

Policy Management Brief

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Phased Programming of Lomé Funds: Lessons from Current EU and ACP Experiences

As negotiations for the mid-term review of Lomé IV reach their climax, one of the controversial issues still to be agreed is the European Union (EU) plan to introduce phased programming to Lomé resources. Under the proposal, the allocation and disbursement of funds will be linked to performance rather than to fixed aid entitlements as in the past. It reflects two EU concerns. First, to put its money where it can best be used. Second, to ensure that EU development cooperation priorities are more clearly reflected in the way that Lomé resources are programmed and allocated. Countries in Africa, the Caribbean, and the Pacific (ACP) that use Lomé funds properly will be rewarded with further funds.

On the face of it, there is nothing wrong with the principle of phased programming. Achieving "value for money" is the order of the day. This calls for a flexible and realistic allocation of scarce aid budgets. Yet on the ACP side, there is much opposition. It is claimed that phased programming will erode the Lomé partnership and give too many discretionary powers to the EU. Beyond these political arguments, there are also managerial concerns. Which criteria will be used to assess performance, how will the criteria be applied, and by whom, and is there sufficient capacity in the EU and in ACP states to manage the new system effectively?

Partial answers to these questions can be found by examining experiences with other Lomé instruments such as STABEX and the Structural Adjustment Support Facility where some type of phased provision of funds, linked to recipient performance, already exists.

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This brief defines phased programming and identifies some of the risks associated with its implementation. Using data from the 1993 report of the EU Court of Auditors, some general lessons on the phased provision of resources in Lomé are drawn. The final section outlines the implications of these findings for the current mid-term review of the Lomé Convention.

Why does the EU want Phased Programming?

Traditionally, a major part of the European Development Fund (EDF), the financing mechanism for successive Lomé Conventions, is allocated in advance to individual ACP countries for a period of five years. Each country has a "National Indicative Programme" (or "NIP" in Lomé-speak) which it can use according to its own development objectives. The aim is to ensure certainty on the level of resources available. This, in turn, should facilitate a proper planning of national development priorities in a long-term perspective.

Over time, the European Union (EU) has come to question the effectiveness of NIP's. The instrument is said to be too rigid for managing Lomé resources, particularly in countries with poor systems of governance. There is a strong conviction that a real partnership is hard to achieve when recipient governments are "entitled" to a given amount of aid, irrespective of political conditions and performance. Too much money is poorly allocated or remains unspent. The

current system makes it impossible to re-allocate unused NIP resources for other purposes.

During previous negotiations on Lomé IV, the EU sought to increase its leverage on the use of Lomé resources by reducing the share of pre-allocated NIP resources in favour of special funds reserved for countries that comply with eligibility criteria. Under Lomé III, programmable resources were 80% of the EDF; under the current Lomé IV, this figure had dropped to 55%. The current EU proposal to introduce phased programming aims to strengthen the leverage of the Commission on NIP resources by linking their deployment to recipient performance.

More fundamentally, the proposal reflects changing European attitudes towards development cooperation. During the 1980's, a more business-like approach towards development cooperation emerged. Sound economic and political management, the rule of law and respect for human rights have become the centre-pieces of development partnerships. If these donor concerns are not accommodated within Lomé, European taxpayer's support is likely to further erode. It is hoped and assumed that phased programming will provide a means by which these emerging policy concerns can be integrated into decisions on EU resource allocation.

What is Phased Programming?

Under the current system, programming is the first step in implementing financial and technical cooperation under the Convention of Lomé. The main phases of the programming process are (i) the EU notifies the ACP State of its overall financial allocation for five years (the available resources for its NIP), (ii) the ACP state draws up a draft indicative programme, (iii) that is examined and finalised in a joint policy dialogue involving the country and the EU.

Under phased programming, the NIP funding system would be modified. Rather than committing a fixed amount to each country's NIP for the entire five year period, a proportion of NIP funding would be subject to country performance. The EU would inform each ACP country of its total financial package as well as the amount of its first tranche. Subsequent tranches would be made available only after the preceding tranche has been satisfactorily utilised. Four main benefits are expected from the new system:

- more efficiency and flexibility in programming
- clearer link between EU aid priorities and the programming of Lomé resources
- accelerated implementation of projects and programmes
- reallocation of unspent ("frozen") resources for other purposes by removing the legal obligation to disburse the initial indicative amount allocated to NIP's

Possible Risks of Phased Programming

Proposing a new approach to allocating and managing NIP resources is only part of the story. The question remains as to how this new system can be applied in a flexible and consistent way. Ensuring effective implementation of Lomé provisions has been the Achilles heel of ACP-EU cooperation. Successive Lomé negotiations have tended to focus almost exclusively on principles and broad policy objectives. In comparison, very little attention has been given to developing adequate instruments and capacities to ensure proper implementation.

