

Understanding European Community Aid

Aid Policies, Management and Distribution Explained



Aidan Cox
Antonique Koning

with Adrian Hewitt, John Howell, Ana Marr



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Overseas Development Institute
London

European Commission
Brussels
1997

The authors accept sole responsibility for this book, drawn up on behalf of the Commission of the European Communities. The book does not necessarily reflect the views of the Commission.

A CIP Publication data record may be obtained from the British Library

ISBN 0 85003 396 9

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Published by the Overseas Development Institute
Portland House, Stag Place
London SW1E 5DP

Printed by Russell Press Ltd, Nottingham

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Acknowledgements

The authors would like to express thanks to the many individuals who have made it possible to write this book. We have valued the encouragement and advice received from Mr Sean Doyle, Mr Filiberto Ceriani-Sebregondi and Mr Sam McPherson, of the Evaluation Unit of DG VIII. Many others within DG VIII have also assisted us, particularly Mr Bruno Kruijer, and Mr Reis-Condé. In DG IB Mr Jacques Wunenburger was particularly helpful, and also Mr Oliveri, Mr MacDonald and Mr Cladakis provided us with useful statistics. In DG IA we received the cooperation of many individuals, especially Mr Vandermosten, Ms Albuquerque, Mr Condemi De Felice, and Mr Guyader. Mr Lester and Mr Nunnau assisted us in gathering information on the Tacis aid programme. Mr Mulcahy and Ms Palanza provided us with data on EC aid flows managed by the European Investment Bank, while Mr Barfod and Ms Palmero assisted us with information on the policies and aid managed by ECHO. On staffing figures we received help from Mr Fransi and Mr Richards of DG IX, Mr Sprietsma of DG IA, Mr Hanna of DG VIII and Ms Collet of DG I.

We also benefited from the help of staff of the Development Cooperation Directorate of the OECD, particularly the support and advice of Mr Art Fell and Mr Richard Carey, and the patient assistance of Ms Aimée Nichols. In addition, we should acknowledge the encouragement we received from the Heads of Evaluation of the Member States. Finally, we are especially grateful for the dedicated support of staff here at ODI, especially Ms Caroline Dobbing, Mr Peter Gee, Ms Jackie Hatton, and Ms Matty Thwaites, and to Margaret Cornell for her attentive copy-editing.

Preface

In the course of 1997 national and regional consultations have been held across Europe and the African, Caribbean and Pacific countries on the future of European Union relations with that group (the ACP group) of developing countries. ODI had the privilege of hosting the UK Consultation on 19 June 1997. It was attended by the European Commissioner for Development, the UK's Secretary of State for International Development, the former Commonwealth Secretary-General and the First Vice-President of the ACP–EU Joint Assembly, among others.

The Commission had opened up to broad debate its present and future policies on this matter by publishing a Green Paper on future EU–ACP relations. EU policy-makers were thus actively seeking empirically-based findings and advice from all quarters of 'civil society' – business, academia, the press and media, non-governmental organisations, backbench politicians and others – with a stress on reforming European policies so that they would prove more effective in addressing development needs in a rapidly changing world. The time-honoured concept of a Lomé Convention, in its current form, had been definitively abandoned for a fresher, new, consultative and more democratic approach, which we are glad to say was also heavily research-based.

This publication is part of this research base. Its origins lie in the decision, in June 1995, of the EU Council of Development Ministers to launch a major evaluation of European Community development aid. ODI was invited to establish the detailed inventory of the entire (and often disparate) aid programme. This publication by ODI sets out to provide a baseline for the evaluations of EC aid to the Africa, Caribbean, and Pacific countries (ACP), Asia and Latin America (ALA), and the Mediterranean and Middle East (MED) which are currently being carried out. It is also designed to serve as a public information document in its own right.

This book was funded by the Evaluation Unit (DG VIII) of the European Commission and follows terms of reference drawn up by the Heads of Evaluation Services of the Commission and the Member States. It describes the institutions, policies and legal basis of EC aid, together with a detailed inventory which – for the first time – analyses all EC aid flows on a sectoral as well as a geographical basis. The term 'European Community aid' refers to that portion of European Union aid that is managed by the European Commission and the European Investment Bank, as distinct from the bilateral aid programmes of the individual Member States. It comprises all concessional public flows to developing countries (Official Development Assistance) and to the transitional economies of Central and Eastern Europe and the New Independent States (Official Aid).

'European Community aid' has existed since the European Economic Community was established in 1957. All six original Member States accepted that measures to develop internal economic integration should be reinforced by a mechanism – initially the European Development Fund (EDF) – for pooling resources for external assistance, to be managed by the European Commission, while retaining their nationally managed aid programmes. This process of pooling resources has now developed to a point where European Community aid (both to developing countries and transitional economies) is among the five leading donor programmes in its own right. Aid from the European Union, both from the Member States individually and the portion managed by the European Commission, now accounts for over half of total world aid. It has not been a process without controversy, however. The growth in EC aid has been characterised by frequent changes, largely associated with the acquisition of new regional commitments, the establishment of new aid instruments and the need to reorganise Commission services in response to shifts in priorities. In the view of its detractors, EC aid has become too

disaggregated and too uncoordinated to have the impact on development that it should. To those more sympathetic to EC aid, its growth and diversification are a reflection of the vitality and adaptability of the European Union itself.

Europe's development cooperation policies have always been broad and multifaceted, going well beyond just the supply of financial aid. External trading relationships in coal, steel, agriculture and manufactures were determined from the start at European level. The Community began by giving special trade preferences to selected countries, later offering generalised preferences to the other developing countries as well. Cooperation with developing countries has, moreover, usually been offered as part of a package, often with aid, trade, cultural and putative political elements. Annexed to the Lomé Convention with the ACP countries, for instance, there is a privileged trading régime for sugar which for many countries is worth more than the aid components. Such trade assistance measures have a value, but the crucial difference is that only aid flows require the appropriation and attribution of accountable public funds. Trade preferences, in contrast, are relayed through markets and affect consumers and producers directly, without transiting through government budgets.

Our analysis concentrates upon the *aid* policies, institutions and, in expenditure terms, performance of the European Community aid programmes. All the Community's aid programmes are included, covering the ACP states, the Mediterranean and Middle East, Asia and Latin America and the CEECs and NIS. The first chapter provides an overview of the evolution of EC aid, describing the legal and political basis for current assistance programmes, and indicating how these are managed and how decisions are taken on the allocation of funds provided by the Member States. In the second chapter, there is an account of EC aid expenditure which provides a framework for comparing – across regions and countries – different categories of aid delivery and different sectors receiving aid. In the following four chapters, EC aid is described in more detail, through both statistical and institutional analysis, for each of the main recipient 'regions'.

The final chapter places Community aid in a global context, comparing the regional spread and sectoral emphasis of EC aid with those of the major OECD donors. If EC aid remains controversial, it is partly because debates about its quality are often singularly ill-informed and are diminished by a generally inadequate empirical base of information. This book should at least address the latter. We hope it does rather more.

ODI, London, July 1997

Acronyms

ACP	Africa, Caribbean and the Pacific
ALA	Asia and Latin America
BoPs	Balance of Payments Support
CAP	Common Agricultural Policy
CEECs	Central and Eastern European Countries
CFSP	Common Foreign and Security Policy
DAC	Development Assistance Committee of the OECD
DG IA, IB	Directorate General for External Relations
DG II	Directorate General for Economic and Financial Affairs
DG VIII	Directorate General for Development
DG IX	Directorate General for Personnel and Administration
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Community
ECHO	European Community Humanitarian Office
ecu	European currency unit, worth on average 1.297 US \$ (1995)
EDF	European Development Fund
EEC	European Economic Community
EIB	European Investment Bank
EU	European Union
IDA	International Development Association
IRDP	Integrated rural development project
LDCs	Less developed countries
LICs	Low Income Countries
LLDCs	Least developed countries
MED	Mediterranean programme
NGO	Non-governmental organisation
NIP	National Indicative Programme
NIS	New Independent States (of the Former Soviet Union)
OCTs	Overseas Countries and Territories
ODA	Official Development Assistance
OA	Official Aid (to CEECs and NIS)
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
Phare	EC initiative for the CEECs
PNG	Papua New Guinea
RIP	Regional Indicative Programme
Tacis	EC initiative for the New Independent States and Mongolia
SME	Small and medium enterprise
Stabex	System for the stabilisation of export earnings from agricultural commodities system
Sysmin	Special financing facility for the mining sector (under the Lomé Convention)

Executive Summary

The Nature of EC Aid (Chapter 1)

The European Community (EC), as a distinct entity apart from the bilateral aid programmes of the individual Member States, has become the *world's fifth largest aid donor* in the 1990s, providing in 1995 \$7.1 billion or 10.5% of all aid disbursed by the OECD countries. This reflects the rapid growth of the Community's aid programme over the past three decades, when it increased steeply in real terms and more than tripled as a proportion of total OECD aid. Indeed, taken together European Community and European Union Member States' aid accounted for well over half (60%) of world aid in 1995.

Since the 1970s, EC aid has changed not only in volume but also in terms of its regional composition. Currently, EC aid to *sub-Saharan Africa* accounts for aid disbursements of \$2.5bn, far larger than to any other region. Although aid volumes to sub-Saharan Africa have remained more or less constant, the region has experienced a large decline in its share of total allocable EC aid, standing in 1994–95 at under 40% of EC aid, down from over 70% at the beginning of the 1970s and 60% a decade later. In contrast, the share to a new group of beneficiaries, the *Central and East European Countries (CEECs)* and the *New Independent States (NIS)*, increased rapidly in the 1990s, accounting for almost a quarter of all EC aid disbursements for 1994–95.

Countries in *Latin America and the Caribbean* and those in the *Middle East and Southern Europe* were the joint third largest beneficiaries of EC aid, each receiving over \$600m, and seeing its share of total EC aid rise from 6% in the 1970s and 1980s to 9% in 1994–95. *Asia* currently receives nearly \$500m, or 7.2% of EC aid, representing a substantial decline from a peak of 21% in 1980–81, and a small fall from the 1970–71 figure of 9%.

The changing *regional composition* of European Community aid reflects to a large degree the *political basis for European aid-giving*. The leading recipients in the early 1970s, after India and Bangladesh (major recipients of food aid), were African and francophone, in line with the preponderance of former French and Belgian colonies among the 'associated countries'. More recently, the countries of Central and Eastern Europe, the New Independent States of the former Soviet Union, Rwanda, South Africa and the Palestinian Administrative Areas have loomed large among EC aid recipients (see Chapter 1, Table 1.1). This shift followed the end of the Cold War, democratic elections in South Africa and movements towards peace in the Middle East, as well as conflict in Rwanda and Burundi and the states of former Yugoslavia.

The *main sources of EC aid* over the 1986–95 period were the *EC Budget*, providing over half (56%) of all EC aid, and the *European Development Fund (EDF)*, which provided over a third (37%) of commitments. The remainder, some 7%, was financed from the 'own resources' of the European Investment Bank (EIB). The relative weight of the EDF has fallen from an average of 52% for 1986–89 to 30% in the 1990s, while that of the Budget grew from 40% to 64%. This shift is largely as a result of the initiatives for the CEECs (Phare) and the New Independent States (Tacis) in the 1990s. The share of EIB flows has also declined slightly from 8% to 6%.

The vast majority (84%) of EC aid goes to the developing countries and qualifies as *Official Development Assistance (ODA)*. The remaining 16% of commitments has gone to the transitional economies of Central and Eastern Europe and the New Independent States, and is therefore classed as Official Aid (OA). Between 1986 and 1995 some 5 bn ecu out of a total of 51 bn ecu of EC aid commitments were provided as *concessional loans*. Most of these came from the *European*

Investment Bank's (EIB) own resources, with some financed from the EDF, and a small remainder from the EC Budget. This means that over 90% of EC aid, as defined in this exercise, was provided in *grant* form.

EC aid is managed by the European Commission and the EIB. The Commission has four Directorates General which are dealing with development cooperation, mainly on the basis of geographical responsibilities, and a separate Directorate for the management of humanitarian assistance. The **management of Community aid** is described in detail in Chapter 1, including an examination of the evolution in the numbers of staff, the development of overseas delegations and the size of salary costs relative to each of the regional programmes and the European Community Humanitarian Office (ECHO). The fora for **decision-making** are also described.

