

Measuring the Performance of EC Development Cooperation:

*Lessons from the Experiences of
International Development Agencies*

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Acronyms and Abbreviations

ABB	activity-based budgeting
ACP	Africa, Caribbean and Pacific
ALA	Asia and Latin America
AusAID	Australian Agency for International Development
CAP	Common Agricultural Policy (CAP)
CDF	Comprehensive Development Framework (World Bank)
CDI	country development indicator (USAID)
CIDA	Canadian International Development Agency
CRIS	Common RELEX Information System
CRS	Creditor Reporting System
CSP	Country Strategy Paper
DAC	Development Assistance Committee (OECD)
DANIDA	Danish International Development Agency
DEXS	development experience system (USAID)
DFID	Department for International Development (UK)
DGIS	Directorate-General for Development Cooperation (the Netherlands)
EC	European Commission/European Community
ECDPM	European Centre for Development Policy Management
EDF	European Development Fund
EU	European Union
FINNIDA	Finnish International Development Agency
IDGs	International Development Goals
IDRC	International Development Research Centre (Canada)
IMF	International Monetary Fund
JPA	Joint Parliamentary Assembly (EU–ACP)
LDCs	least developed countries
MDGs	Millennium Development Goals
MIC	middle-income country
MTEF	mid-term expenditure framework
NGO	non-governmental organisation
ODA	Official Development Assistance
ODI	Overseas Development Institute (UK)
OECD	Organisation for Economic Cooperation and Development
PARIS	Partnership in Statistics for the 21st Century
PMA	performance measurement and analysis (USAID)
PRSP	Poverty Reduction Strategy Paper
PSA	Public Service Agreement (DFID)
PTI	poverty-targeted intervention
RAL	‘reste à liquider’
QSG	Quality Support Group
Sida	Swedish International Development Agency
SPA	Strategic Partnership with Africa
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Executive Summary

The EC Development Policy Statement (November 2000) specifies the reduction of poverty as the central objective of EC development cooperation. The overhaul of EC development cooperation is closely linked to the general management reforms of the European Commission, which aim to enhance the efficiency of the European public service. One of the priorities of the reform is to introduce a results-based management system and activity-based budgeting (ABB) in the Community budget from 2003. In this context, the Council and the European Parliament have invited the Commission to establish indicators for EC development cooperation in order to monitor the performance of the EC. This study identifies the scope and nature of performance measurement systems used by some of the major development agencies in order to contribute to the debate on performance indicators for EC development cooperation.

The rationale for agency-wide performance measurement is twofold: on the one hand, the development agencies have to show accountability to external bodies such as the Council and the European Parliament. On the other hand, performance measurement provides information for improving internal management through institutional learning. Measuring agency-level performance involves several steps: formulating objectives; selecting indicators; setting targets; collecting performance data, and reviewing and reporting performance agency-wide.

Most development agencies have defined targets, which they measure by indicators, for their development activities. The internationally agreed Millennium Development Goals (MDGs) provide the basis for long-term targets for international cooperation. Performance is then measured at different organisational and managerial levels within the development agencies.

Performance-based budgeting refers to the use of performance information to influence the resource allocation process (i.e. budget levels are increasingly being linked to expected results, rather than to inputs and activities). Most development agencies are starting to experiment with linking more closely expected results with requested funding levels.

Based on the experiences of international development agencies with performance monitoring and assessment, this study offers several suggestions that the EC might wish to explore, as follows:

For input-based monitoring:

- Given the multi-dimensional nature of poverty, consider how activities other than those in health and education contribute to poverty reduction. Ways should be found to properly identify and include these contributions in a broad-based monitoring of EC performance in poverty reduction.
- Improve the use of DAC reporting system by introducing adequate 'sub-categories' (e.g. indicate the social aspects of improved transport systems or macro-economic support).
- Introduce a poverty-related marker system (direct, indirect, enabling actions) into the EC reporting system.
- Focus on the partner government's responsibility and ownership in targeting social sectors through the national budget, for example, by analysing data from national expenditure tracking.
- Take into account 'complementarity' and the division of tasks between the Commission and Member States, when measuring the overall European aid flows to social sectors.

For output-based monitoring:

- Make more effective use of the existing computerised project-level monitoring system to assess the outputs of EC development programmes across different countries. However, for the system to be effective, the number of indicators must be limited to a few key areas in order to keep the management burden reasonable.

- Analyse the impacts of EC reforms (e.g. the harmonisation of procedures and deconcentration to EC Delegations) on output-level reporting and monitoring systems. The example of DANIDA shows that a centralised aid management structure favours standardised performance indicators across programmes, whereas more decentralised agencies have a variety of interventions, making corporate level monitoring more difficult.

For monitoring outcomes and impacts in partner countries:

- Ensure that each Country Strategy Paper (CSP) is well linked with the PRSP for that country. Multi-annual programming with adequate monitoring systems can be used to support long-term development processes in partner countries, while responding to performance reporting required by the annual budget process.
- Strengthen the role of the Quality Support Group (QSG) in ensuring the quality and coherence of expected results of EC development interventions.
- Improve synergies through multi-donor performance assessments. The key challenge is to find a balance between multi-donor approaches to performance assessment (particularly in the context of budget support and sector-wide approaches) and the need to ensure accountability of EC aid management to budget authorities such as the European Parliament and the Council.
- Carry out joint performance monitoring in the partner countries. The EC could support local policy processes more effectively, for example, by encouraging the development of criteria and monitoring systems jointly with development partners. The integration of the lessons learned in the field would also provide valuable insights into the quality of development processes

For agency-level performance:

- Clarify policy through concrete targets, making effective use of internationally agreed goals and targets where possible.
- Improve annual reporting through adapted scoring and rating systems across programmes, at both sectoral and country levels.
- Adapt the monitoring systems and targets to the new aid context in developing countries (multi-donor reviews, budget support) in order to ensure accountability to the budget authority.

For performance-based budgeting:

- Explore modalities for ‘performance-based budgeting’ for EC development cooperation, while bearing in mind possible distorting effects in the monitoring process, such as a focus on short-term results at the expense of long-term and more sustainable development.
- As an alternative, review existing financial and performance reporting systems with a view to linking costs to results in an effective way.

The challenge in monitoring is thus to adopt realistic targets at different levels to ensure the appropriate focus on aid flows and development results, while adopting a process that reinforces the development process rather than undermines it.