The same may happen with the introduction of "phased programming". What is needed now is clear thinking, clear objectives and adequate instruments, developed on the basis of a good understanding of the likely impact (positive or negative) of phased programming. Hence, the critical importance of identifying up front the major risks of phased programming. Critics have raised the following points:

- *Sustainability.* The new system may jeopardise the positive features of the Lomé programming exercise: autonomy of the recipient government, certainty on the levels of funds, integration of aid into long-term sectoral plans. ACP governments may now be inclined to submit short-term

projects in order to ensure eligibility for subsequent tranches.

- *Monitoring and evaluation.* There are major concerns that ACP performance will be assessed on the basis of quantitative targets ("what levels of disbursement have been attained?") rather than qualitative criteria ("what results have been achieved on the ground?"). There are doubts about whether the EU has the capacity to effectively monitor phased programming. In the absence of transparent eligibility and verification criteria, phased programming may give the EU too many discretionary powers in allocating NIP resources.
- *Capacity in ACP countries.* Holding back funds on the grounds that allocated resources have not been taken up "in due time" may side-step the real issue which is how ACP countries can build up the necessary institutional capacities to manage aid flows effectively. Capacity differences between countries also pose an equity problem. In phased programming, resources are likely to be squeezed from the least-developed ACP states - also in administrative terms - to those best placed to use funds.

The 1993 Court of Auditors Report

To what extent are these fears legitimate? To answer this question, past Lomé experience provides a helping hand. The idea of "phased programming" is not entirely new. A similar approach to resource deployment is currently applied in two major schemes of the Lomé Convention: STABEX and the Structural Adjustment Support Facility (SAP).

Under the STABEX scheme, the commitment of funds is a two stage process. Once a STABEX claim is determined to be valid and the amount of the transfer to be made is agreed, the funds are paid to a European bank account established by the ACP government concerned. Release of funds from this account requires co-signatures of the EU and ACP authorities and is based on the conclusion of a "framework of mutual obligations." This contract stipulates precisely how the funds are to be used in pursuit of the objectives of the STABEX scheme.

Under the SAP Facility, payment of the second instalment generally depends on whether the ACP State has complied with the conditions and reforms set out in the financing agreement.

The 1993 report of the Court of Auditors illustrates the kind of implementation problems that have arisen in

The Court of Auditors

The EU Court of Auditors reviews the implementation of European Development Funds (EDF), the financing mechanism for successive Lomé Conventions. Its main task is to see that the money was spent for the purposes for which it was allocated.

Audit activities focus on the management of EDF resources by EU institutions, primarily the Commission and European Investment Bank. The scope of the reports is, however, limited: the Court has no powers of interrogation and is concerned only with the financial administration of projects.

both schemes. As such, they indicate some of the possible pitfalls of phased programming.

Lessons Learned

Three major lessons on phased funding can be learned from the Court's observations on the implementation of STABEX and the SAP Facility. First, that progress and performance monitoring is difficult, second, that criteria for releasing funds need to be transparent, and third, that many ACP states have limited capacity to prepare and satisfy the obligations and tasks that are required.

Phased funding is difficult to monitor

The Commission is responsible for monitoring the implementation of the framework of mutual obligations before releasing subsequent STABEX payments. In practice, this turns out to be a difficult task. According to the 1993 Court of Auditors Report: "Despite the large size of the sums earmarked for STABEX, the central departments at the Commission have not established any procedure for monitoring the implementation of the mutual obligation frameworks" (Court of Auditors Report: p. 237).

A similar problem arose in the implementation of the SAP Facility. According to the Court of Auditors report: "Review of the financing agreements showed that the conditions were in fact worded in a such a way that it was possible to carry out a global appraisal of the implementation of them without any need to refer to precise quantified benchmarks and the specific measures did not always lend themselves to an unequivocal appraisal" (Court of Auditors report: p. 238-239).