Categorising EC Aid (Chapter 2)

Hitherto, the inadequate or inconsistent categorisation of EC aid (with the exception of the European Development Fund) has not allowed a clear, unified presentation of all the development purposes to which Community aid has been put. This study, funded by the Evaluation Service of the Directorate General for Development, by gathering data at a highly disaggregated level and recategorising it according to a standard sectoral classification, provides comprehensive information on the development purpose of over 93% of all EC aid. The system is based on (but adapted beyond) the OECD Development Assistance Committee (DAC) categories.

Five main instruments have been identified, with the fifth – Project Aid – subdivided into six sectors, making a total of 11 distinct sectors:

1. **Programme Aid** (support to structural adjustment, Stabex, Sysmin)
2. **Food aid (developmental)**
3. **Humanitarian Aid**
4. **Aid to NGOs**
5. **Project Aid**
 - 5.1 Natural Resources Productive Sectors (*agriculture, forestry, fisheries*)
 - 5.2 Other Productive Sectors (*industry, mining & construction, trade, tourism, investment promotion*)
 - 5.3 Economic Infrastructure & Services (*transport & communications, energy, banking & business*)
 - 5.4 Social Infrastructure & Services (*education, health & population, water, other*)
 - 5.5 Governance & Civil Society
 - 5.6 Multi-sector/Crosscutting (*environment, women in development, rural development, other*)
6. **Unallocable**

Overview of the Main Instruments and Sectors of EC Aid

Aid to the first four instruments increased considerably during 1991–95, reaching nearly 13 bn ecu as against nearly 7 bn ecu for 1986–90. Project aid (the fifth instrument) remained relatively stable as a proportion of total allocable aid, accounting for less than 55% of all aid during the 1988–92 period, though it subsequently rose to about 60%. Overall, the volume of aid through some instruments increased much faster than others, with the result that some instruments increased their share of total aid at the expense of others between the 1986–90 and 1991–95 periods:

- *humanitarian aid* increased enormously, more than doubling as a proportion of total aid to 13%, partly due to the creation of ECHO and the crises in former Yugoslavia and Rwanda/Burundi;
- *programme aid* declined from 17% to 13%, due largely to a fall in Stabex, since support to structural adjustment and Sysmin maintained their shares;
- *food aid* declined sharply as a proportion of the whole programme, from 21% to 14%;
- *aid to NGOs* almost doubled over the period, thereby retaining a constant share (2.5%) of the entire

programme;

- with respect to *project aid*, aid to almost every sector and sub-sector increased in volume over the two periods, and in most cases the sectoral or sub-sectoral shares increased or remained stable (see below).

EC Aid through Instruments

Programme Aid:

Support for structural adjustment is provided as balance of payments support, in kind or foreign currency, which supports the central budget of recipient countries. Most of these concessional funds went to the ACP countries and were financed from the EDF (see Chapters 2 & 3), while a small amount of structural adjustment support has been allocated to Mediterranean countries from the EC budget since 1992.

The category 'programme aid' also includes two distinct commodity compensation schemes – Stabex and Sysmin – for agricultural exports and the mining sector. These are financed from EDF contributions to ACP countries, and are discussed in detail in Chapter 3 (between 1987 and 1991 a 'Stabex-type' facility was also provided to a few non-ACP countries).

Between 1986 and 1995, almost 6 bn ecu has been committed to programme aid, making this the third largest sector after economic infrastructure and food aid. More than half of this (3.2 bn ecu) was committed through the Stabex facility. Support for structural adjustment accounted for 42% (2.5 bn ecu) of all programme aid commitments, while 7% was committed through Sysmin.

Food Aid:

Food aid was the first instrument to be introduced outside the framework of existing cooperation agreements (introduced in 1967). It was originally managed according to the rules of the Common Agricultural Policy (CAP), but over the years food aid policy was gradually reformed (in 1983, 1986 and 1996), delinking it from the CAP and integrating it more firmly into Community development policy. From 1986 it has been managed by a special Food Aid Service in DG VIII.

- Food aid formed the second largest area of EC aid over the decade 1986–95 (after economic infrastructure and services); commitments totalled 7.5 bn ecu.
- Food aid has traditionally represented a large proportion of EC aid, accounting for as much as 40 to 50% of EC Budget aid in the late 1980s.
- Recently its share of total aid has declined to around 10%, although its volume has increased from 3.2 bn ecu in the 1980s to 4.2 bn ecu in the 1990s.

Humanitarian Assistance:

European Community humanitarian assistance encompasses a broad range of actions, from providing emergency relief to victims of natural disasters and wars, to disaster prevention and preparedness, to assisting refugees, or to carrying out short-term rehabilitation and reconstruction work. Account is taken of this by differentiating between rehabilitation assistance and other humanitarian aid (mainly relief actions).

Humanitarian aid commitments totalled 4.8 bn ecu for the 1986–95 period, making it the fourth largest sector alongside social infrastructure and services. The Commission created the European Community Humanitarian Office (ECHO) in 1992, and since 1993 over half (1.7 bn ecu) of all EC humanitarian aid has been financed through ECHO's budget lines. The EDF has provided over 0.5 bn ecu to the ACP countries since 1986, while other budget lines have financed over 2 bn ecu over the decade. During the 1986–95 period:

- the largest proportion (totalling 1.5 bn ecu) of humanitarian assistance went to Central and Eastern Europe (very largely to the states of former Yugoslavia); ACP countries received 1.4 bn ecu;
- the largest recipient countries were the states of former Yugoslavia (1244 m ecu); Palestinian Administrative Areas (387 m ecu); Rwanda/Burundi (259 m ecu); Angola (177 m ecu) and Sudan (140 m ecu);
- EC aid for rehabilitation doubled in 1994 and tripled in 1995 (to 300 m ecu), following the establishment of the Special Initiative for Africa (covering the Horn and Southern Africa).

Aid to NGOs:

EC aid supports the work of NGOs both by ‘contracting’ NGOs to provide particular services and through its co-financing scheme (see Box 2.3). EC aid *through* NGOs, where the NGO is contracted to implement Commission-designed projects and programmes, is accounted for under the total of aid to that particular sector (eg agriculture, or humanitarian aid), and cannot currently be quantified separately.

The NGO co-financing scheme provides funds up to a maximum of 500 000 ecu for any one project for a maximum of five years, usually up to 50% of the total project cost.

- EC aid to NGOs has increased significantly in recent years, doubling in the 1990s to nearly 800 m ecu (1991–95), though its share of total aid remains constant (about 2.5%).
- Most aid to NGOs is through the NGO co-financing scheme, which dates back to 1976, and went mainly to the ACP and Latin American countries.
- Central and Eastern European countries received 90 m ecu through Phare, while the New Independent States have as yet received very little.
- The largest recipients were Chile (86 m ecu), Brazil (58 m ecu), India (39 m ecu), Peru, Nicaragua, Bolivia, Ethiopia (each about 30 m ecu), Cambodia, Philippines, Zaire and Burundi (each about 20 m ecu).

Project Aid

The distinction between the four instruments and project aid is an imperfect one, since aid through instruments such as structural adjustment, Stabex, Sysmin, NGOs or humanitarian aid may be designed to assist the social and economic infrastructure sectors, natural resources or governance and civil society, among others. Of particular importance is the way in which counterpart funds generated by structural adjustment assistance are used to support the social sectors (health and education in particular) – see Box 3.2.

Natural Resources Productive Sector:

- EC support to the *rural development and agriculture* sectors has traditionally been an important focus of EC aid, accounting for over one-fifth of all aid in the 1980s, but this fell to only 8% in the 1990s.
- EC support to *forestry* has increased in the 1990s as international concern for tropical forests has grown. Aid increased six-fold to over 350 m ecu in the 1990s.
- No clear definition exists of *environment* projects, but activities funded with environmental conservation as their specific aim received over 800 m ecu (3% of total aid) in the 1990s, up from 1.4% of total aid in the 1980s. Most went to the CEECs (44%), and Asia (18%), closely followed by the ACP and Mediterranean and Middle East.

- EC aid to the *fisheries* sector promoted efforts towards greater policy coherence, improved enforcement of regulations, private sector competitiveness, research, and conservation. Aid amounted to over 200 m ecu between 1986 and 1995.

Other Productive Sectors:

This encompasses a wide range of activities including industry, mining, construction, trade policy and administration, tourism policy and management and investment promotion.

- The largest sub-sector by far is *industry, mining and construction*, for which commitments totalled 2.5 bn ecu, or 82% of all aid to the sector.
- Most industry, mining and construction aid went to *ACP countries*, principally Nigeria, Mauritania, Guinea, Mali, Zambia and Papua New Guinea, all of which received over 100 m ecu. However, *Egypt* was the largest recipient (300 m ecu).
- EC aid for *investment promotion* grew significantly in the 1990s, mainly due to the development and success of the European Community Investment Partners (*ECIP*) scheme.

Economic Infrastructure and Services:

With activities ranging from transport and communications, to energy, banking and business services, economic infrastructure and services formed the largest sector of EC aid, with commitments totalling over 8 bn ecu, representing nearly 18% of total EC aid.

- Aid for economic infrastructure and services was heavily *concentrated (almost 90%) in three regions*: the ACP (50%), CEECs (26%) and the NIS (14%).
- ACP countries received 70% of *transport and communications* aid, and the CEECs received nearly 80% of the *banking and business services* sub-sector aid, reflecting the concentration of the Phare and Tacis programmes in this area.
- Half of all *energy* aid went to the ACP and a quarter to the NIS, due in part to a concentration on nuclear safety in the case of the NIS.

Social Infrastructure and Services:

Commitments to education, totalling 2.2 bn ecu, and to health and population, 1 bn ecu, formed two-thirds of all aid to this sector. In the 1990s Community policies on the health and population sub-sector emphasised the need for greater coordination between Community and Member State aid, and developed strategies for action in areas such as drugs policy and HIV/AIDS. EC aid policy on education and training was clarified in a Council Resolution in 1994 which focused on increasing access to education, reducing the bias against the education of girls and improving quality as the priority areas.

- Aid to *health and population* grew rapidly from less than 200 m ecu for 1986–90 to nearly 900 m ecu for 1991–95.
- The *ACP region* received half of the 1 bn ecu committed to health and population over the decade.
- Between 1991 and 1995 the ACP also benefited from an allocation of 370 m ecu of *counterpart funds* to health and population generated by structural adjustment financing over the period.
- Over 60% of aid for *education* for 1991–95 went to the *CEECs and NIS*; the ACP received 21%.
- The former Soviet Union and the Russian Federation alone received nearly a fifth of all EC aid to education (1986–95); Nigeria and Uganda were the largest ACP recipients.
- The ACP also benefited from *counterpart funds* channelled towards education, representing

280 m ecu for 1991–95, effectively doubling commitments for that period to the ACP (see Chapter 4).

Main Regional Programmes of European Community Aid

EC Aid to the African, Caribbean and Pacific States (Chapter 3)

The *70 African, Caribbean and Pacific states* received 24 bn ecu between 1986 and 1995, or half of all allocable EC aid, and in 1995 totalled 2.6 bn ecu. More than three-quarters of this was provided through the European Development Fund (EDF) – a five-yearly financial allocation from the EU Member States, 14% of commitments were from the EC Budget and 7% from concessional European Investment Bank loans. The *Lomé Convention* sets out the principles and objectives of Community cooperation with the ACP. Its distinguishing characteristics include: the partnership principle; the contractual nature of the relationship; the combination of aid and trade aspects; the long-term (five-year) perspective.