1 Background

The EC Development Policy Statement (November 2000) specifies the reduction of poverty as the central objective of EC development cooperation. In view of the European Union's unique character as a development agency and a political player, it is necessary to clarify and operationalise the poverty focus¹ in EC cooperation in different regions. The poverty focus has now been integrated into the Country Strategy Papers (CSPs) for the African, Caribbean and Pacific (ACP) and Asian and Latin American (ALA) regions, and will be translated into concrete assistance programme whose results will only be visible in the coming years.

The overhaul of EC development cooperation is closely linked to the general management reforms of the European Commission (EC), which aim to enhance the efficiency of the European public service. One of the priorities of the reform is to introduce a results-based management system and activity-based budgeting (ABB) in the Community budget from 2003. The reform process has first addressed the most urgent priority, namely, how to speed up the disbursements of aid (i.e. to reduce the 'RAL'²), while less attention has so far been paid to the quality, impact and concrete results of EC development cooperation in the field.

The Member States and the European Parliament monitor the implementation of development priorities, as set out in the EC Development Policy Statement, through CSPs, the Annual Report and multi-annual programming in different regions. The Commission has also committed itself to providing regular progress reports on EC reform and to introduce the reporting system established by the OECD's Development Assistance Committee (DAC) by mid-2002. In order to monitor the translation of the poverty focus into concrete programmes through targeted resource allocations to social sectors, in June 2000³ the European Parliament adopted the sectoral 'targets' for certain budget lines. The choice of targets for EC development cooperation should take into account international 'best practices', together with the specificity of the EC aid management system. Also, it should be based on the assessment of development trends in partner countries.

In its first Annual Report for all geographic regions for the year 2000, the Commission provided the first figures with regard to the implementation of cooperation programmes, although the results of the reform process will become apparent only in the coming years. In this context, in November 2001 the Development Council invited the Commission to establish indicators for EC development cooperation in order to monitor performance at input, output and impact levels. In February 2002, the European Parliament organised an inter-institutional seminar to promote the debate on the monitoring of performance indicators in preparation for the budget process for the year 2003.

¹ In the European context, the notion of the 'poverty focus' has three main meanings: First, it refers to poverty reduction as an overarching goal of the EC development cooperation. Second, it refers to the European focus on the country-based approach to poverty reduction through CSPs. Finally, it refers to country-level resource allocations and differentiated approaches to poverty in both least developed countries (LDCs) and middle-income countries (MICs).

² RAL refers to 'reste à liquider', i.e. backlog of payments.

³ The sectoral targets were discussed in the context of discharge procedure for the 1998 budget in June 2000. The Commission presented an Action Plan, providing for the introduction of DAC reporting system, which would allow for a comprehensive overview of aid flows with their sectoral orientations.

2 Objectives of this Paper

This study identifies the scope and nature of performance measurement systems used by the major international development agencies (EU Member States, the World Bank, UNDP, USAID), in order to contribute to the debate on specific performance indicators for EC development cooperation. The study maps out the existing trends and ‘best practices’ in measuring the impacts of development cooperation programmes. The study is based on published documents, annual reports, and interviews with selected officials at the European Commission, the European Parliament and the OECD/DAC.

First, the study clarifies some key concepts used in the debate on performance measurement in the development agencies. Second, the study reviews the experiences of international development agencies in measuring their own performance. In each section, the study offers suggestions that the EC might wish to explore in its discussions on the performance measurement of EC development cooperation. Finally, the study presents the key findings of the European Parliament’s seminar in February 2002.

3 Key Concepts

For the debate on the performance measurement of EC development cooperation, several key concepts first need to be clarified:

The introduction of a ‘**results-based management system**’⁴ aims to focus on results rather than inputs, and to improve the systematic monitoring of objectives at the level of a development agency. The notion of **performance** embraces both the achievement of objectives and the efficiency and effectiveness with which those objectives are met. The use of indicators enables the performance to be measured. Performance management refers to the ways in which aid managers use information to refocus or improve their activities.⁵ There are two approaches to results-based management:

- ‘**Accountability for results (managing by results)**’, refers to a technocratic system of performance monitoring, the primary aim of which is to report to external stakeholder audiences and to the budget authority in order to ensure external accountability and ‘value for money’ of a development agency. This pressure for external accountability often encourages managers to focus on quantifiable input and output level targets⁶ in order to show concrete results, while more intangible development outcomes, the quality and impact of aid receive less attention.
- ‘**Managing for results**’ involves translating the government’s development strategy (such as the EC Development Policy Statement) into policy choices that are implemented through either the public or the private sector. Managing for results includes building capacity for service delivery, developing the necessary expertise in key policy areas (e.g. poverty reduction), creating incentives that motivate high performance, generating information on results attained, and evaluating the achievement of strategic goals.

⁴ Binnendijk, A., *Results-based Management in the Development Cooperation Agencies: A Review of Experience*, OECD/DAC Working Party on Aid Evaluation, February 2000.

⁵ UNDP/Sida, *Measuring and Managing Results: Lessons for Development Cooperation*, OESP Series on Lessons Learnt, 1997, p.1.

⁶ For example, the current EC management system tends to ‘reward’ aid managers for quick disbursements rather than providing incentives for improving the quality and impact of EC development cooperation.

For the purposes of this analysis, effectiveness is defined as ‘the extent to which a development intervention has attained, or is expected to attain, its relevant objectives efficiently and in a sustainable way’.⁷ It is possible to distinguish different levels of effectiveness:

- **development effectiveness** refers to the achievement of less attributable, longer-term outcomes and impacts in developing countries to which agency efforts are ultimately aimed, but which are beyond the manageable interest of the agency alone;
- **organisational effectiveness** refers to more direct, accountable and attributable measures of performance for a development agency. Most agency-level performance measurement systems focus on improving organisational effectiveness; and
- **aid effectiveness** refers to the performance of a particular set of activities or instruments.⁸

Box 1: Millennium Development Goals (MDGs)

Measuring ‘development effectiveness’⁹ is primarily linked to the International Development Goals¹⁰ (IDGs), which were formalised in the context of the DAC report, *Shaping the 21st Century: The Contribution of Development Cooperation* (1996). At the UN Millennium Summit in September 2000, the international community agreed on the **Millennium Development Goals** (MDGs),¹¹ which include the following targets:

- **economic well-being** – to halve the proportion of people living in extreme poverty by 2015;
- **human development** – to enrol all children in primary school by 2015, to empower women and eliminate gender disparities in primary and secondary education by 2005, to reduce infant and child mortality rates by two-thirds and maternal mortality ratios by three-quarters by 2015, and to provide access for all who need reproductive health services; and
- **environmental sustainability and regeneration** – to implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015. The development agencies also agreed on the key indicators for the MDGs.

