full disclosure policy is based on a justifiable list of exemptions</li> <li>+ The Quality of ODA report ranks the Commission as the second highest on transparency of 32 donors</li> <li>+ The Commission has signed up to the International Aid Transparency Initiative</li> <li>+ Good levels of aid are on budget, helped by the high use of budget support</li> <li>- Rules are in place to ensure comprehensive publication of documentation, though application of these appear inconsistent from country to country</li> <li>- There is mixed feedback on CSO involvement</li> <li>= There is a strong commitment to both transparency and accountability, though application could improve</li> </ul>	<p><b>Satisfactory (3)</b></p>

Likelihood of Positive Change	Score (1-4)
<p><b>10. Likelihood of Positive Change</b></p> <ul style="list-style-type: none"> <li>+ The Commission has a track-record of capacity for change</li> <li>+ The Lisbon Treaty, External Action Service, update of EU development policy, merger of Commission development Directorate-Generals, and next EDF and Financial Framework negotiations all offer substantial opportunities for change. It is unclear how this will affect day-to-day management of the EDF</li> <li>+ The EDF MDG Contracts and V-Flex show adaptability and a willingness to innovate, though the overall lack of flexibility in implementation remains a challenge</li> <li>+ There is a commitment and willingness among EU Member States for reform</li> <li>- The Commission is slow in shifting towards a results-focus</li> <li>= Within the Commission there is a strong track record of delivering change, and there is an EU-wide interest in further reform, though future scope and speed of change is uncertain</li> </ul>	<p><b>Likely (3)</b></p>