- Most ACP aid (78%) went to sub-Saharan Africa; the *main beneficiaries* were Ethiopia, Côte d'Ivoire, Mozambique, Cameroon and Nigeria.
- The three components of the *programme aid* instrument – structural adjustment assistance, Stabex and Sysmin – which are largely specific to the ACP (95% of all programme aid commitments) make up about a quarter of all aid to the group.
- *Stabex*, which provides compensation for losses of export earnings from non-metal commodities, has formed an important component of aid to the ACP, amounting to 3.1 bn ecu. Of the main recipients – Côte d'Ivoire, Cameroon, Ethiopia, Papua New Guinea, Sudan, Kenya, Uganda and Senegal – the first two depended on Stabex for more than half of their EC aid flows.
- *Food aid* remained relatively important for the ACP countries. Main recipients were Ethiopia, Sudan and Mozambique. *Humanitarian assistance* rose substantially in recent years due to the crisis in Rwanda and Burundi.
- *Project aid* which accounted for 58% of all EC aid to the ACP went mainly to the transport and communications sector (11%), followed by industry, mining and construction (8%), social infrastructure (7.4%), rural development (6.9%) and agriculture (5.8%).
- The more developed ACP countries, such as Nigeria, Kenya, Zimbabwe, Côte d'Ivoire, Jamaica and Papua New Guinea, benefited most from the concessional *loans managed by the EIB*, half of which went to the industry and energy sectors.
- *South Africa*, not included in the Lomé Convention until 1997, has received EC aid from the Budget, largely through a Special Programme for Assisting the Victims of Apartheid; in 1995 this was extended to form the European Programme for Reconstruction and Development. South Africa received commitments of nearly 600 m ecu over the decade, of which over half dates from the past three years (1993–95).

Mediterranean and Middle East (Chapter 4)

The European Community has been committed to support its neighbouring countries in the South since the Treaty of Rome. Agreements were, however, mainly bilateral until the beginning of the 1990s, when a more regional approach was adopted (the *New Mediterranean Policy*).

- Aid to the Mediterranean and Middle Eastern countries has increased from 1.8 bn ecu for 1986–90 to 4.1 bn ecu for 1991–95, and totalled 870 m ecu in 1995; most went to East and Southern

Mediterranean (the Maghreb and Mashraq countries), and aid to the Palestinian Administrative Areas has also recently increased.

- **Main recipients** of aid in the region were Egypt (mainly through food aid), Tunisia and the Palestinian Administrative Areas. The latter also received considerable EC contributions through UN and NGO co-financing.
- **Humanitarian assistance** and **food aid** together accounted for a fifth of all aid to the region.
- **Structural adjustment assistance** grew from zero to 310 m ecu (1992–95 total).
- **Social infrastructure and services** (mainly through support to water and sanitation projects) and **natural resources** each accounted for over a tenth of all aid to the region, and represented the largest components of project aid.
- **Regional and horizontal cooperation**, which is a form of cooperation between non-state actors (such as universities) in Europe and the Mediterranean, has been growing since the introduction of the New Mediterranean Policy, which created the Med-programmes (see Box 4.1).
- Concessional **loans** managed by the EIB accounted for a quarter of all EC aid to the Mediterranean and Middle East. The East and Southern Mediterranean countries received almost all of this; it was concentrated particularly in the industry, mining and construction and water and sanitation sub-sectors.

Asia and Latin America (Chapter 5)

Whereas development cooperation between the European Community and the associated colonial and ex-colonial countries (later to become ACP countries) dates back to the Treaty of Rome in 1957, the Community's aid relationship with Asia and Latin America (ALA) is more recent. A programme of financial and technical cooperation with the ALA countries was formally established in 1976, though limited, mainly trade, cooperation, through the Generalised System of Preferences, had occurred before that. The establishment of a new legal basis in 1992 and the development of so-called '**third generation**' agreements (with Latin American countries) strengthened EC-ALA relations, providing for five-year programming and enhancing the profile of economic cooperation.

- Aid to the ALA countries has increased from 2.3 bn ecu for 1986–90 to 4.4 bn ecu for 1991–95; however this represents a declining share of total allocable aid, from 15.3% down to 13.6%. Commitments to Asia totalled 700 m ecu in 1995, and to Latin America nearly 500 m ecu.
- The largest Asian recipients over the 1986–95 period were **India** (close to 1 bn ecu), **Bangladesh** (nearly 700 m ecu), and Philippines, China and Pakistan (each over 260 m ecu).
- The main Latin American recipients were **Peru** (320 m ecu), **Nicaragua and Bolivia** (each about 250 m ecu), and Guatemala and El Salvador with nearly 190 m ecu.
- Latin American countries received far more **aid per capita** than Asian countries, with 13 Latin American countries receiving an average of over 5 ecu per person (1986–95), compared with only 4 Asian countries.
- Both regions were major beneficiaries of aid through three instruments: food aid; humanitarian assistance; and aid to NGOs. **Food aid** stood at 16% of all aid in both regions in the 1991–95 period (down from the 1980s), while **humanitarian aid** accounted for a fifth of all aid to Asia in the same period. Aid to **NGOs** remained constant but accounted for a far higher share of Latin American aid (14%).

CEECs and NIS (Chapter 6)

Although there were occasional and small flows to a number of Central and East European countries (CEECs) in the 1980s, the commencement of the *Phare* programme in 1990 marks the beginning of significant EC aid to the region. Similarly, for the New Independent States of the former Soviet Union, significant EC aid commitments began only with the establishment of the *Tacis* programme in 1991. Aid flows through Phare and Tacis were augmented from 1990 by food aid funded through the *European Agricultural Guidance and Guarantee Fund* (EAGGF), and from 1993 by large flows of *humanitarian aid* managed by ECHO. Aid commitments to the CEECs reached 1.4 bn ecu in 1995 compared to 820 m ecu to the NIS.

- Aid was heavily concentrated in a limited number of countries, especially in the *NIS* where one-third went to the Russian Federation, and nearly 10% to the Ukraine, though this is not disproportionate to their population, and one-third was regional; the top recipients of aid to *the CEECs* were Yugoslavia (with 18%, much in the form of humanitarian aid), Poland (17%), and Romania, Hungary and Bulgaria with less than 10% each.
- *Humanitarian assistance* accounted for over a fifth of all allocable aid to the CEECs (two-thirds went to the states of former Yugoslavia), and a tenth of all aid to the NIS.
- *Social infrastructure and services* received over a tenth of all aid in both regions, and Phare countries received substantial sums of environmental assistance.

EC Aid in a Global Context (Chapter 7)

The growth in Community aid must be seen in the context of a generally upward trend in total OECD assistance to developing countries. However, while US aid remained constant in real terms, the EU Member States more than tripled their disbursements from \$11.3bn to \$38.6bn, including their contributions to the EC programme. Japanese aid has also risen consistently, from a level only half that of the US in 1984, to the status of the world's largest donor by 1993, and with disbursements of almost \$15bn in 1995.

- Nearly 70% of the total rise in OECD aid is attributable to the growth of EC and Member State aid, with the remaining third due to Japan. In 1995 EC and Member State aid accounted for 59.5% of world aid.
- EC aid has seen its share of OECD aid rise from 5.6% for the 1984–89 period to 9% for 1990–5 (making it the fifth largest DAC donor), and its share of total European Union aid has increased from 13% to 18% over the same period.
- European Community aid accounted for a quarter of all multilateral aid, making the Community the second largest 'multilateral' donor, after the International Development Association of the World Bank.
- The Community was the second largest donor (after Member State aid) to sub-Saharan Africa, providing 12% of all aid to the region, more than the USA (10%) or Japan (9%), over the 1986–94 period.
- The Member States and EC together provided nearly 70% of OECD aid to the CEEC and NIS for the 1990–94 period.
- In the 1990s an average of 57% of average DAC bilateral aid went to the poorest countries (LLDCs and LICs), compared to 53% of EC aid.

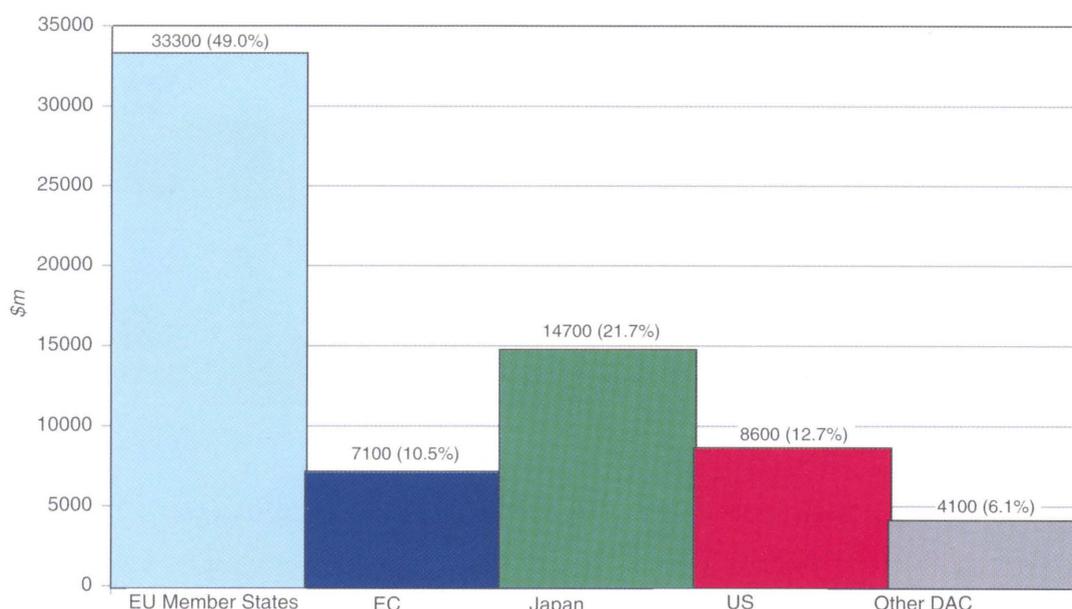
1

The Nature of European Community Aid

EC Aid Today

The European Community (EC) became the world's fifth largest aid donor in the 1990s, providing in 1995 \$7.1bn or 10.5% of all aid disbursed by OECD countries. This reflects the rapid growth of the Community's aid programme¹ over the past three decades, when it increased steeply in real terms and more than tripled as a proportion of total OECD aid. European Community and European Union Member States' aid together accounted for well over half of total OECD aid in 1995 (see Figure 1.1).

Figure 1.1: OECD Aid in 1995 (disbursements \$m)



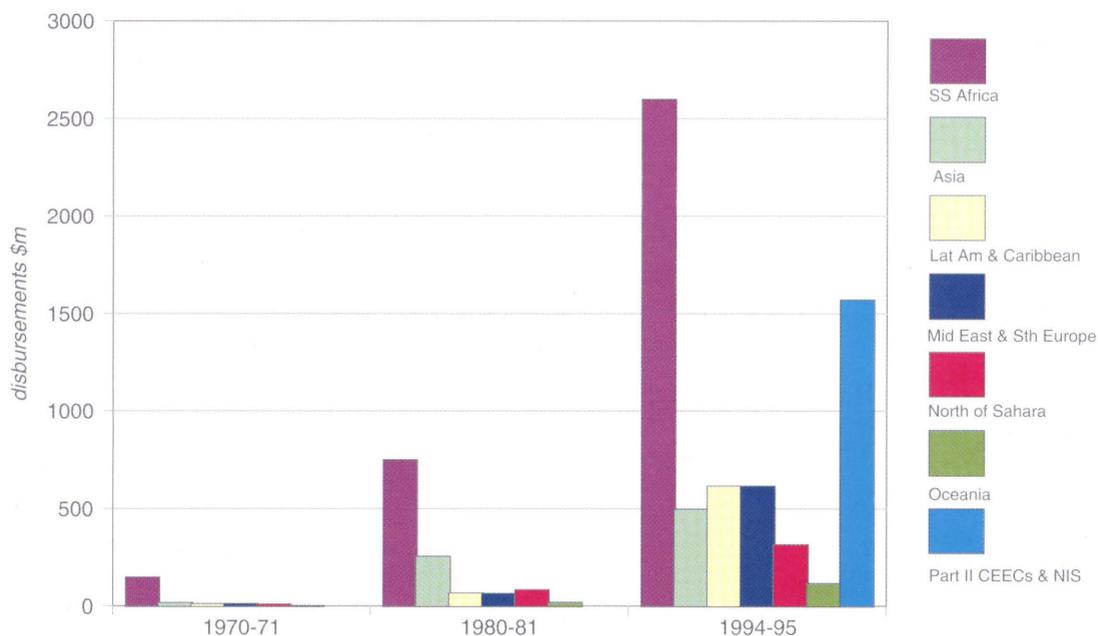
Source: EC data, ODI database 1997; other data, *Development Cooperation*, OECD, DAC, 1997

Since the 1970s EC aid has changed not only in volume but also in terms of its regional composition. Today sub-Saharan Africa accounts for EC aid disbursements of \$2.5bn, far larger than any other region. However, sub-Saharan Africa has experienced a substantial decline in its share of total allocable EC aid, standing in 1994–95 at under 40% of EC aid, down from over 70% at the beginning of the 1970s and 60% a decade later. In contrast, the share to a new group of beneficiaries, the Central and Eastern European countries (CEECs) and the New Independent States of the former Soviet Union (NIS), increased rapidly in the 1990s, with disbursements reaching \$1.6bn for 1994–95, or 23% of all EC aid, up from almost zero prior to 1990 (see Figure 1.2).