Performance-based budgeting¹² refers to the infusion of performance information into the resource allocation process (e.g. budget levels are increasingly being linked to expected results, rather than to inputs and activities). In the context of results-based management, most development agencies are starting to experiment with linking expected results more closely with requested funding levels. However, no single definition or approach is likely to meet the needs of all the different development agencies.

⁷ OECD/DAC definition.

⁸ The development agencies have made the linkage between aid effectiveness and the policy environment in developing countries. For example, the World Bank argues that development cooperation may only be effective in countries with ‘sound economic management’ and capable governance structures; see *Assessing Aid: What Works, What Doesn’t and Why*, 1998.

⁹ Assessing the impact of development agencies’ interventions on poverty in developing countries is not an easy task. Furthermore, poverty is a multi-dimensional concept. See *DAC Guidelines on Poverty Reduction*, OECD, 2001.

¹⁰ PARIS 21, *A Better World: Progress towards the International Development Goals*, 2000.
<http://www.paris21.org/betterworld>

¹¹ The international development community has agreed to gear their development programmes towards reaching the MDGs. The UN Conference on Financing for Development in March 2002 reflected on the linkages between the MDGs and the current level of development financing.

¹² Binnendijk, 2000, pp.102-103.

4 Setting Targets and Indicators for Measuring Performance

Development agencies have set up monitoring and evaluation systems to gather information about their development results at different levels. A distinction is made between **implementation monitoring** (maintaining records and accounts of inputs and activities/processes) and **results monitoring** (measuring results at the output, intermediate outcome and long-term impact levels). Monitoring systems focus on agency performance at different stages of the implementation of activities in order to meet a number of needs.¹³

- for marker systems to record the spending **intentions** (i.e. inputs) of the agency in relation to poverty reduction;
- to monitor the **outputs and outcomes** in relation to poverty-related aims initially specified; or
- to assess estimated **impacts** on various socio-economic groups, in particular the poor.¹⁴

Table 1: Implementation indicators¹⁵

Implementation indicators	Definition	Examples
Inputs	The financial, administrative and regulatory resources provided by governments and development agencies.	Share of the budget devoted to education expenditure; a development agency's financial contribution to health sector
Outputs	The immediate and concrete consequences of the measures taken and resources used	Number of schools built; number of teachers trained
Outcome	The short-term consequences at the level of beneficiaries. The term 'results indicators' is used as well.	School enrolment, percentage of girls among the children entering the first year of primary school.
Impacts/development outcomes	The long-term consequences of the outcomes. They measure the general objectives in terms of national development and poverty reduction.	Literacy rates.; the Millennium Development Goals (MDGs)
Programme scores/ratings	Rating systems are used as instruments for judging performance and results of projects using a standardised rating scale. Rating systems measure performance <i>within</i> the development agencies.	Appropriateness of objectives and design of a development programme. Professionalism of management Sustainability of outcomes

Most development agencies have defined targets, which they measure by indicators, for their activities at different organisational levels. In the short to medium term, performance is measured at different organisational and managerial levels within development agencies. First, these agencies measure their performance at the **project and programme levels**. Second, the shift among development agencies away from projects to sectoral programmes has resulted in the definition of indicators for those sectors. Third, development agencies also want to assess performance at the **country level**. Finally, development agencies are under pressure to report on **corporate and agency performance** (i.e. aggregated results of their project/programme and country-level activities).

¹³ Binnendijk, 2000, p.60.

¹⁴ The EC proposes to disaggregate indicators by gender, public/private sector, geographical areas (i.e. the poorest regions), rural/urban and income level if possible. See European Commission, Draft Guidelines for the Definition of Development Indicators, DG DEV, October 2001, p.3.

¹⁵ European Commission, *ibid.*

The **targets** represent commitments that development agency activities intend to achieve in concrete terms. When setting targets, such agencies need to take the following key steps:¹⁶

- Establish baselines¹⁷ by gathering comparative data on the value of each indicator before the programme starts in order to establish a reasonable performance target.
- Identify trends, which implies understanding historical movements in the value of the indicator over time.
- Understand customer expectations by conducting customer surveys and consultations in order to establish the stakeholders' expectations of progress.
- Seek the views of the implementing agency, since aid managers have 'hands-on' understanding of what can feasibly be achieved in a given local context.
- Review research findings as a means of helping to set realistic targets.
- Do benchmarking by comparing the results of similar programmes with a reputation for high performance.
- Engage in dialogue with various stakeholders in developing countries in order to encourage ownership and ultimately their participation in the performance assessment process.

It is necessary to balance qualitative and quantitative indicators.¹⁸ **Quantitative indicators** are objectively verifiable numbers or ratios, such as the number of people who receive hospital treatment. **Qualitative indicators** are subjective descriptions or categories, such as beneficiaries' assessments of the quality of service delivery (excellent, good, poor). Such indicators should not stand alone, however, but should support or challenge the judgements made by stakeholders.

Despite the existence of performance monitoring systems, assessing the corporate performance of development agencies, especially in the area of poverty reduction, is difficult for a number of reasons. First, at the level of development agencies:

- **Conceptual difficulties.** 'Measuring' performance using indicators and logical frameworks faces various conceptual challenges.¹⁹ In practice, despite the existence of performance monitoring systems and agreed indicators, the different levels of development agencies and various stakeholders in developing countries may have different needs and purposes, and different definitions of and uses for performance monitoring. In the absence of accurate measuring, it would be appropriate to 'assess' performance by qualitative means, rather than trying to 'quantify' and 'measure' it.²⁰
- **Possible distorting effects.** The measures used in performance assessment can define the outputs. If indicators are not well chosen, perverse side effects can result. An example of this is pressure to ensure that allocated budgets are spent in a given year. Real or perceived financial targets can create incentives for development agency staff to promote projects and programmes in conditions that are not appropriate or are premature. This affects the quality of development assistance.
- **Agency-wide aggregation of programme-level results.** It is difficult to 'aggregate' the results of different programme activities within a development agency in order to assess 'corporate performance'.
- **Attribution of development results to a single agency.** The MDGs are, by definition, collective outcome targets. It is virtually impossible to demonstrate a causal linkage between changes in international or national statistics and the interventions of an individual development agency.