The ensuing recommendation by the Court of Auditors is highly relevant for the introduction of phased programming: "When the financing agreements for the second round of programmes for the structural adjustment facility are concluded, more attention should be paid to the question of whether it is possible to verify the terms on which the funds are released. In this context it would be preferable, in the interest of greater efficiency, for the conditions adopted to be less ambitious and to provide less opportunity for the interpretation and discussion concerning compliance with them" (Court of Auditors report: p 239).

- *Transparency*

The absence of clear instructions and verification criteria affects the transparency of Lomé aid. The 1993 report provides evidence of problems of transparency in applying both the STABEX scheme and the SAP Facility. Reference is made to examples of a "particularly restrictive" interpretation of STABEX provisions and to "differences in treatment between ACP countries [that] are apparently not justified by technical reasons." Similar evidence was collected in relation to the SAP facility (see box below).

- *Capacity in ACP States*

According to the Court of Auditors, the failure of many ACP governments to draw up frameworks of mutual obligations, was a result of their failure at an earlier stage to provide the "substantial analysis of the

situation in the sector concerned" called for under Article 209 of the Fourth Lomé Convention.

In a recent internal memorandum on EU support for structural adjustment in ACP countries, the Commission recognised the difficulties in quickly mobilising resources under the SAP. The main difficulty is the reluctance or inability of ACP states to meet their commitments and embark on a stringent reform process. It also acknowledged that demands for reform were in several cases unrealistic in that they set unattainable targets.

This suggests that a more deep-rooted problem - weak institutional capacity in ACP states - prevents them from fulfilling their obligations stemming from the Lomé Convention.

The 1993 Court of Auditors report clearly signals that unless such underlying institutional and human capacity constraints in ACP states are addressed, implementation of STABEX and the SAP facility will not be accelerated. The threat to re-absorb resources if the ACP state fails to meet its targets will not change this.

Implications for the Mid-term Review

On the basis of these experiences, four suggestions can be useful for policy-makers involved in the mid-term review negotiations:

Court of Auditors Comments on Deployment of the Structural Adjustment Support Facility

The following examples show the extent of the discretion that has been allowed when releasing the second instalment of funds. Countries are able to get their second allocations without satisfying the conditions or reaching the objectives that were made when the facility was agreed. This is despite these targets being the ultimate means to ensure that the country has honoured its commitments to reform:

- in Mali, a second instalment of 14 million ecu was released despite the absence of an assessment required by the financing agreement
- in Zambia, a second instalment of 16.6 million ecu was released, although the rate of inflation and the increase in the money supply (two essential elements of the programme of structural adjustment) were above the levels set out in the framework paper that guided the programme of structural adjustment. Moreover, the protocol on the management of counterpart funds had not been concluded
- in Côte d'Ivoire, a second instalment of 5 million ecu was released at the end of December 1992, even though some of the conditions in the financing agreement had not been met. Payment was made at the beginning of 1993
- in Burkina Faso, payment of the second instalment of 5 million ecu was made on the basis of a generally satisfactory appraisal of the implementation of the programme, although the appraisal of certain key elements of the macroeconomic framework and specific conditions concerning release of the funds was negative

Source: Court of Auditors Report: p. 239.

1. Avoid Easy Solutions

Both the STABEX and Structural Adjustment Support facility sought to link resource deployment to performance. This was intended to strengthen the leverage of the Commission in the process of policy dialogue. However the Court of Auditors report suggests that linking resource deployment to carefully elaborated "frameworks of mutual obligations" could lead to significant delays in resource deployment, without any corresponding improvement in the developmental effectiveness of the resources deployed. Simply introducing phased programming will not improve the deployment and utilisation of NIP resources.

The new funding scheme should not be seen as a panacea. It may satisfy legitimate efficiency and accountability concerns of EU politicians and watchdog agencies, and it may even lead to a better allocation of scarce aid resources. But, the proof of the pudding is in the eating.

Will phased programming achieve greater development impact in the field; how can the risks of phased funding be avoided, and how can its short term nature be reconciled with the long-term needs of development? These are fundamental questions about the feasibility and potential effectiveness of such a new system. They merit a prominent place in the mid-term review negotiations.