¹ 'European Community (EC) aid' includes that portion of European Union aid that is managed by the European Commission and the European Investment Bank (EIB). It comprises all concessional flows to countries outside the EU, ie Official Development Assistance (ODA) to developing countries, and Official Aid (OA) to Part II aid recipients (CEECs and NIS).

Countries in Latin America and the Caribbean and those in the Middle East and Southern Europe were the joint third largest beneficiaries of EC aid. Each region received average disbursements of \$615m for the 1994–95 period, and each saw its share of total EC aid increase to 9%, up from under 6% in the 1970s and 1980s. Asia currently receives nearly \$500m or 7.2% of EC aid, representing a significant decline from a peak of 21% in 1980–81, and a small decline from the 1970–71 figure of 9%. Oceania received some \$117m, its share rising from 1% in 1970–71 to 1.7% for 1994–95 (see Appendix 2).

**Figure 1.2: Distribution of EC Aid by DAC Region 1970–95
(average annual disbursements \$m)**



Source: 1994–5 data, ODI database 1997; other data, *Development Cooperation*, OECD, DAC, 1997

Main Trends in Size and Distribution

Since 1986 the pace of change has accelerated, and the main trends are analysed below. For the purposes of comparison, the introduction above and Chapter 7 examine aid disbursements in US dollars using the OECD DAC regional classification. The rest of this study, however, uses the Commission's own regional categories² and the ecu, thus approaching an analysis which corresponds closely to the political and administrative realities which have influenced the development of the Community's aid programme. Aid *commitments*, which represent a decision to commit a certain sum of aid, are used more often than aid *disbursements*, which indicate the amount actually spent in a country or region, since the commitments data provide fuller and more accurate information on the country allocation and the intended use of the aid.

² These are: Africa, Caribbean and the Pacific (ACP); Mediterranean and Middle East (MED); Asia and Latin America (ALA); the Central and Eastern European countries (CEECs); and the New Independent States (NIS).

The rapid rate of growth and change in the regional composition of EC aid is reflected in the shift in its main recipients (see Table 1.1, and Appendix 1 for a comprehensive list). As the programme has grown overall the top 15 recipients have received a smaller share of total aid, falling from nearly two-thirds for 1970–74 to around a third for 1994–95. Although aid volumes to the Africa, Caribbean and Pacific (ACP) region have increased over the past decade (see particularly Figure 1.4 showing actual aid disbursements), the ACP programme has become less prominent in the overall EC programme. Thus, whereas in 1970–74 13 of the top 15 recipients were ACP countries (all from sub-Saharan Africa and all but one francophone), by 1990–94 this had fallen to 6, and in 1994–95 to 7, with only one in the top five. Moreover, only 3 of these highest-ranking ACP states (including Rwanda) were francophone. During the 1980–84 period 3 recipients of the Mediterranean and Middle East programme – Turkey, Egypt and Morocco – featured, and 2 from Asia, India and Bangladesh (having headed the list in 1970–74). By the 1990–94 period, however, the Mediterranean and Asian countries scarcely featured in the top 15, and only 5 ACP countries remained, due to large commitments made to the CEEC and NIS countries in transition (notably Yugoslavia, Poland and the Russian Federation).

Table 1.1: Major Recipients of EC Aid (Share of total aid committed, % and annual averages by period, \$m)

1970–74	%	1980–84	%	1990–94	%	1994–95	%
India	6.5	India	6.3	Poland	3.4	Yugoslavia (ex)	4.0
Bangladesh	6.4	Ethiopia	4.3	Yugoslavia (ex)	3.4	Rwanda ^a	3.1
Senegal	5.5	Turkey	3.8	Egypt	3.0	Egypt	2.7
Mali	5.4	Bangladesh	3.4	Ethiopia	2.8	Poland	2.6
Niger	5.1	Egypt	3.3	Russian Fed	2.2	Russian Fed	2.5
Burkina Faso	4.5	Sudan	2.9	Côte d'Ivoire	2.0	Ethiopia	2.1
Madagascar	4.4	Tanzania	2.6	Romania	1.8	Palestinian Areas	1.7
Zaire	4.1	Senegal	2.3	Soviet Union (ex)	1.8	Angola	1.6
Ivory Coast	4.1	Somalia	2.2	Mozambique	1.7	South Africa	1.6
Cameroon	3.7	Zaire	2.1	Hungary	1.7	Côte d'Ivoire	1.5
Chad	3.0	Morocco	2.0	Cameroon	1.6	Mozambique	1.4
Somalia	3.0	Ghana	1.8	Rwanda ^a	1.5	Morocco	1.4
Mauritania	2.9	Madagascar	1.8	Nigeria	1.5	Papua New Guinea	1.3
Rwanda	2.2	Uganda	1.8	Bangladesh	1.5	Burkina Faso	1.2
Central African Rep.	2.0	Burkina Faso	1.8	Palestinian Areas	1.5	Uganda	1.2
Top 15: total, \$m	218	Top 15: total, \$m	638	Top 15: total, \$m	2285	Top 15: total, \$m	2846
Top 15: % total EC	62.8	Top 15: % total EC	42.5	Top 15: % total EC	31.4	Top 15: % total EC	31.2
Total EC aid, \$m	347	Total EC aid, \$m	1500	Total EC aid, \$m	7283	Total EC aid, \$m	9122

Note:

^a Includes \$318m for humanitarian action in Rwanda and Burundi for 1994–95

Source: 1970–1984 data supplied by DAC; 1990–1995, ODI database 1997

Figures 1.3 and 1.4 illustrate the growth in the volume of EC aid to every region over the decade. The most obvious development has been the sharp rise in aid to the Central and East European countries and the New Independent States of the former Soviet Union since 1990, following the introduction of the Phare and Tacis programmes. Though the trend in commitments and disbursements to each regional programme is up in all cases, trends in their share of the total programme vary (see Table 1.2). Commitments to the ACP region declined from 67% of total allocable aid for 1986–90 to 42% for 1991–95. Other shifts in regional shares were, with the exception of the CEEC and NIS, very modest in comparison. Asia was the only other region to experience an appreciable decline in its share of

allocable aid from 9.2% to 7.7%. Aid commitments to Latin America remained constant at about 6%, while the Mediterranean benefited from a modestly increased share, rising from 11.8% for 1986–90 to 12.7% for 1991–95. Aid to the CEECs and the NIS, on the other hand, rose rapidly. These economies in transition received commitments of only 5% for the 1986–90 total, 90% of it in 1990 when Phare had just begun and Tacis had not yet been created, but their share rose to 30% during the 1991–95 period. Of the two regions, aid to the CEECs (77% of it from Phare) grew most rapidly, rising from 845 m ecu in 1991 to 1446 m ecu in 1995, compared with a rise from 615 m ecu to 821 m ecu for the NIS.

Table 1.2 shows that EC aid disbursements are invariably lower than commitment levels, owing to the time lag between decisions to commit aid and the disbursement of the funds, the continuing increase in committed aid levels and, of course, the suspension or cancellation of some commitments before they are disbursed. For the 1986–95 period disbursements totalled 72% of commitments, though the ratio varied between different regional programmes, being lowest for the relatively new aid programmes to the CEECs and NIS (57% and 53% respectively), reflecting the ambitious nature of these programmes.³ However, there is also a lag in long-established programmes, notably those to Asia and Latin America, for which disbursements totalled 61% and 63% of commitments respectively. This may be partly explained by the fast growth of these programmes since the end of the 1980s, though the Mediterranean programme, which actually experienced a faster growth in the 1990s, achieved a disbursement ratio of 78% for the same period. A further factor may be that Asia and Latin America (apart from several Caribbean countries) are not eligible to receive support for structural adjustment or for Sysmin (which is confined to Lomé Convention countries) and receive only tiny amounts of Stabex. Such funds, concentrated in sub-Saharan Africa, are by their nature quick-disbursing and undoubtedly contributed to the high ratio of disbursements to commitments (78%) through the long-established ACP programme. Many factors affect the rate at which aid is disbursed, including the different capacities of countries (or regions) to absorb and spend aid, as well as differences in operational policies and procedures among Commission programmes. Not surprisingly, disbursements follow a steadier trend than commitments, which can peak in a year when particularly large projects or programmes are agreed, whereas the subsequent disbursements are spread out more evenly (see Figures 1.3 and 1.4).

The Political Context

When looking at the shifts in volume of EC aid shown in Figure 1.2, it is clear that EC aid has been responsive to political and economic changes over the past three decades. Comparing four periods in time, 1970–74 (before the first enlargement of the European Economic Community (EEC) and essentially before the OPEC oil crisis); 1980–84 (as Africa's economic crisis was fully setting in, during Mexico's first debt crisis but before the accession of Spain and Portugal); 1990–94 (after the collapse of the Berlin Wall, the reunification of Germany and the end of the Cold War); and the nearest data to the present, 1994–5, the distribution of EC aid significantly reflects the political basis for European aid-giving over time. The origins and legal basis for the various EC aid programmes are discussed here in relation to political changes.

In the early 1970s the only legal basis for EC aid was enshrined in the Treaty of Rome and the later obligations of the EEC under the Food Aid Convention. At the time of the creation of the EEC in 1957 some of the then six Member States (France, Belgium, the Netherlands and Italy) still had responsibility for dependent territories. Arrangement was therefore made under Part IV of the Treaty

³ The lag also reflects the proliferation of small contracts within the Phare programme, where half the contracts are worth less than 50 000 ecu. Guidelines being developed in 1997 seek to set a threshold for future contracts of 2-3 m ecu, which should help reduce the time lag between making project commitments and their actual implementation.

Figure 1.3: Regional Distribution of EC Aid 1986–95 (commitments m ecu)