¹⁶ Binnendijk, 2000, p.33.

¹⁷ For example, Sida (Sweden) has carried out a baseline study of the agency's approach to poverty and gender. This is designed to increase accountability and to promote stronger linkages between poverty reduction and other sectors.

¹⁸ The EC suggests that a good performance indicator should be 'SMART': S – Specific; M – Measurable; A – Attainable; R – Relevant; and T – Trackable. See *Monitoring and the Use of Indicators*, EC Report, 1996, cited by Binnendijk, 2000, p.27.

¹⁹ Morgan, P., *An Update on the Performance Monitoring of Capacity Development Programs. What Are we Learning?*, CIDA, 1999; den Heyer, M., *The Temporal Logic Model: A Concept Paper*, Evaluation Unit, IDRC, July 2001.

²⁰ Some agencies, like USAID, are already moving away from measuring conventional agency-wide performance towards a more pragmatic approach to assessing the results of operational units.

Also, even at an input level, it is not easy to show what results have been achieved with the agency's resource allocation to a particular country, particularly where aid is fungible, when governments offset spending in a particular area by reducing their own expenditures for the same purpose.²¹

- **The impact of institutional structures on performance measurement.** The structure of a development agency (i.e. centralised versus decentralised aid management) influences the choice of a performance measurement system. Highly centralised agencies, like DANIDA, normally have some standardised reporting systems across their projects, which allow the measurement of concrete outputs, whereas more decentralised agencies, like DGIS (the Netherlands), uses a variety of approaches and activities in different countries.
- **Cost effectiveness.** Development agencies need to provide adequate levels of financial and human resources for performance measurement at different levels of the organisation. However, monitoring should not become an end in itself, but rather a means to achieve better results.
- **The technical limits of reporting systems.** Although development agencies, through the OECD/DAC, have agreed on basic approaches to and criteria for monitoring and evaluation, as well as on DAC reporting about sectoral allocations of aid, there are still various technical limits on the effective use of indicators and approaches for assessing the effectiveness of their poverty focus. In addition, standard indicators and reporting mechanisms need to be adapted to the specific context of each agency.

Second, there are difficulties at the level of developing countries:

- **Performance of development agencies as measured in developing countries.**²² The development agencies can not monitor their own performance on the basis of their own internal performance management, without considering the results in the partner countries. Systematic performance management would need to be introduced by developing country administrations.
- **Tensions between the desire to demonstrate short-term progress and long-term sustainability.** The push to achieve measurable progress is one of the factors behind the widespread and much-criticised use of expatriate personnel, who may achieve short-term output, but not necessarily sustainable results, in particular if local actors are not involved.
- **Tensions between long-term development impact and annual performance reporting.** Given the long time frame for achieving development results, most development agencies agree that annual performance monitoring of results may not be appropriate.
- **Lack of national statistical capacity in the developing countries.** Assessing the achievement of the MDGs requires the strengthening national statistical capacity. Thus, PARIS 21 has been set up to strengthen the statistical capacity of the developing countries, to reduce the reliance on international estimates and to enable those countries to channel their scarce resources where they will have the greatest effect.
- **Political factors affecting the reporting on development indicators.** In some countries political factors may discourage accurate reporting. For example, Chinese figures on birth rates are widely considered to be underestimated because of political pressures to demonstrate the success of the 'one-child policy'.

²¹ World Bank, *Assessing Aid: What Works, What Doesn't, and Why*, 1998.

²² UNDP/Sida, *Measuring and Managing Results: Lessons for Development Cooperation*, OESP Series on Lessons Learnt, 1997, p.5.

5 Lessons from the Experiences of Development Agencies with Performance Reporting and Monitoring Systems

The approach to and methods of assessing performance are changing with the evolution in the aid context, including the shift to new aid modalities, such as sector-wide programmes and budget support, and towards a more integrated use of trade, foreign policy and aid instruments. These new approaches challenge existing monitoring and evaluation systems, which were designed in an era when development assistance meant aid projects.

5.1 Input-based Performance Monitoring through Effective Reporting and Marker Systems

Most development agencies focus on measuring aspects such as the destination of aid flows, because to do so is not technically demanding, and can be used to demonstrate their ‘commitment’ to poverty reduction.²³

Box 2: The 20/20 Initiative for Basic Social Services

The 20/20 Initiative was endorsed by the World Summit for Social Development held in Copenhagen in 1995 and its progress was reviewed in Hanoi, Vietnam, in 1998. The 20/20 Initiative reflects the belief of the development community that the provision of **basic social services – basic education** (as distinct from secondary and tertiary education), **basic health care, including reproductive health, and water supply to all** – would be a major step towards attaining the internationally shared development goals. The 20/20 proposal called for 20% of Official Development Assistance (ODA) and 20% of developing countries’ budgets to be earmarked for basic social services.

The 20/20 Initiative recognises the responsibility of national governments to allocate their resources to basic social services. In the context of national Poverty Reduction Strategies (PRSPs), international development agencies (the IMF, World Bank) monitor the national resource allocations to social sectors through **expenditure tracking** and **mid-term expenditure frameworks (MTEFs)**.

The 20% target is expressed as a percentage of total ODA. Such quantitative targets focus political and public attention on development goals. However, these targets also tend to focus on numbers rather than on content and results. In 1997–98 aid to basic social services represented 11% of ODA for all DAC countries combined.²⁴

However, measurement of sectoral targets alone would include the aid allocated to a certain sector, and thus would exclude general programme aid such as structural adjustment, budget and balance-of-payments support, emergency aid, debt reorganisation and administrative costs of development agencies. This could be problematic in the case of EC development cooperation, in particular because about 30% of the 9th European Development Fund (EDF) is allocated to general budget support, whose social impacts can not be specified using the DAC reporting system. Similarly excluded is the potential for poverty reduction through the transportation sector, which can improve the mobility of the poor, increase their access to social services and promote economic growth.

