

# *Policy Management Brief*

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## ***Performance Criteria in Future ACP-EU Cooperation***

Revitalising the ACP-EU partnership is a key to the future of the Lomé Convention. From a European perspective, the political message is clear: external support is for "those partners that also help themselves". Self help means governments "making merit" and earning the assistance and trust they need. It also implies greater selectivity in Community support and a stronger focus on recipient performance. Future EU assistance will be based on "needs" as well as "merits".

At first sight, the proposal seems highly controversial for ACP governments. They may see it as a further erosion of the Lomé partnership and a sign of more bad things to come - the imposition of new conditionalities, checklists of quantifiable performance criteria and unilateral sanctions.

On second analysis, however, both parties share an interest in defining a new partnership based on performance. It may help to re-legitimise and safeguard EU cooperation budgets. It may help transform the current, largely inefficient system of donor-imposed conditionalities into a locally owned set of accepted objectives and performance. It may also help ACP governments reconcile with their citizens, who are also pressing for improved governance, resource allocation and accountability.

Over the last year, ECDPM has promoted research and in-country consultations on the political acceptability and feasibility of performance criteria as a tool for decision making in international cooperation. Together with GERDDES-Afrique, it organised an international workshop on the topic, involving stakeholders from both Africa and Europe.

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This brief summarises the main findings of this process. It considers the background to the EU enthusiasm for performance indicators as a tool to formulate cooperation agreements. It observes a strong support for the "merits" principle, especially among representatives of African civil society and the private sector. Possible risks associated with performance criteria are identified. Suggestions are provided on how to effectively operationalise the new partnership, and the main implications for donor agencies are analysed.



## *A Logical Evolution*

Performance will be a cornerstone of future ACP-EU partnership. The European Commission's Green Paper on future ACP-EU cooperation leaves little doubt about this. It calls for a renewed commitment to partnership, based on "a new policy foundation and more effective dialogue, backed by a commitment by ACP governments to reform".

What does this mean in practice? First, while the EU is keen to preserve the "acquis of Lomé" (e.g. predictable aid flows), it aims to give a more political character to its cooperation. It wants its ACP partners to introduce domestic reforms, to adhere to essential values and to practise responsible management of public affairs. Second, the EU would like to introduce a partnership based on recipient country performance (rather than on "aid entitlements"). The revised Lomé IV Convention already contains "merit" elements, including "phased programming" and a suspension clause (article 366a). This approach will be extended under a Beyond-Lomé agreement, implying greater "selectivity" in partnership and an allocation of Community resources on the basis of both "needs" (i.e. objective development indicators) and "merits" (i.e. qualitative performance indicators). Third, the EU recognises the need for new forms of dialogue, programming and release of funds. These changes will be required to implement a more result-oriented development cooperation.

The EU is not alone in moving towards a performance-based partnership. Several Member States already use performance criteria and indicators to determine the volume, nature and *modus operandi* of their cooperation. The International Monetary Fund, for instance, has recently adopted new "guidelines regarding governance issues", which include performance criteria for economic aspects of governance (e.g. fight against corruption, rent-seeking, bribery).

This evolution should not be surprising. The end of the Cold War and the process of globalisation have eroded the traditional rationale for development cooperation. It is increasingly recognised that external resources can do little more than support domestic efforts. Human rights, democracy, and respect for the rule of law are seen as essential elements of the new partnership. The growing competition for scarce aid resources puts a premium on efficiency and impact. The combined result of these pressures is a stronger focus on recipient performance. It also, to a lesser extent, puts a spotlight on the performance of donors and their commitment to a stronger and more effective task division.

## *Gaining Strong Support*

What are the views of Africans on the newly proposed partnership and related "merit" criteria? How much political support do the criteria have? How feasible are they? What should be the content of possible performance criteria? How should performance be assessed and monitored? What consequences should result from "good" or "poor" performance?

Perhaps the most striking outcome of our consultation process is the very large support for the principle of performance criteria. This holds particularly true for African civil society and the private sector. In their view, the focus on performance should not be seen as an imposition from outside, but as a much needed African response to pressing development and globalisation challenges. From an official perspective, it is claimed that ACP countries "already live in a world of performance criteria and sanctions". The main problem is not so much the underlying principles (e.g. good governance), but the implementation modalities -- which tend to be unrealistic and too much controlled by the EU.