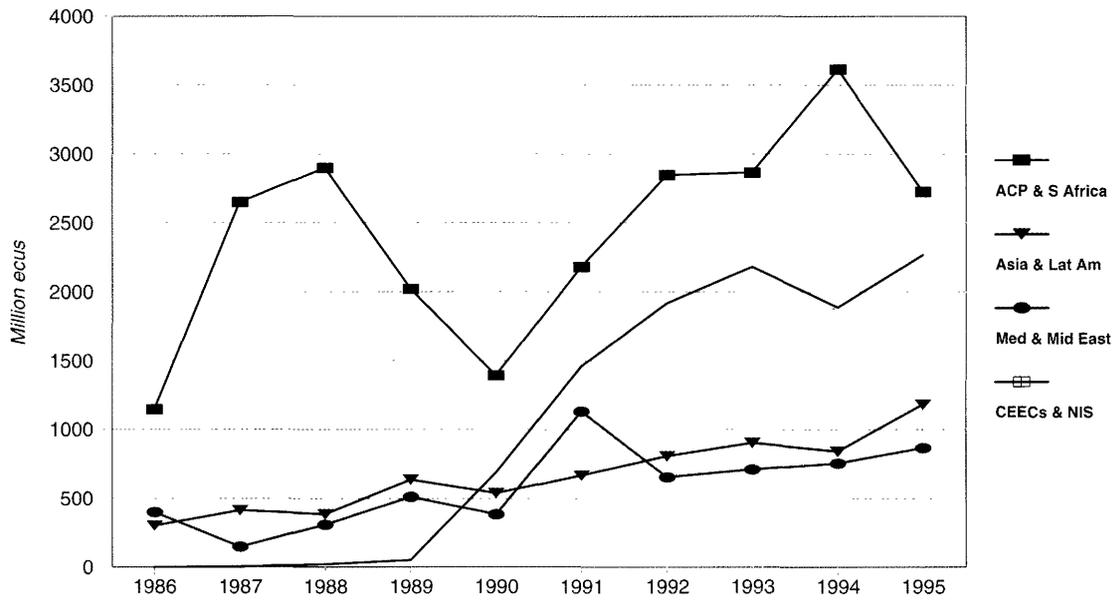
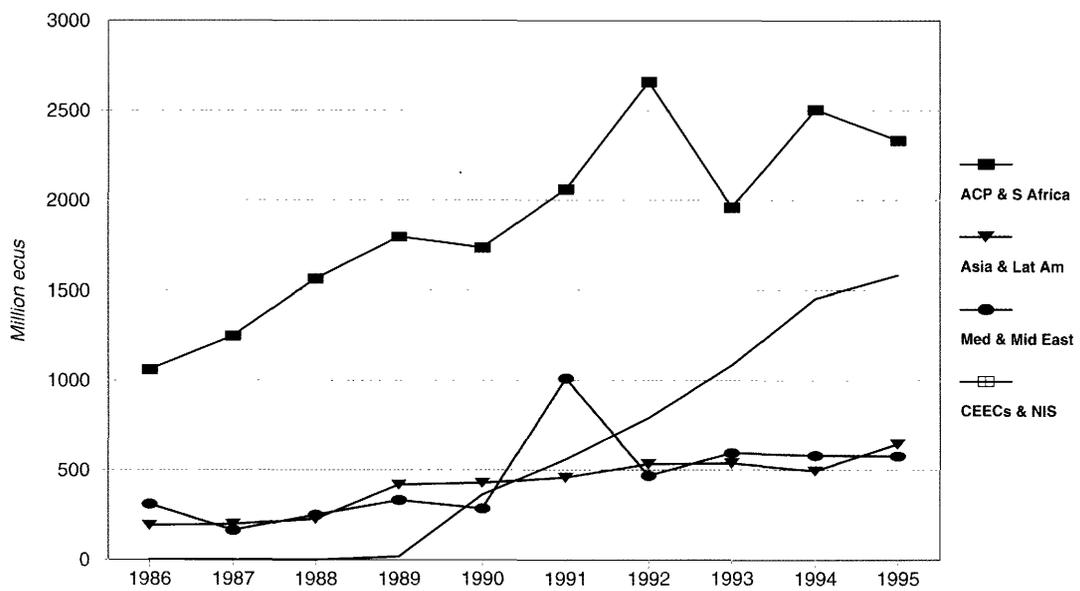


Figure 1.4: Regional Distribution of EC Aid 1986–95 (disbursements m ecu)



Source: ODI database 1997

for their association with the Community, and the European Development Fund (EDF) was set up to supply them with financial aid. Algeria was also included in the original legal text, though shortly afterwards the EDF became restricted to sub-Saharan Africa. In 1963, eighteen former, mainly francophone, colonies (the Associated African and Malagasy States) reached an agreement under the Yaoundé Convention to continue the relationship set out in the Treaty of Rome. The Yaoundé agreement, conceived of in the context of the Cold War, reflected a recognition of the importance of offering the newly independent ‘associated countries’ benefits over and above those available from the Soviet bloc. It established as a guiding principle of the later European-ACP cooperation the contractual nature of the relationship, according to which the Community guarantees a certain level of technical and financial support while the partner ‘associated’ countries have a say in the choice of development strategy.

The other basis for aid was the supply of food aid, originally in kind from the surpluses generated by the Common Agricultural Policy, the biggest tonnages being in cereals, though the highest cost items were milk-powder and butter oil. The costs were charged to the EEC Budget and were not the subject of a fund. Regular EC programmes of food aid began in the late 1960s with the signature of the first Food Aid Convention in 1967. It is on the basis of such food aid that India and Bangladesh rank higher than the leading African recipients of EC aid in this period and why the region of Asia, with 9.1% of receipts, mitigates the otherwise strong dominance of sub-Saharan Africa overall (73.1%).

By the time of the second snapshot, 1980–84, the EC’s legal powers to provide aid had been extended to 46 African, Caribbean and Pacific (ACP) states following the accession of the United Kingdom to the EEC.⁴ No longer ‘associates’, the enlarged group of countries selected for special aid and trade preferences included countries in the Commonwealth Caribbean and the Pacific, and in Africa included Ethiopia as well as the anglophone countries. The Yaoundé Convention with the francophone associates was replaced by the first Lomé Convention with ACP partners in 1975. This was renegotiated every five years thereafter until Lomé IV in 1990, which was renegotiated for ten years including a mid-term review (held in 1995), and has been extended to cover an increasing number of ACP partners.

Also a new programme of financial aid starting in 1976, the ALA programme, had been approved on the initiative of the European Parliament, to cover the Asian and Latin American developing countries. Mediterranean protocols – with individual North African and Middle East states, sometimes called collectively the Maghreb and Mashraq agreements – had also been signed which similarly drew on the EC Budget rather than being separately funded.

Thus, by the early 1980s EC aid had become global in its reach. Its share to Latin America and the Caribbean (at 5.9%) was below the DAC average, but otherwise the large, poor, South Asian countries, India and Bangladesh, were still high in the rankings (though largely because of food aid); Egypt (non-ACP) was there for the same reason, and the leading ACP country was no longer a francophone ex-colony but Ethiopia. Asia’s share peaked at 20.6% of the total but Africa south of the Sahara, thanks to the Lomé Conventions and EDF funding, still maintained a 60.4% share.

Community cooperation, as well as broadening its geographical reach, became more varied and deeper in nature, though this process happened at different rates in different regions. The number of aid instruments increased, as the traditional forms of assistance – financial and technical cooperation (e.g. for infrastructure and rural development) – were joined by new and sometimes innovative approaches, such as Stabex (system to stabilise export earnings) and Sysmin (the special facility for the mining sector under the Lomé Convention).

⁴ Commonwealth countries in Asia (Bangladesh, India, Malaysia, Nepal, Pakistan, Singapore, and Sri Lanka) were excluded from this agreement.

**Table 1.2: Regional Distribution of EC Aid
(commitments and disbursements m ecu)**

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
COMMITMENTS											
TOTAL	2553	3857	4196	3314	3255	5567	6597	6847	7316	7343	50845
ACP	1141	2632	2869	1994	1362	2123	2765	2774	3514	2599	23774
South Africa	7	19	30	25	31	58	81	91	103	125	568
Asia	140	257	226	426	317	383	470	504	451	696	3871
Latin America	160	156	159	210	222	286	338	401	390	486	2808
Med & Mid East	401	149	309	511	386	1133	655	711	757	869	5880
CEECs	–	2	1	52	683	845	1238	1588	1294	1446	7149
NIS	0	0	20	0	5	615	679	592	593	821	3326
Unallocable	704	643	582	96	249	124	370	185	213	301	3469
Share (%)											
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ACP	44.7	68.2	68.4	60.2	41.9	38.1	41.9	40.5	48.0	35.4	46.8
South Africa	0.3	0.5	0.7	0.8	0.9	1.0	1.2	1.3	1.4	1.7	1.1
Asia	5.5	6.7	5.4	12.9	9.8	6.9	7.1	7.4	6.2	9.5	7.6
Latin America	6.3	4.0	3.8	6.3	6.8	5.1	5.1	5.9	5.3	6.6	5.5
Med & Mid East	15.7	3.9	7.4	15.4	11.9	20.3	9.9	10.4	10.4	11.8	11.6
CEECs	–	0.1	0.0	1.6	21.0	15.2	18.8	23.2	17.7	19.7	14.1
NIS	0.0	0.0	0.5	0.0	0.2	11.0	10.3	8.7	8.1	11.2	6.5
Unallocable	27.6	16.7	13.9	2.9	7.7	2.2	5.6	2.7	2.9	4.1	6.8
DISBURSEMENTS											
TOTAL	1669	1964	2644	2801	2886	4326	4720	4576	5520	5510	36616
ACP	1057	1235	1542	1779	1703	2012	2592	1898	2445	2287	18550
South Africa	3	13	23	19	34	48	66	62	58	46	372
Asia	138	125	132	271	250	261	300	264	246	369	2357
Latin America	53	72	94	146	176	196	231	273	247	275	1763
Med & Mid East	311	164	249	331	285	1012	468	594	581	578	4572
CEECs	3	0	0	12	360	348	501	836	1076	941	4077
NIS	–	0	0	6	0	209	289	248	377	642	1771
Unallocable	103	356	604	238	77	240	273	403	488	373	3155
Share (%)											
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ACP	63.4	62.8	58.3	63.5	59.0	46.5	54.9	41.5	44.3	41.5	50.7
South Africa	0.2	0.7	0.9	0.7	1.2	1.1	1.4	1.4	1.1	0.8	1.0
Asia	8.3	6.4	5.0	9.7	8.7	6.0	6.4	5.8	4.5	6.7	6.4
Latin America	3.2	3.7	3.5	5.2	6.1	4.5	4.9	6.0	4.5	5.0	4.8
Med & Mid East	18.6	8.3	9.4	11.8	9.9	23.4	9.9	13.0	10.5	10.5	12.5
CEECs	0.1	0.0	0.0	0.4	12.5	8.0	10.6	18.3	19.5	17.1	11.1
NIS	–	0.0	0.0	0.2	0.0	4.8	6.1	5.4	6.8	11.6	4.8
Unallocable	6.2	18.1	22.8	8.5	2.7	5.6	5.8	8.8	8.8	6.8	8.6

Source: ODI database 1997

More recently, several new developments are apparent (see the third column of Table 1.1, for 1990–94); this is after the end of the Cold War, at the time of the signing of Europe Agreements with the successor states in Central and Eastern Europe and the Baltic of what were, until three years before, Communist regimes in COMECON. They reflect a time when aid is increasingly being given less for long-term social and economic development than for short-term political transformation, or in response to conflict-induced emergencies. Emergency aid spending, in particular, more than tripled within three years. The Phare (initially just for Poland and Hungary but rapidly encompassing all of Central and Eastern Europe) and Tacis (for the ex-USSR) programmes were rapidly initiated, and the programme of aid to South Africa, hitherto channelled through NGOs in the region and itself transitional, was switched to support for government-led reconstruction. Six of the top 15 recipient countries in 1990–1994 were East European ‘countries in transition’, to borrow the DAC’s terminology.

Finally, for the most recent (1994–95) data this is the time following the Maastricht Treaty on European Union, when the European Community resolved to form political union, to forge a common foreign policy, and to define specific objectives for EC aid (see Box 1.1). To the extent that this emerging foreign policy is global, the search for global reach is reflected in development policies, with less priority than hitherto given to the poorer countries.

Of all 71 ACP states⁵ only one – Rwanda – ranks among the top five beneficiaries for 1994–95, and then not solely because of EDF aid since food aid and emergency assistance also figure here. Three of the five leading places are taken by East European countries and the Russian Federation itself. But also the prominence of emergency and rehabilitation assistance is reflected in the leading position of ex-Yugoslavia, assistance for the Rwanda/Burundi crisis, the Palestinian Administrative Areas, Ethiopia, Angola and Mozambique. Bangladesh and India have dropped out and as a consequence the ALA countries no longer feature among the top 15 recipients of EC aid. Despite the fact that 8 sub-Saharan African countries are among the top 15, the region’s share of total EC aid falls from half to only 35% due to the large increase in aid to the CEEC and NIS. Its overwhelming dominance in the 1958–74 period is clearly over. Only 2 core francophone countries – Côte d’Ivoire and Burkina Faso – feature in the top 15. South Africa moved up quickly to ninth position once it had abolished apartheid and held new elections.

Box 1.1 : The Maastricht Treaty and Development Cooperation

The Maastricht Treaty put Community development cooperation on a firm legal footing, and provided a general framework for overall Community development cooperation policy. It sets out for the first time common objectives for EC development assistance (art. 130u), namely, to foster:

- (i) sustainable economic and social development of the developing countries, especially the poorest;
- (ii) smooth and gradual integration of developing countries into the world economy;
- (iii) the fight against poverty in developing countries; and
- (iv) the observance of human rights and fundamental freedoms and the development and consolidation of democracy and the rule of law.