²³ At the European level, some decision-makers have promoted the target of allocating 70% of EC aid to LDCs. However, the target is unrealistic in the current budget framework, given the EU’s ambitions to become a ‘global player’, since the various foreign policy and trade interests of some Member States in middle-income countries (MICs) compete with the poverty reduction focus in all geographical areas.

²⁴ DAC report 1998, and OECD/DAC, *Measuring Aid to Basic Social Sectors* (Five-year Review of the World Summit for Social Development), OECD, June 2000.

The European Parliament has proposed that the social sectors – health and education – receive 35% of total EC aid, including the Community budget for ALA countries, and the EDF allocations to ACP countries. In contrast, the Commission has suggested that the target of 35% include only the ‘aggregated’ allocation to social sectors by all development agencies.

The development community has agreed to use the DAC reporting system to provide information about the destination of aid flows by sectors. Since the DAC reporting system is based on inputs, other monitoring techniques would be required to assess outputs, outcomes and impacts.

Box 3: The DAC Creditor Reporting System and the DAC Classification of Aid Activities²⁵

The Creditor Reporting System (CRS), sponsored jointly by the OECD and the World Bank, and operated by the OECD, was established in 1967 with the aim of supplying ‘participants with a regular flow of data on indebtedness and capital flows in the context of ODA’. The CRS is a major source of information on the sectoral and geographical distribution, as well as on the terms and conditions of ODA.

The OECD Member States’ official aid flows are reported annually. The common classification system aims to increase transparency and visibility in relation to where aid is allocated. According to the DAC classification, the ‘**social infrastructure and social services**’ include the following sectors: **education, health, population policies/ programmes and reproductive health, water supply and sanitation, government and civil society, and finally, other social infrastructure and services**. The notion of ‘social infrastructure’ thus goes beyond the ‘basic social services’ stressed in the context of the 20/20 Initiative, and beyond the EU sectoral targets (35%) for health and education. The EC committed itself to introduce the DAC reporting system for its programmes in its Common RELEX Information System (CRIS) in 2002.

The DAC reporting system is complemented by a ‘poverty marker system’.²⁶ Currently, six countries – **Canada, Japan, the Netherlands, Portugal and Switzerland, and the UK** – are submitting poverty marker data to the DAC.²⁷ Furthermore, **Germany, Sweden, the UK and the World Bank** have also introduced a poverty-oriented marker system that classifies development interventions into the following categories:²⁸

- **Direct or focused actions.** Actions that aim directly and predominantly to promote the rights, interests and needs of poor people, e.g. humanitarian aid, improved access of poor people to productive assets.
- **Indirect or inclusive actions.** Actions that aim to benefit broad population groups, including poor people, but which also address issues of equity and barriers to the participation or access of poor people, e.g. improvements in health service delivery.
- **Enabling actions.** Structural measures aimed at underpinning pro-poor economic growth or other policies leading to social, environmental or economic benefits for poor people, e.g. debt reduction and the promotion of good governance.

²⁵ OECD/DAC, *Aid Activities in Least Developed Countries, Creditors’ Reporting System: Aid Activities*, OECD, 1999.

²⁶ The marker system still has some limitations: first, it records intentions rather than results; second, it usually depends on self-assessment by programme managers; third, until recently it tended to focus on interventions that provide direct assistance to poor people. However, including indirect and enabling actions in the monitoring framework may provide incentives to look at how linkages with poverty reduction can be strengthened in all projects.

²⁷ For example, in many developing countries, the EC provides support to democratic decentralisation and to the strengthening of civil society. If properly done, support in both of these areas could have an important potential of contributing to poverty reduction as they focus on essential dimensions of pro-poor policies (political change, empowerment and local resource mobilisation). The same logic could be applied to other areas of EC support with a strong potential to contribute to poverty reduction.

²⁸ OECD/DAC, *DAC Scoping Study of Donor Poverty Reduction Policies and Practices*, OECD 1999, p.3. The categories are shared by Germany, Sweden, the UK and the World Bank.

Some figures from marker systems are already available. For example, the World Bank increased its lending allocations to poverty-targeted interventions (PTIs) from 24% in 1992 to 40% in 1998. Although the marker system is implemented differently by different agencies, which makes comparisons difficult, it may allow comparisons within the same agency over time, thus highlighting trends in its implementation of the poverty focus.

Suggestions for the EC

- Given the multi-dimensional nature of poverty, consider how activities other than those in health and education contribute to poverty reduction. Ways should be found to properly identify and include these contributions in a broad-based monitoring of EC performance in poverty reduction.
- Improve the use of DAC reporting system by introducing adequate 'sub-categories' (e.g. indicate the social aspects of improved transportation systems or macro-economic support).
- Introduce a poverty-related marker system (direct, indirect, enabling actions) into the EC reporting system.
- Focus on the partner government's responsibility and ownership in targeting social sectors through the national budget, for example, by analysing data from national expenditure tracking.
- Take into account 'complementarity' and the division of tasks between the Commission and Member States when measuring the overall European aid flows to social sectors. The CSPs include a donor matrix that provides an overview of the activities of the EC and Member States in different sectors. Also, improved exchange of information and operational coordination in the field is crucial for improved complementarity.

5.2 Output-Based Monitoring Systems

Most development agencies have well developed monitoring systems for assessing the outputs (i.e. concrete results) of their interventions. Many prefer to concentrate on attempts to measure outputs rather than impacts because of difficulties of attributing development results to individual agencies. Outputs of projects (such as the number of services delivered) are generally easily collected and are available annually.

Most output-level monitoring systems are targeted at the level of project and programme performance measurement, and aim to assess the achievement of the overall objectives, the project purpose and specific outputs of the project, as stated in the project document.²⁹ Most development agencies use the logical framework as a mechanism for identifying the linkages between the resources used and the results achieved, and thus as a basis for assessing the efficiency of actions. However, the logical framework, which came out of an engineering tradition, is criticised for its linear vision, which does not always correspond to the realities of 'soft' or social activities.

Some examples of output-level monitoring include:

- **CIDA's project progress report (APPR)**³⁰ uses a standardised format, which compares actual expenditures versus budget, actual results versus targets, identifies lessons learned, and assigns performance ratings. CIDA project managers are also asked to prepare a self-assessment on project completion; this is the primary mechanism for reporting at corporate level.
- **The European Commission** has set up a computerised database for project-level performance monitoring, which provides comparable data on different programmes.