Four major reasons help to explain the positive attitude towards a performance-based partnership:

- *Changes in Africa.* In many African countries, societies are opening up and contesting governments that lack legitimacy. New leaders (both in the public and private sectors) have emerged. They recognise the need to cope with globalisation, to assume domestic responsibilities and to put an end to aid dependency.
- *The Governance Imperative.* For too long, external

### ***Box 1. Whose Views on Performance?***

The Tanzania consultation process revealed the existence of a wide variety of often conflicting views on the concept of performance, both in terms of objectives, criteria, indicators and consequences.

While government pleaded for a rather 'minimalistic' approach, the opposition, the private sector and the NGOs insisted on a tough and strict interpretation of performance.

This situation forces donors to reconcile these conflicting views and to find appropriate mechanisms to determine and assess performance, whilst ensuring the participation of all actors and stakeholders.

resources have been allocated without serious attention to government performance.

This is a luxury Africa can no longer afford. There are strong internal demands for improved governance and accountability as the Tanzania study reveals (see Box 1). Human rights, democracy and governance are not seen as "imported values" but are preconditions for Africa's recovery. The EU should actively support these transformation processes, amongst others by providing direct assistance to legitimate civil society groups that can act as necessary checks and controls.

- *Alternative Approach to Conditionalities.* There is much frustration in Africa with the current "conditionality overload" and related "stop-and-go" approaches. The "merits" debate provides a window of opportunity where both the content and process of conditionalities can be changed.
- *Value for Money.* Within Africa, there are growing pressures to improve the allocation and use of domestic and external resources. A strong plea was made for Africa to devise its own performance criteria and monitoring systems, independently from donor agency requirements. Governments displaying a genuine commitment to development should not be afraid of a performance-based

partnership with the EU, as the experience of Uganda suggests (see Box 2).

### ***Box 2. It Can Pay to Perform***

The Uganda experience shows that it pays to perform. Resulting from its impressive reform measures - providing a relatively stable and predictable political and economic environment - a massive increase in external resource flows occurred, in terms of investments, aid and debt reduction.

The Uganda case reveals that donors showed a high degree of flexibility in applying governance models. They shifted away from their traditional preconceived models of democracy and supported a regime on the basis of its strong commitment and development vision, adapted to the country specific situation.

This broad support within Africa is a promising sign. It means that a "new deal" can be brokered. In this scenario, the notion of "merits" is not seen as an external imposition, but as a search for "joint investments in development cooperation that can yield mutually agreed returns".

### ***Significant Concerns about Feasibility***

Beyond the broad acceptance of the principle of performance criteria, many concerns have been expressed on the feasibility of the new partnership approach:

- *Old Wine in New Bottles?* It is feared that "merits" may end up as nothing more than a new name for traditional conditionalities. There is scepticism about the EU's commitment and capacity to reduce the current multiplicity of conditions and to agree on performance criteria through a transparent, decentralised and participatory process. Double standards, hidden agenda's and uncoordinated approaches among EU Member States may continue to prevail.
- *Abstract Checklists and Slippery Benchmarks.* Measuring government performance is a tricky job. Undifferentiated blanket criteria do not take into account the complexity of reform processes and the huge diversity in local development conditions. Performance indicators are rather slippery tools. For instance, how can the "legitimacy" of a government or the degree of "citizen participation" be measured? Privatisation may be an indicator of sound macro-economic behaviour, but what if this policy only serves the vested interests of a small minority? How are different performance criteria ranked? What action should be taken where there is strong macro-economic performance but poor progress on political reform? In what time perspective is performance measured? It is feared that the EU will gloss over these complexities and the need for country-specific approaches and instead rely on standard approaches and abstract checklists.
- *Flawed Processes.* Different actors have different worries with regard to the process of performance assessment. African governments are afraid that the EU will be both "judge and jury" and apply performance criteria in a discretionary manner. Civil society fears that it will be left outside the process. While the EU recognises the need for a locally owned and participatory process, it does not really know how this can be done in practice.
- *Penalising the Poor?* EU calls for greater

"selectivity" through the use of "merits" criteria may lead to a further marginalisation of the poorest countries and populations (e.g. in cases where aid is suspended). This raises the question of the relative importance the EU will give to "needs" compared to "merits". Is the latter a core element of the new partnership - that determines allocations, levels of commitment and actual release of funds - or only a supplementary incentive allocation?