The new emphasis is to increase the coordination and complementarity of the aid programmes of the Community and the Member States. A specific mandate was given to the European Commission to improve the coherence of policies and to take account of the above objectives when implementing other policies likely to affect developing countries (Art. 130v)

These policy prescriptions remained unchanged by the Amsterdam Treaty (negotiated on 15-16 June 1997).

⁵ South Africa joined the ACP in April 1997, but it can benefit only from certain parts of the Lomé Convention.

Evolution of the Main EC Aid Programmes

Aid to the ACP countries

The legal basis for the European Development Fund (EDF), which is the main component of aid to the ACP states, can be found in Part IV of the Treaty of Rome (arts. 131–6). The Treaty provided for an aid allocation – the European Development Fund, financing from the European Investment Bank, and a free trade area between the EEC and the associated countries. This was continued into two Yaoundé Conventions signed in 1963 and 1968. After the extension of the associated group to include some of the Commonwealth countries following Britain's accession to the Community, the Convention was replaced in 1975 by the Lomé Convention. The free access the Yaoundé countries had enjoyed to the EEC and each other's markets up to then was replaced by non-reciprocal preferences for most exports to the EEC. In addition, the Sugar Protocol, a Commonwealth inheritance, was annexed to the Convention to benefit a selected number of sugar exporters. As far as development aid is concerned, the dominant paradigm was 'partnership' both as a principle and in the definitions of (shared) powers and roles.

The Lomé Convention and its financial protocol have been extended three times since. Lomé II (1980–85) and Lomé III (1985–90) were also negotiated for five years, while Lomé IV was agreed for a period of 10 years (1990–1999) with two five-yearly financial protocols, for EDF 7 and 8. Over this period the beneficiaries of the Lomé Convention have increased from 46 to 71 ACP countries.⁶ The current Lomé Convention and EDF run out in 2000. There is increasing debate as to whether EDF aid to the ACP countries should be integrated into the development cooperation section of the general Budget of the European Communities. In April 1996 the European Parliament passed a Resolution withholding approval of the implementation of EDF 6 and 7 for the 1994 financial year. In 2000 also the waiver from the World Trade Organisation for the EU's trade concessions will expire.

In addition to aid from the EDF, ACP countries have benefited from financial flows from the general Budget of the European Communities. Budget lines have been introduced in order to respond quickly to a changing situation (eg humanitarian assistance, or support for banana-producing countries), or to create pilot funds for areas of cooperation which can later be integrated in the traditional cooperation agreements. The first budget line for development assistance was introduced in 1967 for food aid under the Food Aid convention and since then about 130 lines have been introduced for other areas of cooperation such as humanitarian assistance, women in development, the environment and population activities.

Aid to the Mediterranean Countries

The agreements with Mediterranean countries were also stimulated by the Treaty of Rome (art. 238). There were different agreements for various parts of the region, all established on a country-by-country basis between 1961 and 1980 (see Table 1.3). Generally, the European Commission makes a geographical distinction between the Northern Mediterranean countries (Malta, Cyprus and Turkey) and the East and Southern Mediterranean countries (Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, Syria, Lebanon.) Relations with the Palestinian Administrative Areas are dealt with separately. The other Middle East countries receive little aid.

The cooperation agreements listed in Table 1.3 are of unlimited duration, but their financial Protocols have to be renegotiated every five years. No separate fund was established for the implementation of

⁶ In addition, a part of the EDF funds is reserved for 20 Overseas Countries and Territories (OCTs) which are constitutionally linked to France, the Netherlands and the UK.

the Protocols but a special budget line (B7–4050 for Protocol 1 and 2, and B7–4051 for Protocol 3 and 4) was created.

Southern and Eastern Mediterranean countries have a history of political, social and economic relations with Europe, with formal institutional links with the Community dating back over thirty years. In 1990 the Community introduced the New Mediterranean Policy, which sought to move towards a more comprehensive region-wide strategy, extending beyond trade concerns and traditional financial and technical cooperation. This had the result of substantially increasing the budget for the region between 1991 and 1995, and placed particular emphasis on regional and horizontal cooperation (between non-state actors in the Mediterranean and the EU).

In 1995 the European Council agreed on a new Euro-Mediterranean Partnership and allocated increased funds to the Mediterranean countries for the period up to 2000, amounting to 4.7 bn ecu. This Partnership includes a political dimension, as it seeks to reduce civil unrest and ease the migratory pressures from the region (see Chapter 4).

In the case of the Northern Mediterranean, negotiations on the accession of Cyprus and Malta to the EU will start six months after the 1997 Intergovernmental Conference of Member States. The EU has also signed a customs union with Turkey which came into force on January 1996.

Table 1.3: Association and Cooperation Agreements between EC and Mediterranean Countries

	Special Association Agreements (under Art. 238)^a		Cooperation Agreements (unlimited duration) (under Art. 238)
1961–72	Turkey (1963) ^b Malta (1971) ^d Cyprus (1973) ^d	1975–1980	Israel III (1975) Algeria (1978) ^c Morocco (1978) Tunisia (1978) Egypt II (1978) Lebanon III (1978) Jordan (1978) Syria (1978) Yugoslavia III (1980)

^a In addition, the EC established preferential (Spain, Egypt, & Portugal) and non-preferential trade agreements (Israel I (1964), Lebanon I (1965), and Yugoslavia II (1970)) between 1964 and 1972.

^b An additional protocol defining the rules for achieving a customs union and developing economic cooperation was signed in 1980.

^c Algeria was originally eligible for EDF I in 1958.

^d Malta and Cyprus had agreements of limited duration.

Source: European Commission

Aid to Asia and Latin America

The six original Member States of the EEC made no provision for aid to Asia and Latin America when drawing up the Treaty of Rome in 1957. Neither region enjoyed tariff preferences for their exports to the Community, nor financial support. It was not until the 1970s that the Commission and the Council of Ministers felt it necessary to extend development cooperation to the so-called 'non-associated' countries (to distinguish them from the Yaoundé associated states). In 1970 the EEC introduced its Generalised System of Preferences, and in 1976 a programme of financial and technical cooperation was set up, funded from the Budget and benefiting some 40 Asian and Latin American countries.

Limited eligibility reflected the Community's desire to concentrate a quite modest budget on the poorest countries, though relatively affluent countries such as Uruguay and Argentina were also included.

The programme's legal basis and objectives were not set out until 1981, in Council Regulation EEC No. 442/81. It was during the 1980s that the EC began to negotiate framework agreements with individual Asian nations, seeking to meet their specific development needs and with greater continuity, as well as to promote more predictable trading relations. So far 12 Asian countries have signed cooperation agreements with the EC, providing a legal framework for action in fields as diverse as energy, rural development and the prevention of drug abuse. The EC's relationship with Asia was further reinforced at the Asia–Europe meeting (ASEM) held in Bangkok in 1996.

The 1990s also saw a deepening of cooperation agreements with Latin America. Since 1991 more ambitious 'third-generation' agreements have been signed with all the Latin American countries apart from Cuba. These include a clause designed to safeguard 'democratic principles', while clauses on 'future developments' provide scope to expand. The overarching legal framework for the Community's programme to Asia and Latin America was redefined in a 1992 Council Regulation (EEC No. 443/92). This presented a new approach and a diversification of cooperation beyond the long-standing areas of financial, technical and economic cooperation, and especially food security and rural development, since it gave weight to areas such as human rights, democratisation and good governance, the environment, and cultural exchange. The 1992 Regulation agreed a budget of 2750 m ecu for the 1991–5 period, 10% of which was set aside for environmental initiatives. The Commission has greater autonomy and flexibility vis à vis the ALA developing countries than in the case of the ACP countries regarding countries it wishes to extend cooperation to, and the size of each country's annual budget (see also Chapter 5).

Aid to CEECs and NIS

Phare: The Phare programme provides the bulk of all EC aid to the Central and East European countries (77% of commitments, 1990–95).⁷ Phare became operational in January 1990 on the basis of a Council Regulation to support the process of transition to a market-oriented economy.⁸ It started with Poland and Hungary and was extended in September 1990 to include Bulgaria, the former Czechoslovakia (later the Czech Republic and Slovakia), the former GDR (until December 1991), Romania, and the former Yugoslavia. Subsequently in 1991 it was extended further to include Albania, Estonia, Latvia and Lithuania. Conflict in the former Yugoslavia and heavy German lobbying required that Slovenia be brought in separately in 1992, Croatia in June 1995, Macedonia in March 1996, and Bosnia and Herzegovina from April 1996, though in the case of Croatia this was suspended shortly afterwards and Greece vetoed Community disbursements to Macedonia.

EU–CEEC relations began to take shape with the signing of the first in a series of Trade and Economic Cooperation Agreements in 1988, the priorities of which were to establish trading links and develop market access. The emphasis was on providing technical and financial support for the process of economic restructuring, and encouraging the changes necessary to build a market-oriented economy, stimulate private enterprise and help establish democracy. In June 1993 the focus of the Phare programme began to shift, with the decision of the European Council at Copenhagen that the associated CEECs so desiring should become members of the European Union when they were able to meet the

⁷ Of the remainder, 13% was humanitarian assistance provided by ECHO and 6% was food aid through the European Agricultural Guidance and Guarantee Fund (EAGGF).

⁸ Council Regulation No. 3906/89, 18 December 1989. This was revised following the broadening of the programme beyond Poland and Hungary. Originally Phare stood for *Poland and Hungary Assistance for Economic Restructuring*.

necessary economic and political obligations. This second phase was cemented by the signing of association agreements, the so-called 'Europe Agreements', with 10 countries: Poland and Hungary (February 1994), Romania, Bulgaria, the Czech Republic and Slovakia (February 1995), while those with Estonia, Latvia, Lithuania (all signed in 1995), and most recently Slovenia (signed in June 1997) are awaiting ratification.

The Europe Agreements provide a basis of 'shared understandings and values' and are designed to speed progress towards greater convergence between the EU and the CEEC regions. Phare, originally a technical assistance programme, has become the financial instrument by which the objectives of the Europe Agreements may be achieved, underscoring the EU's support for the reforms undertaken by the CEECs to 'return to Europe'. This change of focus in the Phare programme was confirmed at the Essen Summit of December 1994, which built on the decisions of the Copenhagen Summit, and adopted a Pre-accession Strategy (see Box 1.2).

During 1997, new policy guidelines for the Phare programme are being developed, which take account of its role in the creation of a larger 'family' of nations within an enlarged European Union. Instead of being driven by partner country demands, the new Accession Partnership will be focused on meeting the criteria for accession to the Union. The first priority will be 'institution building', designed to help the administrations of the partner countries acquire the capacity to implement the 'acquis communautaire', including the harmonisation of legislation, through the development of twinning programmes. The second priority is to help partner countries bring their industries and major infrastructure up to Community standards by promoting the necessary investment.

Aid through the Phare programme is funded exclusively from the EC Budget. The principal budget line (B7-600) is directed at the economic restructuring of the CEECs, and committed 5.4 bn ecu between 1990 and 1995 compared with total commitments to the region of 7.1 bn ecu. The Cannes European Council of 1995 allocated some 6.7 bn ecu to the main Phare budget line for the 1995-99 period. Humanitarian aid (B7-214), funded via the European Community Humanitarian Office (ECHO), has also been very significant for the past three years, with total commitments amounting to 905 m ecu. In addition, surplus food stocks have been transferred to the CEECs through the European Agricultural Guidance and Guarantee Fund (EAGGF), with an accounting value of some 400 m ecu.⁹ Other activities such as cross-border activities, nuclear safety, and support for NGOs are funded from separate budget lines which generally cover the CEECs and NIS jointly, and represent less than 3% of all aid committed to the CEECs (see also Chapter 6).

Tacis: The Technical Assistance Programme for the former republics of the Soviet Union (the so called Commonwealth of Independent States) began operations in 1991. Tacis represents the central pillar of the European Commission's aid programme to the twelve New Independent States (NIS) and

Box 1.2: The Essen Strategy

The key element of the strategy is the preparation of the associated states for integration into the internal market of the EU. To this end, a White Paper has been produced by the Commission setting up a plan to prepare for the adoption of the *acquis communautaire* (legislation and implementation and enforcement structures). The Essen Council reconfirmed support for other elements of an overall integration strategy, including:

- the establishment of institutions guaranteeing democracy, the rule of law, human rights and protection of minorities;
- integration through the development of infrastructure, including trans-European transport networks;
- intra-regional cooperation between the CEECs;
- environmental cooperation;
- cooperation in the fields of foreign and security policy, justice, culture, education and training.