²⁹ The programme-level monitoring system aims to assess **relevance** (is the project in line with local needs and priorities?); **effectiveness** (to what extent has the activity achieved its purpose?); **efficiency** (measurement of outputs in relation to inputs, cost effectiveness); **impacts** (positive and negative changes produced by a development intervention); and **sustainability** (are the benefits of an activity are likely to continue after funding has been withdrawn). See DAC, *Criteria for Evaluating Development Assistance*.

³⁰ Binnedijk, 2000, pp.47-48.

- **DANIDA**³¹ has identified a ‘menu’ of standard performance indicators³² at output level that enables comparable data to be aggregated across similar types of projects at the agency level.
- **UNDP**³³ measures qualitative changes through attitude surveys, rating scales and scoring systems, focusing on client satisfaction.
- **USAID**³⁴ and **UNDP** have developed a **Results Framework** to allow the partners and the agencies’ operating units³⁵ to design and implement a set of activities and outputs.
- **The UK SCOPE initiative**³⁶ seeks to improve the means of monitoring who benefits from the outputs of development interventions.

Suggestions for the EC

- Make more effective use of the existing computerised project-level monitoring system to assess the outputs of EC development programmes across different countries. However, for the system to be effective, the number of indicators must be limited to a few key issues in order to keep the management burden reasonable.
- Analyse the impacts of the EC reforms (e.g. harmonisation of procedures and deconcentration to EC Delegations) on output-level reporting and monitoring systems. The example of DANIDA shows that a centralised aid management structure favours standardised performance indicators across programmes, whereas more decentralised agencies tend to have a variety of interventions, making corporate level monitoring more difficult. The appropriate level of reporting should be assessed in the specific case of the EC.

5.3 Monitoring Outcomes and Impacts in Developing Countries

Development agencies are moving towards new aid modalities, such as sector-wide approaches and budget support, which give more responsibility to partner governments. Most agencies agree with the idea of making the national **Poverty Reduction Strategy Paper (PRSP)** a ‘focal point’ of development assistance programmes, and have called for improved coordination among agencies in implementing these programmes. In this context, it is virtually impossible to attribute national outcomes in partner countries to the particular contribution of a given development agency. It is logical that development agencies move towards joint reviews and evaluations,³⁷ at sectoral and country levels.

Governments are expected to allocate resources in keeping with the plans defined in their PRSPs, while development agencies focus more on the outcomes and results of national policies. The new approach fosters a results orientation in both the partner country and development agencies, involving up-front strategic planning (clarifying expected outcomes, indicators and targets), the collection of performance information (monitoring and evaluation), and the use of that information in ensuring management accountability, learning and decision-making processes. Monitoring of the results of the

³¹ DANIDA, *First Guidelines for an Output and Outcome Indicator System*, September 1998.

³² However, use of standard indicators may exert top-down pressure to drive project designs into ‘blueprint’ approaches and discourage participatory approaches to selecting indicators.

³³ UNDP, *Signposts of Development: Selecting Key Results Indicators*, May 1999.

³⁴ Binnendijk, 2000, p.67.

³⁵ USAID has realised how difficult it is to set strategic agency-level targets and has moved towards measuring the performance of ‘operating units’.

³⁶ OECD/DAC, *DAC Scoping Study of Donor Poverty Reduction Policies and Practices*, OECD 1999, p.64.

³⁷ Joint reviews and evaluations would have several advantages: they would reduce the burden of multiple donor evaluations on recipient country institutions, including overlapping team visits; provide opportunities for development agencies to learn and share their evaluation processes, permitting cost-sharing of the evaluation expenses; and promote higher quality, more credible evaluations with broader ownership, thus fostering a greater consensus on programme and country priorities and needs, and improved donor coordination. In practice, however, there are also several constraints on the organisation of joint reviews. See OECD/DAC, *Effective Practices in Conducting a Joint Multi-Donor Evaluation*, DAC Working Party on Aid Evaluation, OECD 2000, p.9.

PRSP process shifts the focus from measuring the development agency contributions to country-level performance.³⁸

Many development agencies are now participating in sector-wide programmes,³⁹ which often require pooling of funds. The results are measured against sectoral indicators jointly agreed among stakeholders.

- **The World Bank**⁴⁰ has developed 18 volumes of sector-specific technical annexes that assist in selecting indicators for a variety of sectors.
- **The EC** has set up technical expert groups to define sectoral performance indicators, which are in line with the strategic orientations of the CSPs.

Most development agencies measure the impacts of their interventions at the country level, because in most cases this is the most logical unit of aid management. Measuring country-level performance has several advantages: first, the agency's aid performance can be measured against an established country strategy, and the relevance of the country programme against the country's needs. Country programmes serve as agency-wide planning tools as well as tools for programme management. Finally, country-level assessments offer possibilities for strengthening the participation of local authorities and other stakeholders.

- **The World Bank's Comprehensive Development Framework (CDF)**⁴¹ is based on four principles: country ownership of the policy agenda, partnership with all stakeholders, a focus on results, and a long-term approach built on national consultations. The CDF was piloted in 12 countries, where self-monitoring systems were put in place. The World Bank has also introduced household surveys and participatory information-gathering exercises to improve its understanding of the dynamics of poverty in developing countries.
- **DGIS (the Netherlands)**⁴² conducted seven country programme evaluations⁴³ to assess the policy relevance, effectiveness, efficiency and sustainability of its bilateral aid programme. Attempts were made to involve the authorities, other stakeholders and local experts in order to improve the quality of evaluation and to encourage feedback in the partner countries.

Box 4: The Monitoring System and Indicators for the PRSPs

The PRSPs have become the main instruments for reducing national poverty and for improving development agency coordination. Recent studies⁴⁴ identify the following possible levels of PRSP monitoring:

- input monitoring such as budget reforms and expenditure tracking;
- timely monitoring of implementation processes, including intermediate outputs and outcomes;
- measurement of final poverty outcomes or impacts such as through household surveys and participatory assessments;
- measures to enable PRSP stakeholders to have and use information; and
- steps to enhance the use of available data for analytical purposes.

³⁸ However, there are several challenges to the effective reporting of the PRSP process, such as the unreliability of the official reporting systems and administration data on which indicators rely, and regional differences in the degree to which actual improvements in the tracking of public expenditures are recognised as key elements of poverty reduction.

³⁹ See for example, Foster, M. and Macintosh-Walker, S., *Sector-wide Programmes and Poverty Reduction*, ODI Working Paper 157, November 2001.