- *Capacity Problems.* The move towards a performance-based partnership has been compared to opening a Pandora box. It will require new capacities among all actors. Doubts have been raised as to whether African governments have the capacity to formulate and implement a coherent set of policies and performance criteria. In many countries, it is not easy to identify legitimate, representative and well-organised civil society and private sector actors. Donor agencies, and the EC Delegations in particular, are poorly equipped to facilitate "second generation" reforms (aimed at political and institutional change), to conduct a continuous political dialogue and to participate in processes of performance assessment with a wide range of local actors and stakeholders.

### ***How Can Smooth Implementation be Assured?***

From the above analysis, it clearly appears that the success of the new performance-based partnership will depend on the ways in which it is put into practice. Four priority actions are advocated:

#### **Distinguish Merits from Conditionalities**

The EU should make it clear that "merits" is not a new label for an old technique, but an invitation to reform current conditionalities and to re-target cooperation resources.

First, the new performance approach could change the content of conditionality. Instead of defining a multiplicity of aid conditions - with the danger of suspension in case of non-compliance with a single indicator - a "comprehensive package approach" could be agreed. Based on a realistic set of performance objectives to be achieved progressively, there would be room for a political dialogue on broader issues than aid alone (e.g. trade support, investment, debt).

Second, the process of determining and monitoring

### **Box 3. Proposed framework for Government Performance**

#### **Development principles**

#### **Indicators for performance**

##### Axis 1: Political and institutional development

Respect for human rights	Adherence to and implementation of commitments, arising from international and African Treaties and Conventions.
Democracy	Characterised by a system of competitive politics, periodic, free, fair and participatory elections, respect for minority rights, independent media and public information.
Rule of law	Separation of powers, equality before the law, independent and well functioning (professional and capable) judiciary, professional and independent police force, accessible legal aid system.
Good Governance	Containing key elements such as public accountability, transparency, sound financial management, financial discipline, organisational efficiency, measures against corruption, willingness to prosecute corrupt officials and resist impunity, genuine political decentralisation, strong participation of civil society.

##### Axis 2: Macro-economic and social development

Coherent monetary and economic policies	Including macro-economic indicators such as price stability (goods, services, foreign exchange), fiscal balance, revenue/GDP, deficit/GDP, deficit financing, domestic savings and diversification policies for export products.
Market led economy	Including indicators such as liberalisation and privatisation policies, operation of the markets, competition, effective measures to create an enabling environment for the private sector among which access to credit facilities, protection of private property and security of investments.
Public sector performance	Size, capacity, effectiveness and efficiency of public institutions.
Financial sector performance	Stable and solvent banking sector and bank supervision
Coherent and inclusive social development policies	Possible indicators are social sector investments (government expenditure on health and education); strong commitment and efforts to reduce poverty, re-distributive measures to reduce inequality, environmental management and gender policies.

##### Axis 3: Management of aid programmes

National strategies for the use of aid	Existence and effective implementation of a coherent national policy on the use of external resources, sound institutional framework and facilities for the coordination of aid.
Participation in decision making	The existence and functioning of consultative mechanisms, in which all stakeholders can participate, as well as the quality of the dialogue process.
Transparent, accountable and efficient aid management	The degree of participation of non-state actors in the management and evaluation of aid resources and measures taken to strengthen the capacities of actors.
Decentralised cooperation	The establishment and functioning of a decentralised system of cooperation, linked with the decentralised administrative system, and measures taken to strengthen management capacities of local actors.
Right to information	Including means of communication, efforts to decentralise information flows and production and dissemination of clear and accessible information.

performance could change drastically. Rather than imposing conditionalities, the EU could involve local actors and stakeholders in formulating performance objectives and in their monitoring.

Third, there could be a higher level of reciprocity in the new partnership, with the EU committing itself to improved coordination and coherence as its performance targets.

## Combine Universal Principles with Country-specific Approaches

What should be the substance of future performance criteria? How important are "merits" as compared to "needs"? Should the assessment be based on universal principles or be highly country-specific? What type of performance indicators can most usefully be retained? Should the indicators focus on the overall impact of government policies (in a long-term perspective) or on result-oriented outputs (in a short-term perspective)?