Under the Essen Strategy, Phare has become the major tool for meeting the aspirations of the CEECs for integration into the EU.

⁹ The real value of this food aid, if measured at world market prices, would be considerably higher; Commission estimates range from an additional 50% to 75%.

Mongolia.¹⁰ The recognition by the USSR in 1986 of the European Community as a legal and economic entity opened the door to a closer relationship between East and West, and reflected a major shift in Soviet policy towards Europe. In December 1989 a Trade and Economic Cooperation Agreement was signed between the USSR and the European Community, aimed at strengthening and diversifying economic relations between them. This was given greater substance at the European Council in Rome in 1990, with the Member States' decision to support the Soviet authorities in their efforts to achieve fundamental economic and social reform in the Soviet Union. As a result Tacis was formally established by Council Regulation No. 2157/91 of 15 July 1991, and Mongolia was included within the Tacis programme. In 1995, the NIS/Tacis Directorate within DG IA of the Commission was reorganised in an attempt to integrate the management of the Tacis programme with all other areas of EC-NIS relations, including political, economic and trade issues. Since then, four-year indicative country programmes have replaced the three-year instruments. These are designed to provide a more comprehensive analysis of a more limited number of priority sectors, and will bind partner countries to longer-term political and economic reforms as a condition of Tacis support.

The legal basis of Tacis rested on Council Regulations drawn up in 1991 and 1993, which have recently been superseded by a new Tacis Regulation (EEC No. 1279/96).¹¹ Like Phare, all Tacis assistance is drawn from the EC Budget, the principal budget line concerned being B7-620. Commitments through Tacis amounted to 2.2 bn ecu for the 1991-95 period, representing 68% of all EC commitments to the NIS. A second major source of aid to the region has been food aid through the EAGGF, which amounted to over 700 m ecu, or 22% of total aid commitments between 1991 and 1995. ECHO provided nearly 300 m ecu of humanitarian aid, and specific aid activities in the NIS or in the NIS and CEEC jointly were funded by several other budget lines. These include a budget line promoting democracy in the former USSR (B7-521), humanitarian aid (B7-215) and several lines shared with Phare covering nuclear safety and support for NGOs, though the latter is very small (see Chapter 6).

EC Support for Regional Economic Integration

Support for regional cooperation has long formed an important part of Community cooperation with developing countries, and more recently with the economies in transition. As noted in Box 1.1, Article 130u of the Maastricht Treaty specifies that the EU's development cooperation policy shall foster 'the smooth and gradual integration of developing countries into the world economy'. This serves to reinforce the Community's belief that by assisting countries to compete in the regional market they can gradually improve their competitiveness in the global economy. The Commission views regional integration as part of a wider strategy to promote equitable growth by increasing competition, reducing private transaction costs, assisting firms to exploit economies of scale, encouraging inward foreign investment and facilitating macroeconomic policy coordination. The Community's aid programmes have sought to foster integration through capacity building, assistance to the private sector, and support to governments (eg budgetary support) to cope with transitional effects (see Chapters 3, 4, 5 and 6).

¹⁰ These are: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. See Chapter 6 for the levels of EC aid to each of the NIS.

¹¹ The Council regulations establish the principles under which Tacis assistance is provided to the NIS and include rules on the award of contracts.

Sources of EC Aid

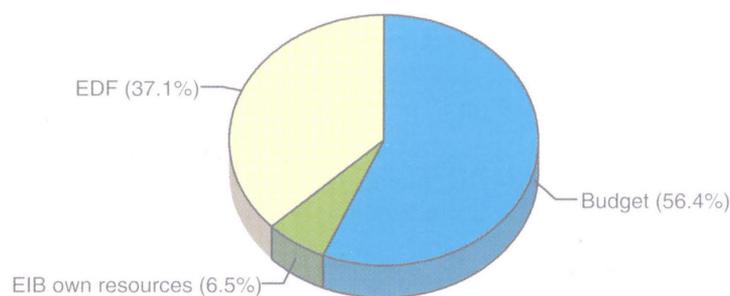
EC aid is funded from the European Development Fund and the EC Budget, with an additional contribution provided from European Investment Bank own resources. Over the period 1986–95 more than half of all EC aid (56%) came from the EC Budget, with just over a third (37%) from the EDF and 7% from the EIB's own resources (see Figure 1.5). However, these proportions have fluctuated over time. The relative weight of the EDF has fallen from an average of 49% for 1986–90 to 31% for the 1991–5 period, while that of

the Budget grew from 43% to 63%. This shift is largely as a result of aid flows to the CEECs and NIS through Phare and Tacis in the 1990s. EIB flows from its own resources, including a tiny amount of risk capital lent to non-ACP countries, have declined somewhat as a proportion of total EC aid, from 7.6% for 1986–90, to 5.9% in 1991–5. In addition, the EIB also managed risk capital loans to ACP countries subsidised by the EDF, which accounted for 7% of EDF flows.

The EU Member States negotiate among themselves and with the ACP governments their contribution to the EDF, and the outcome is specified in the Internal Financial Agreement which is signed for every Lomé Convention. In contrast, their contributions to the Budget are obligatory, and are determined by applying an agreed formula.¹² Only France now contributes significantly more to the EDF than to the EC Budget (see Table 1.4).

While the contributions to the Budget are determined by formula, annual changes in the distribution of aid flows from the Budget are influenced by the decisions of the Council of Ministers setting out long-term expenditure plans. An important budgetary decision of this kind was taken during the Edinburgh Summit in 1992 (see Box 1.3) when the then twelve Member States voted an increase of the budget

Figure 1.5: Sources of EC Aid (commitments) 1986–95



Source: ODI database 1997

Box 1.3: The Edinburgh Summit

During the Edinburgh Summit in December 1992 the Council decided to increase the level of commitments for the Community's external actions paid for from the Budget. The ceiling was projected to go up from 4.45 bn ecu in 1993 (6.4% of all commitments) to 6.2 bn ecu (7.4%) in 1999, an increase of almost 40%. The Council agreed to allocate each year between 200 and 300 m ecu of these funds to respond to emergencies and 300 m ecu to a loan guarantee fund for lending to third countries. The Council made no decision on the geographical distribution of these funds, apart from indicating that 'an appropriate balance should be maintained, bearing in mind the Community's changing priorities'. At later Summits, such as at Essen and Cannes, further commitments were made in favour of particular regions.

¹² This formula takes account of four main factors: (i) a levy on imports into the Community by the Member State; (ii) a levy on production of certain agricultural products; (iii) a proportion of VAT collected in the Member State; and (iv) the Member State's GNP, adjusted for any abatement agreed. Extra decisions taken during the year on unforeseen expenditure are determined by Member States' GNP only.

ceiling for external actions, which includes aid flows, to 6.2 bn ecu by 1999. Other important budgetary decisions taken in more recent years, for instance at the Cannes Summit in June 1995, have influenced the allocation of this budget to Eastern Europe and the former Soviet Republics, the Mediterranean, Asia and Latin America and South Africa.

Table 1.4: EU Member States' Shares of EC Budget Aid and EDF

	EC Budget (% 1994)	EDF 7 (% 1990-5)	EDF 8 ^b (% 1995-2000)	VOLUME ^c m ecu
Austria ^a	2.7	–	2.6	–
Belgium	3.8	4.0	3.9	243
Denmark	1.9	2.1	2.1	119
Finland ^a	1.4	–	1.5	–
France	18.3	24.4	24.3	1224
Germany	29.5	26.0	23.4	1716
Greece	1.4	1.2	1.2	81
Ireland	0.8	0.6	0.6	45
Italy	13.3	13.0	12.5	789
Luxembourg	0.2	0.2	0.3	12
Netherlands	6.1	5.6	5.2	359
Portugal	1.6	0.9	1.0	83
Spain	7.7	5.9	5.8	431
Sweden ^a	2.5	–	2.7	–
UK	15.5	16.4	12.7	954
Total	100	100	100	6046

^a Contribution to the EC Budget of new Member States is for 1995.

^b Not yet operational because not yet ratified at the time of writing.

^c The volume of aid contributed to the aid Budget by each Member State was calculated by multiplying the share that the Member State is required to pay by total Budget expenditure in 1994 (4122 m ecu). For the EDF, the Member State's negotiated share was multiplied by the annual average of the total value of the EDF for 1991-95 (1923 m ecu).

Source: Report of the Foreign Affairs Committee of the House of Commons, 15 December 1994, *Official Journal of the European Communities*: 17 August 1991, *The ACP-EC Courier* Jan-Feb 96

Forms of EC Aid

Official Development Assistance (ODA) and Official Aid (OA)

For aid flows to qualify as Official Development Assistance (ODA) they must meet specific criteria defined by the Development Assistance Committee of the OECD. These state that grants and loans must be undertaken by the official sector, with the promotion of economic development and welfare as their main objective. For loans to qualify they must be provided on concessional terms, with a grant element of at least 25%. Aid flows to countries in transition (Part II of the OECD DAC List of Aid Recipients) are ineligible to qualify as ODA and are classed instead as Official Aid (OA).

The term 'aid' used here includes both ODA and OA, and therefore covers all external financial flows which have a degree of concessionality of at least 25%. The vast bulk (some 91%) of EC aid (as defined here) is grant aid, with only 9% provided as concessional loans (see below). Less

concessional or 'hard' loans, such as balance of payments support and some EIB lending (see below) were also provided, but these are excluded from the EC aid total.

Out of total commitments of 50.8 bn ecu for the 1986–95 period, 43 bn ecu (or 84% of all EC aid described here) qualifies as Official Development Assistance. The 8 bn ecu qualifying as Official Aid was split between the CEECs, which received 64% of it, and the NIS (see Table 1.6). It should be noted, however, that 29% of all EC aid provided to the CEEC region (2 bn ecu) qualifies as Official Development Assistance, since Albania and the states of former Yugoslavia are classed as developing countries (DAC Part I countries).¹³ Not surprisingly the former Yugoslav states received the majority of this assistance (63%), while Albania has received some 459 m ecu (or 23%) since 1991. The share of EC aid to the NIS which counts as ODA is much lower, at about 13%, since the major NIS recipients (the Russian Federation and Ukraine) are classed as countries in transition (Part II countries). Nonetheless commitments to developing countries within the NIS region amounted to 432 m ecu between 1991 and 1995, with Kazakhstan (80 m ecu), Azerbaijan (73 m ecu), Georgia (72 m ecu) and Armenia (69 m ecu) being the largest recipients.

Table 1.5: Regional Distribution of Official Development Assistance (ODA) and Official Aid (OA) (commitments m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Official development assistance (ODA)											
Total	2553	3855	4176	3299	2633	4156	5143	5399	5966	5658	42838
ACP	1141	2632	2869	1994	1362	2123	2765	2774	3514	2599	23774
South Africa	7	19	30	25	31	58	81	91	103	125	568
Asia	140	257	226	426	317	383	470	504	451	696	3871
Latin America	160	156	159	210	222	286	338	401	390	486	2808
Med & Middle East	401	149	309	511	386	1133	655	711	757	869	5880
CEECs	–	0	1	36	66	30	373	695	407	427	2036
NIS	–	–	–	–	–	19	91	38	130	154	432
Global unallocable	704	643	582	96	249	124	370	185	213	301	3469
Official aid (OA)											
Total	0	2	20	16	622	1411	1454	1448	1349	1685	8007
CEECs	–	2	0	15	617	815	866	893	886	1018	5113
NIS	0	0	20	0	5	596	588	554	463	667	2894

Source: ODI database 1997

EC Aid in Loan Form

The small share of loans in total EC aid (9.1% and much less for the poorer developing countries) means that the EC is not among the aid donors which are building up a potential debt problem for developing countries.

¹³ There is some dissatisfaction about anomalies in the OECD DAC categorisation of countries into Part I developing countries and Part II countries in transition. According to this system aid to Slovenia (a Part I country) counts as ODA, while that to Bulgaria is OA (Part II).