⁴⁰ World Bank, *Performance Monitoring Indicators*, 1996.

⁴¹ World Development Report 2000/2001, *Reforming Development Cooperation to Attack Poverty*, World Bank, 2000, p.195. See also Essama-Nssah, B., *Poverty-Focused Evaluation within a Comprehensive Development Framework*, World Bank, October 2000.

⁴² OECD/DAC, *Evaluation Feedback for Effective Learning and Accountability*, DAC Working Party on Aid Evaluation, OECD 2001, p.35.

⁴³ Bangladesh, Bolivia, Egypt, India, Mali, Tanzania and the Palestinian Territories.

⁴⁴ Booth, D. and Lucas, H., *Desk Study of Good Practice in the Development of PRSP Indicators and Monitoring Systems: Initial Review of PRSP Documentation*, ODI, Report commissioned by DFID for the Strategic Partnership with Africa (SPA), May 2001.

Suggestions for the EC

- Ensure that each CSP is well linked with the PRSP for that country. The multi-annual programming with an adequate monitoring system can be used to support long-term development processes in partner countries, while responding to performance reporting required by the annual budget process. EC performance at the country level can be assessed against the objectives of the CSP.
- Strengthen the role of the Quality Support Group (QSG) in ensuring the quality and coherence of expected results of EC development interventions.
- Improve synergies through multi-donor performance assessments.⁴⁵ The key challenge is to find a balance between multi-donor approaches to performance assessment⁴⁶ (particularly in the context of budget support and sector-wide approaches), and the need to ensure accountability of EC aid management to budget authorities such as the European Parliament and the Council.
- Carry out joint performance monitoring in the partner countries. The EC could support local policy processes more effectively, for example, by encouraging the development of criteria and monitoring systems jointly with development partners. The integration of the lessons learned in the field would also provide valuable insights into the quality of development processes.

5.4 Assessing Agency-Level Performance

There are two reasons for agency-wide performance measurement: to show **accountability** to external bodies such as parliaments, and to **encourage institutional learning and improved internal management**.

Measuring agency-level performance involves several steps:

- **Formulating objectives.** Clarifying agency goals is a useful management tool for strategic planning and for focusing the agencies' assistance portfolios and resources within its priority areas. Often, country operating units are asked to align their country programme objectives with corporate goals.
- **Selecting indicators.** The key factors in the selection of indicators for the agency level are that they should be comparable, feasible using existing data and can be aggregated across projects and programmes. Possible levels of indicators include: project/programme performance ratings; project/programme output and outcome indicators and country-level development indicators (e.g. MDGs, UNDP Human Development Report)
- **Setting targets.** Setting targets is problematic because of attribution problems, but a number of agencies⁴⁷ have integrated the MDGs into their strategic frameworks and plans. Monitoring the progress of developing countries towards the MDGs can be useful as an agency strategic planning tool.
- **Collecting agency-wide performance data.** Data collection normally relies on existing international sources and statistics and on project/programme performance measurement systems (databases) maintained by the agency's country operating units.
- **Reviewing and reporting performance agency-wide.**⁴⁸ Development agencies have several options to consider for aggregating performance and results achieved at the corporate level: output-level reporting, longer-term country development trends or specific rating systems, which score a project on its success in meeting its objectives.

⁴⁵ In partner countries, the development agencies, including the EC and the Member States, are experimenting with various new aid modalities that challenge traditional ideas of accountability and performance management and require a fundamental overhaul of aid management systems.

⁴⁶ Multi-donor performance assessments aim to avoid overlapping reporting, performance monitoring and evaluation systems among development agencies, which place an excessive administrative burden on partner countries.

⁴⁷ Binnendijk, 2000, p.97.

⁴⁸ At the level of donor community, the DAC Peer Reviews aim to assess the achievement of agency-wide objectives by DAC Member Countries.

Development agencies assess both the implementation of agency-wide goals (has the particular approach been implemented as planned?) and the results of their implementation (has implementation resulted in the intended outcomes?). Various frameworks for agency-level performance assessment have been set up:

- **The UNDP Strategic Results Framework measures** corporate performance by aggregating programme outcome and output indicators, reported by country operating units.
- **USAID**⁴⁹ has considerable experience in preparing annual performance reports. It uses (a) the **performance measurement and analysis** (PMA) database containing the operating units' programme performance monitoring data; (b) the **country development indicators** (CDI) database containing selected country-level trend data to monitor progress towards USAID's goals; and (c) the **development experience system** (DEXS) database, which includes USAID evaluation reports prepared by the operating units and by the central evaluation office (CDIE).
- **The World Bank** has set up a 'scorecard framework' for measuring, assessing and reporting on corporate-level performance. It is still developing indicators and targets for the new scorecard system, although it has a long history of aggregating, analysing and reporting performance horizontally, across projects, for example through annual reviews of evaluation results.
- **DANIDA** has measured agency-wide performance through its output and outcome indicator system.
- **DFID's Public Service Agreement (PSA)**⁵⁰ for 2001–2004 sets corporate level objectives, which are compatible with the MDGs. The performance targets focus on education and health outcomes in the top ten recipients of DFID education support. It also includes input, process and output measures, in order to assess the intermediate results of development interventions.⁵¹ DFID⁵² uses the automated management database system (PRISM) for project ratings for aggregating performance to the agency level.⁵³ PRISM is intended to facilitate the generation and analysis of information on the performance of DFID's portfolio.

Suggestions for the EC

- Clarify policy through concrete targets, making effective use of internationally agreed goals and targets where possible.
- Improve annual reporting through adapted scoring and rating systems across programmes, at both sectoral and country levels.
- Adapt the monitoring systems and targets to the new aid context in developing countries (multi-donor reviews, budget support) in order to ensure accountability to the budget authority.

⁴⁹ Binnendijk, 2000, p.101.

⁵⁰ Since 1999, each UK government department has had a PSA.

⁵¹ According to DFID's Evaluation Department, 'the IDGs encourage an outcome-driven, rather than input-driven approach'. Kirk, C., 'Delivering on the international development targets', paper presented at the Joint UNDP–DFID Workshop, Enhancing Development Effectiveness: Linking Organizational and Development Effectiveness, September 2001.

⁵² Binnendijk, 2000, p.95.