2. Clarify Eligibility and Verification Criteria

To ensure a proper functioning of phased programming, both parties need to ensure that the qualitative objectives are realistic and that the basis for verification is transparent. In its interim report, the ACP-EU Joint Assembly Working Party on the Second Phase of Implementation of the Fourth Lomé Convention stressed several points that need to be clarified:

- the size of the initial allocation, and the elements that determine it
- the quantitative and qualitative criteria for allocating the second tranche
- the consultation mechanisms to be used in determining the size of the two allocations
- the allocation of unspent resources or left-overs from countries that failed to meet the conditions for the release of the second tranche. What mechanism will be used to re-deploy these resources, where and for what can they be re-deployed, and who decides, and according to

Further Readings

- ACP-EEC Joint Assembly. Working Party on the Second Phase of Implementation of the Fourth Lomé Convention. 1994. *Interim report, 2 February 1994*.
- EU. Court of Auditors. 1993. Annual report concerning the financial year 1992 together with the institutions' replies. *Official Journal of the European Communities C Series*, No. 309 of 1993.
- Wapenhans, W. 1992. *Effective Implementation, Key to Development Impact*. Washington DC : World Bank.

what criteria?

The interim report concluded that clear answers to these questions are essential to guarantee the transparency of resource deployment under NIPs.

3. Develop a New Culture of Partnership

If Lomé is to survive, new systems to ensure quality control and accountability may be needed. In a modern partnership, there should be room for a critical assessment of the recipient country's performance in fulfilling mutually agreed obligations. Phased programming can help to achieve this by linking provision of funds to performance and accountability.

However, partnership is a two-way street. The EU needs to be prepared to assume its part of the contract. This calls for the development and use of flexible and transparent mechanisms to ensure an equitable implementation of phased programming.

The main challenge will be to avoid current donor-driven approaches to programming that are detached from reality and available capacities on the ground. Thirty years of development experience has shown the limits of practices that are based on the latest aid fashions, cross-conditionality, quick and tangible results, and complicated bureaucratic procedures.

Inspiration can be found in the Wapenhans Report on World Bank portfolio performance. The report criticised the Bank for paying more attention to conditions for approval of projects by the Board than to the realities on the ground and the requirements for successful

implementation. It argued that the Bank's success is determined by "benefits on the ground ... not by loan approvals, good reports and disbursements". In the future, the focus should shift from "spending" to ensuring "effective implementation".

The innovations of the mid-term review, including phased programming, will yield little results in the absence of comprehensive efforts to create the institutional conditions for a proper utilisation of aid (Lomé) resources.

Both the ACP and the EU have an interest in moving in this direction in their consideration of phased programming. The key words are country differentiation, realism and dialogue. Country-specific approaches are necessary because conditions in ACP states are very different -- some have serious governance problems, several have made significant efforts to put their houses in order, others are long-standing democracies. Where the commitment of the ACP state is high, a more "relaxed" approach to the policy dialogue can be adopted.

Realism is necessary to define objectives and targets that are not over-ambitious, but adapted to what can be achieved in a state's political and socio-economic context.

Finally, the Commission needs to review the ways in which it conducts its policy dialogues with ACP countries. Instead of hiding behind technicalities, the EU could indicate the (political) reasons behind its restrictive interpretations of Lomé provisions and discuss them much more openly in the policy dialogue. Such openness is needed to help to build a stronger, and more business-like partnership.

4. Strengthen Institutional Capacities

Both parties should be prepared to address institutional capacity problems in managing Lomé funds.

This Report:

Policy Management Briefs are intended for policy-makers concerned with aspects of development. Drawing from work of ECDPM, its partners, and its associates, the aim is to provide succinct and readable summaries of current issues in the management of development policy. This brief draws substantially on the work of Paul Goodison from the European Research Office (ERO) in Brussels. While acknowledging his valued contribution, the author takes full responsibility for the text.

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The need for capacity-building in ACP States has long been recognised, but has received only lip-service so far. In this short-sighted approach all the parties involved are at the losing end. When ACP countries are unable to take full benefit of the Lomé provisions, important resources remain unspent.

Given the demanding nature of the task and the recurring under-staffing problems at different levels of the Commission, the concern with capacities is not just for the ACP countries. Capacity is also needed in the EU to manage implementation of the Lomé Convention itself.

It is questionable, however, whether or not the Commission, in addition to its existing

responsibilities, has the capacity to successfully prepare, monitor, and evaluate the tasks implicit in phased programming.

The current Convention has 369 articles, 9 protocols and a series of related annexes covering virtually every possible topic and sector. These are difficult to manage well and there are, in addition, many complex procedures and (joint) decision-making arrangements. Institutional capacities at the Commission already do not keep pace with the explosion in the tasks to be performed. Unless phased programming is carefully handled, and its implications are well-understood, its introduction may only add to these management problems.