From the broad range of views expressed during the consultations, six main conclusions with regard to substance can be distilled.

First, while the "needs" of a given country should remain the point of departure for future EU aid allocation, "merits" are perceived as a necessary complement to ensure a more efficient allocation of resources.

Second, merits should be based on a universal set of development principles (e.g. human rights, democracy, rule of law), for which country-specific indicators have to be identified. It was proposed that the development principles and related performance indicators be grouped around three main axes: *political and institutional development*; *economic and social development* and the *management of aid programmes*. A basic framework for measuring government performance is proposed in Box 3.

Third, there was much support for less traditional indicators, including the implementation of coherent and inclusive social development policies (e.g. reflected in social sector investments); a strong commitment to poverty reduction; re-distributive measures to reduce inequality; and sound environmental and gender policies. Also, the existence of genuine political decentralisation policies and the effective functioning of institutions that combat corruption are considered to be key performance indicators.

### **Box 4. Local Monitoring Mechanisms**

GERDDES-Afrique - a pan-African organisation with 34 national autonomous members - argues that performance should and can be measured. It developed and tested a local mechanism to monitor democracy, human rights and social and economic development.

This monitoring mechanism involves both governmental and

Fourth, aid management performance is equally important in the future system of performance assessment. Aid effectiveness should be assessed at three levels: the overall contribution of aid to economic growth; the quality of the dialogue between donors, government and civil society; and the impact of individual projects and (sectoral) programmes.

Fifth, the need to start from local conditions (e.g. with regard to the nature and timing of reforms) was emphasized. However, this should not be used as an excuse to resist change or to obtain a discount on essential elements of performance. African non-state actors urged the EU not to allow a 'dual interpretation' of fundamental values. The free and democratic choice of leaders through elections was given as an example. That elections in Africa are costly and often rigged is no reason to downplay their importance. The challenge is rather to see elections as "a learning process in democracy"; to improve the election system (e.g. by adapting it to local values and financial means) and to enhance local monitoring through independent or civic associations

Finally, a strong plea was made in favour of a "*tendency measurement*". This means making a global and comprehensive assessment of government performance over time, including an identification of main trends (positive or negative), problems of pace and sequencing (e.g., between adjustment and democratisation), progress to be expected in the next phase of the reform process, etc.

#### *Assess Performance in a Participatory Way*

For a performance-based partnership to be effective, thorny "process questions" will need to be clarified. How will performance criteria be agreed upon? Who should be involved in their elaboration, negotiation and monitoring? What role can be played by independent local institutions? What levels of intra-donor coordination are desirable and feasible?

Four main principles were identified with regard to this process:

- *Ownership.* The EU should not dictate the rules of the game, but rather seek to develop a shared framework for future cooperation. Recipient ownership of both the substance and the process of assessing performance are critical. In this respect, the SPA/Burkina Faso pilot project looks promising. This recently launched joint initiative of several donors (including the EC, World Bank and IMF), aims to enhance government ownership of the performance-based monitoring system. It may provide useful lessons of experience on the

use of performance indicators, both as monitoring tools as well as indicators for aid disbursements.

- *Joint Monitoring.* This is undoubtedly the linchpin of the new performance-based partnership. The key message is clear: the process of determining and monitoring performance should be decentralised and participatory. Inevitably, final decision-making will remain the political responsibility of central agencies. However, all other aspects of the process should be open to the participation of a wide range of local actors and stakeholders, independent resource persons and institutions. Their involvement was seen as a precondition for a locally owned and transparent process (for an example see Box 4). They can play a most useful role in information gathering, identification of performance indicators, monitoring and evaluation, independent reporting, etc.
- *Task Division among Donor Agencies.* As the trend towards performance-based development partnership becomes accepted, the need for improved coordination among donor agencies will increase. Without this, the nightmare scenario of an army of external agencies involved in performance assessment exercises is a real possibility. Particularly at the EU level (EC and Member States) strategies should be devised to agree on a task division (including with multilateral institutions).
- *Simple, Flexible and Transparent Rules, Procedures and Decision-making Processes.* These are essential qualities of performance assessments. If the process becomes too complex and too costly, the different parties will quickly lose interest.