⁵³ A system of scoring requires managers to make an annual assessment of progress towards delivery of outputs and achievement of purpose, and to assign performance ratings. However, rating systems are seen as putting too much emphasis on quantitative indicators and too little on qualitative indicators. The operational departments are consulted on the system design to ensure it meets operational needs.

6 Moving towards Performance-Based Budgeting?

Moving towards performance-based budgeting⁵⁴ is a challenge for most development agencies. Most agencies acknowledge that the budget process is essentially a political process in which performance information can be only one among a number of factors underlying decisions. Nevertheless, many governments have recognised that systematic presentation of performance information alongside budgets can influence and improve budget decision-making. In applying performance-based budgeting, agencies face a number of challenges:

- Performance-based budgeting assumes that performance goals/targets can be defined and reliable performance measures developed. In reality, programme outcomes and impacts are often not directly attributable to an individual agency. Agency outcome measures thus have only a limited value in budget deliberations.
- Achieving development impacts takes a long time, and relating these lengthy performance time horizons to annual budget deliberations can raise specific measurement questions.
- The implementation of development programmes is often dependent on the performance of ‘third parties’ (NGOs, partner governments), and this complicates accountability and attribution.
- The agencies’ practice of earmarking funds limits their flexibility and ability to use performance criteria for resource allocation decisions and can cloud efforts to hold them accountable for results.
- Introducing performance-based budgeting may also heighten the potential for reporting biased or distorted data in order to make performance seem more favourable. Thus, procedures for verifying performance data may become necessary.
- Performance budgeting also requires an ability to accurately relate costs to results through cost accounting systems.
- Tension is created when there is little linkage between the budget and strategic planning frameworks.

Despite these difficulties, some development agencies are trying to better integrate their strategic planning and budgeting processes:

- **AusAID**, for example, is undertaking a major integration of its databases and a re-coding exercise to align project activities, outputs and costs, with its new agency-wide goals. This will enable AusAID to report on numbers of projects implemented, total expenditures, and key outputs against each of its key policy areas.

Suggestions for the EC

- Explore modalities for ‘performance-based budgeting’ for EC development cooperation, while bearing in mind the complexity of performance measurement and long-term development processes in partner countries.
- As an alternative, review existing financial and performance reporting systems with a view to linking costs to results in an effective way.

⁵⁴ Binnendijk, 2000, p.102.

7 Conclusions

The inter-institutional seminar at the European Parliament in February 2002 provided an important opportunity to discuss the key challenges and opportunities for setting up an effective performance monitoring system for EC development cooperation. Most seminar participants agreed on the need for a two-pronged approach to performance measurement:

First, the EC should monitor its own ‘organisational effectiveness’ through the following measures:

- integrate poverty reduction into its management systems (incentives, staff training);
- ensure the coherence of different EC policies (e.g. agriculture, fisheries, foreign policy, trade and development);
- introduce the DAC reporting system (despite some of its shortcomings); and
- continue a constructive inter-institutional debate about realistic development targets through the budget process in order to ensure the necessary accountability to European taxpayers, and to avoid potential distorting effects of performance measurement.

Second, the EC should continue to participate in efforts, such as through the PRSP process, to measure ‘development effectiveness’ and to monitor collective progress towards the jointly agreed Millennium Development Goals. Donor collaboration in expenditure tracking at the country level also implies some degree of harmonisation in auditing procedures.

There are two main levels of accountability: at the level of inputs (‘where does the money go?’) and at the level of outcomes (‘what is achieved with the money?’). These levels require reporting systems, both to monitor long-term development targets (including the MDGs), and to provide information for aid managers about shorter-term progress, so as to permit necessary adjustments in activities as required. The role of independent evaluations was also stressed.

The participants discussed the differences between country-wide approaches (such as PRSPs and general budget support) and sectoral approaches (such as sector-wide programmes). At the country level, it is important to strengthen the capacity of local partners in financial management as a condition for moving towards budget support, while still ensuring accountability to the European institutions. Currently, only a limited number of developing countries have adequate capacity and stable enough political situation to make them eligible for budget support. Donor support should be channelled through national structures in order to reduce parallel structures and overlapping reporting systems in partner countries. While some participants questioned the EC decision to focus on six key sectors, with the majority of the 9th EDF funds allocated to transport and macro-economic support, they expressed divergent views on the best strategies to enhance the poverty impact of EC cooperation. The European Parliament’s proposal to target 35% of EC development funds to social sectors was accepted in the course of the debates, although the European NGOs questioned the poverty impact of the remaining 65% of funds.

The Southern participants questioned whether performance monitoring by donors undermines sovereignty. It was agreed that performance monitoring should be a two-way process, addressing both the developing country’s performance and the donors’ management performance. There are already several fora where donors and developing countries can define joint policy priorities and performance criteria, for example in the context of PRSPs, the joint EU–ACP fora, including the Joint Parliamentary Assembly (JPA) and the Special Programme for Africa (SPA).

The Members of the European Parliament presented the following conclusions:

- The introduction of the DAC reporting system is the first step towards improved performance monitoring. However, flexibility is needed to adapt the DAC categories to the reality of EC cooperation.

- The combination of input and outcome indicators will allow the assessment of both the EC's organisational performance and collective progress towards the Millennium Development Goals.
- The country-based approach to performance monitoring (including the move towards budget support) only applies to a limited number of developing countries. In other countries, donors need to define a mix of cooperation instruments.
- It is crucial to avoid the use of multiplied reporting systems by different agencies in order to minimise the administrative burden on developing countries.
- The inter-institutional seminar provided an opportunity to involve both the Commission and the European Parliament in the dialogue on development targets. However, more effective involvement of the Council would be necessary.
- The reviews of the EC fisheries policy and the Common Agricultural Policy (CAP) may provide opportunities to discuss their impacts on development activities.
- The mainstreaming of poverty reduction into the Commission's management system requires important efforts in terms of staff training and increasing expertise in the key areas.
- The European Parliament's Development Committee should be more involved in the review of the Country Strategy Papers (CSPs).
- The 2003 budget process provides the opportunity to monitor further the Commission's commitment to the target of 35% of EC development funds to social sectors.

The European Parliament's seminar constituted an important forum for an inter-institutional debate on EC development performance. The debates among EU institutions continue in other fora. The reform of EC development cooperation is a common responsibility, where each institution has a role to play in improving the credibility of the European Union as a whole.

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