Promoting a participatory process of assessing performance will not be an easy task. The different partners have little tradition and experience of participating in an open-ended and continuous dialogue at different levels and in different places. It will take time to build trust and capacities to manage the new system. Furthermore, it will be difficult to select appropriate actors for dialogue and performance assessment. Current Lomé programming approaches, management systems and procedures will need to be adapted. Experimentation and learning by doing will be required. Yet, in the final analysis, there seems to be no alternative than to move in this direction if the credibility and effectiveness of development cooperation is to be safeguarded.

## What Future for Lomé?

The future of EU aid to Africa, the Caribbean, and the Pacific is in question

- How have ACP researchers reacted to the EU's proposals?
- What do NGO groups and networks suggest?
- Does the notion of partnership still satisfy the needs of the EU and the ACP?
- How can the EU help the ACP become integrated in the global market economy?
- How can civil society and the private sector participate in European cooperation?

Find the answers on the Internet:

<http://www.oneworld.org/euforic>

Clarify the Consequences

The Green Paper is relatively silent on this crucial aspect. The future allocation system will clearly have an incentive-based character, whereby good performers will be rewarded and poor performers 'sanctioned'.

What does this mean in practice? What forms will the "premiums" or "sanctions" take?

### ***This Report***

This brief is an output of an ECDPM study on "New Performance Criteria in Future EU aid Allocation." It draws on analytical research undertaken with the Institute for Development Studies at the University of Dar es Salaam, the African Foundation in Ghana, and GERDES-Afrique in Benin. Special thanks to our partners -- Severine Rugumamu, Ahmed Mohiddin, Sadikou Alao and George Kasumba.

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The consultation process yielded some useful pointers. First, "stop-and-go measures" which interrupt development efforts and are difficult to catch up with need to be avoided. Instead, aid programmes should have the character of rolling programmes, which allow for a *de facto* differentiation of aid on the basis of annual performance assessments.

Second, government assessment should be based on a so-called "tendency approach", whereby the suspension of aid is only used as an ultimate means. In principle, assessments results should be used to re-orient the aid programme as regards i) areas of interventions; ii) partners and iii) policy dialogue. If shortcomings are observed, external support could help with targeted interventions (especially through the provision of institutional support).

Third, "good performers" should be offered a number of facilities that go beyond aid. In this way, the structural problems facing a country can be addressed in a more appropriate manner. Possible incentives for good performers in this regard could be accessibility to debt reduction, loan and market facilities and competition incentives.

Finally, the EU was invited to develop a much more sophisticated "menu of options" for deciding on the possible consequences of performance assessment.

In between "suspension" and "positive measures", there is a grey area that would need to be clarified. For instance, how will the EU respond in case of a sudden improvement or drop in standards of governance? How should aid be re-directed in case of interruption of official aid? What type of support can usefully be provided to put governments "back on track"?

### ***The Donor Reform Agenda***

African participants made it very clear that the proposed new partnership also opens a huge reform agenda on the EU side. The Green Paper calls on the EU to integrate the political dialogue within the ACP into its emerging common foreign policy, thus ensuring greater consistency and coherence. However, much more is needed to make the new partnership work in a mutually acceptable way.

First, even within an "unequal partnership", it should be possible to agree on donor performance criteria with a view of ensuring credibility (e.g. avoiding hidden agendas and double standards) and effectiveness (e.g. provision of flexible and comprehensive forms of support to reforming governments). Several donor performance criteria were proposed. These include the degree to which different local actors are involved in assessing performance; the simplicity and transparency of decision-making; the level of consistency and coordination between the EU and the Member States as well as improved policy coherence; and bureaucratic performance, including the quality and speed of getting things done (e.g. quick disbursements).

Second, the EU should be prepared to adapt existing Lomé modalities of policy dialogue, programming, management and procedures. These changes are essential to ensure a smooth implementation of a performance-based partnership. For instance, the current review under phased programming could be improved to accommodate the broader, participatory performance assessment envisaged in future cooperation.

Finally, the EU will need to substantially increase its capacity to manage the new partnership. For too long, donors have tried to combine "heroic ends" with "limited means". If the EU is serious about promoting political and institutional reforms through a truly participatory political dialogue, it should ensure that sufficient resources, processes and people are in place to do the job properly -- especially in its Delegations.