EIB loans: EC loans to developing countries are managed by the European Investment Bank and come from two sources (see Table 1.6). By far the majority are loans from the EIB's 'own resources' – the proceeds of the Bank's borrowing on the capital markets – which are largely lent on terms similar to those for EU Member States. The vast bulk of these loans do not qualify as Official Development Assistance or Official Aid since they do not carry a subsidy of at least 25%. Such 'hard' loans are classed as 'Other Official Flows' and are not included here. However, own resource loans to the ACP countries and to Mediterranean countries benefit from interest rate subsidies of 25% or more and therefore their total value is counted as EC aid.

Secondly, the Bank manages risk capital finance to ACP and Mediterranean countries, drawn from the EDF and the EC Budget respectively, with a tiny amount (11 m ecu) going to Latin America as well. This may be provided as equity or venture capital, or more usually as 'soft' loans, both of which are included as EC aid, and tend to be provided on a more flexible basis than own resource loans. Risk capital is provided mainly to poorer countries unable to take on further foreign debt, and its terms are similar to those of the World Bank's IDA. Overall, subsidised loans to the ACP and Mediterranean accounted for 2.8% of all EIB lending over the 1990-95 period. In addition, some 6.5 bn ecu of 'hard' loans was provided to countries outside the EU, bringing the total value of EIB lending outside of the European Union to 9.5 bn ecu, or 8.8% of all EIB lending over the past six years.

The EIB managed 4.6 bn ecu of concessional loans for developing countries over the 1986-95 period. Almost 70% of these were provided from the EIB's own resources, while the rest, which was provided as risk capital, came from the EDF (1.3 bn ecu) and the Budget (82 m ecu). Almost half (46%) of the loans provided to ACP countries were financed from the EDF as risk capital. Concessional loans to the Mediterranean and Middle East amounting to 1.6 bn ecu were mostly (95%) financed from the EIB's own resources. Latin America, was not eligible for concessional loans from this source, but received 11 m ecu of risk capital. The region did, however, benefit from non-concessional loans (worth 220 m ecu in 1994 alone). The CEEC and NIS regions are ineligible for concessional EIB funding.¹⁴

Table 1.6: Concessional Loans to Developing Countries managed by the European Investment Bank, 1986-1995 (commitments m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
EIB: total lending	408	375	417	439	231	624	406	437	679	573	4588
Of which:											
Own resources: total	349	185	236	313	188	491	284	357	412	349	3163
ACP	151	158	121	166	118	266	129	147	223	124	1601
Med & Middle East	198	28	115	147	70	225	156	163	189	193	1483
CEECs	–	–	–	–	–	–	–	47	–	32	79
Risk capital: total	59	189	181	126	44	133	122	80	267	225	1425
ACP	59	185	172	114	36	119	119	75	239	225	1343
Med & Middle East	–	–	7	12	8	15	–	2	28	–	71
Latin America	–	4	2	–	–	–	3	3	–	–	11

Source: ODI database 1997

¹⁴ A residual sum of 79 m ecu went to Slovenia during the 1990s.

Balance of payments support: In addition to the loans managed by the EIB, countries in Central and Eastern Europe (Hungary, the Czech Republic, Slovakia, Bulgaria, Romania, Estonia, Latvia, Lithuania), the NIS (Ukraine, Belarus, Moldova) and Algeria and Israel received balance of payments support from the EC Budget. This assistance is provided in the form of loans granted on market terms and is managed by the Directorate General for Economic and Financial Affairs (DG II) of the European Commission (see Table 1.7). In total, more than 4 bn ecu has been committed and almost 3 bn ecu disbursed as balance of payments assistance, most of it (71%) to the CEECs.

Table 1.7: Balance of Payments Assistance^a to Third Countries (m ecu)

		1990	1991	1992	1993	1994	1995	Total
CEEC	(commitments)	870	1220	410	–	255	–	2755
	(disbursements)	350	695	705	270	70	80	2170
NIS	(commitments)	–	–	–	–	130	255	385
	(disbursements)	–	–	–	–	25	135	160
Mediterranean (Algeria & Israel)	(coms)	–	588	–	–	200	0	788
	(disbs)	–	–	438	–	150	100	688
Total	(commitments)	870	1808	410	–	585	255	3928
	(disbursements)	350	695	1143	270	245	315	3018

^a All loans were categorised as balance of payments support by DG II apart from the loan to Israel (187.5 m ecu) and one of the loans to Hungary (870 m ecu), which were labelled as structural adjustment loans. 15 m ecu was disbursed to Albania in 1995, but this was in grant form and included in overall EC aid.

Source: Data supplied by DG II, European Commission 1996

The Management of EC Aid

Management Structure

European Commission: Until 1985 all EC aid was managed by a single Directorate-General for Development. Responsibility for managing aid to Asia, Latin America and the Mediterranean was transferred in 1985 to a separate Directorate-General which, in the early 1990s, merged with DG I. The original Directorate General, which is now DG VIII, remained responsible for relations with the ACP countries and also managed food aid, the largest aid component from the EC Budget. DG I not only covered North–South relations but also dealt with relations with Eastern Europe and the former Soviet Union. DG I therefore managed the Phare and Tacis programmes, when they were established at the beginning of the 1990s.

In 1993 a new DG, DG IA, was created to deal with political aspects of the Community's external relations (and its delegations), while DG I kept control over trade relations and 'North–South' issues. The situation changed again in 1995 and currently the DGs for external relations are mainly organised on the basis of geographical responsibilities (see below).

Community relations with developing countries and with the CEEC and NIS (including their aid programmes) are managed by five different parts of the European Commission for which, since 1995, five different Commissioners are responsible. Loans and interest rate subsidies are managed by the

European Investment Bank, based in Luxembourg, while the European Commission Directorates-General are all based at headquarters in Brussels. To assist in the implementation of the aid programmes overseas the European Commission has a relatively large number of delegations (see section on staffing below).

Since December 1996 the following picture has obtained:

- (i) *Directorate-General for Development (DG VIII) – Commissioner Pinheiro*
This Directorate-General deals with external relations with the ACP and South Africa (in April 1997 South Africa became the 71st ACP country). It is responsible for the Lomé Convention, and also for some budget lines benefiting all developing countries such as non-emergency food aid and NGO co-financing.
- (ii) *Directorate-General for External Relations (DG IA) – Commissioner van den Broek*
This Directorate-General manages EC external relations with Central and Eastern Europe and the republics of the former Soviet Union, Mongolia, Turkey, Cyprus, Malta and other European countries outside the EU. It is responsible for the Phare and Tacis programmes.
- (iii) *Directorate-General for External Relations (DG IB) – Commissioner Marin*
This Directorate-General, which used to be the North–South department of DG I, is responsible for Community relations with developing countries in the Southern Mediterranean, Middle East, and Latin America and most Asian developing countries.
- (iv) *Directorate-General for External Relations (DG I) – Commissioner Brittan*
External relations with China, Korea, Hong Kong, Macao and Taiwan are dealt with in this Directorate-General which is also responsible for international negotiations, eg in the Uruguay Round.
- (v) *European Community Humanitarian Office (ECHO) – Commissioner Bonino*
ECHO manages the humanitarian aid of the Community. Its status as a separate Directorate, headed by a Director (equivalent in rank to Directors for East Africa, Asia, etc, in DGs VIII and IB), is intended to reduce delays in disbursing aid and to ensure flexibility.

All Commission expenditure is overseen by the European Court of Auditors, which checks that accounting rules have been complied with.

European Investment Bank (EIB): Although the Bank's principal aim is to finance capital investment projects within the European Union, it also undertakes operations in developing countries, as discussed earlier. The EIB is an autonomous financing institution established by the Treaty of Rome and set up in 1958. The Bank, which has a 'triple-A' credit rating, on-lends the proceeds of its borrowing. It is owned by the EU Member States, which all subscribe to its capital, and is financially independent of the EC Budget. It has its own Board of Governors comprising the Finance Ministers of the Member States, and a Board of Directors, a Management Committee and an Audit Committee.

Staffing

Headquarters Staff: In January 1992, when ECHO was just being established, DG I and DG VIII were the main DGs responsible for developing country issues. DG I then employed 753 people at headquarters, of whom approximately 252, ie a third, worked on issues relating to Asian, Latin American and Mediterranean countries and 136 people dealt with the CEECs and NIS, while the rest covered other external relations such as trade and relations with international institutions. DG VIII employed 480 people. Thus, in 1992, a total of nearly 900 people dealt with development cooperation at Commission headquarters (see Table 1.8).

Since the mid-1990s external relations with the Asian, Latin American and Mediterranean countries and CEEC and NIS have been divided between two Directorates: DG IB and DG IA. The figures cited for 1997 reflect an estimate of the number of 'person years' worked on development cooperation matters for each DG, rather than simply the number of staff employed.¹⁵ This is to take account of the increasing numbers of experts employed on a short-term basis, whose inputs can be aggregated in the form of 'person years'.¹⁶ In 1997, DG IB, covering Asia, Latin America and the Mediterranean and the Middle East, employs 452 people. DG IA is split into two parts; the larger part, employing 689 people, deals with Community relations with the CEEC, NIS and other European (developing) countries. The remainder deals with the Common Foreign and Security Policy and relations with international organisations and is not included in the staff totals here. DG VIII employs 472 people in 1997, ECHO has 87 members of staff, and a further 10 people work within DG I, dealing principally with China. This brings the total number of people administering EC aid (at headquarters) to 1710 in early 1997, an increase of over 800 in five years, or 15% a year (see Table 1.8).

The trends in headquarters staffing levels across the three DGs are widely divergent. Over the 1992–7 period, the DG IA staff complement rose five-fold, staff levels at DG IB increased by 75%, while DG VIII staffing fell slightly. These figures are only a guide, and need to be treated with some caution (see Table 1.8, notes a and b). To some extent the variation reflects trends in the level of aid commitments managed by the different DGs. Development cooperation flows managed by DG VIII remained reasonably constant between 1992 and 1996 in nominal terms. The increase in DG IB staff may be seen in the context of an increase in funds of about 23%. DG IA witnessed the most dramatic increase in headquarters (and delegation) staff, and the Phare and Tacis programmes to Eastern Europe and the New Independent States were also the fastest growing aid programmes, with commitments rising from 1.2 bn ecu in 1991 to 1.7 bn ecu in 1995 and disbursements quadrupling. The Commission suggests that this growth, together with the fact that the greater share of the Phare and Tacis programmes is in the form of (staff-intensive) technical assistance, explains the large increase in staffing levels at DG IA. Although obtaining precisely comparable figures for 1997 is not straightforward, it is clear that DG VIII relies least on national experts and other external personnel, while DG IB and DG IA draw heavily on such external resources (for about a quarter to a third of total headquarters staff).

Overseas Delegations: The European Union currently has 106 delegations outside the EU, 91 of which (plus 14 offices) are situated in Africa, Asia, Latin America, the Mediterranean and the CEEC and NIS, covering 156 aid recipient countries (see Table 1.9). Between 1992 and 1997, 19 new delegations were opened, 11 of them were in the CEEC and NIS. Delegation staff certainly increased between 1992 and 1997, though a direct comparison is difficult, since the figures for delegation staff for 1997 include both European and local staff. Representation has always been particularly strong in the 71 ACP countries, which in 1997 have 48 delegations, 14 offices with a resident adviser and 3 offices with support staff only. Most of the countries in the Mediterranean region have delegations, while in the other regions only about half the countries have an EC delegation.

In practice, the level of responsibility of the delegations varies from region to region, partly depending on the framework of the aid programmes, but in general the authority delegated to the field offices is limited. In the implementation of the Lomé Convention, delegates (Heads of Delegation) have authority, shared with the recipient government, to award study/technical assistance contracts up to 60 000 ecu (80 000 in the 8th EDF from 1997) and to approve contract awards after tender, under certain specified conditions, of up to 5 m ecu.

¹⁵ Estimates (DG IX) of the total number of headquarters staff within each DG differ from estimates (DG I) of the total number of 'person years' available for development cooperation, to some extent reflecting the complexity of calculating such figures: eg for DG VIII the total number of headquarters staff (permanent, temporary and external) was 600 in mid-1996 (DG IX) compared with 472 'person years' for 1997 (DG I); for DG IB the total was 427 (DG IX) compared with 452 (DG I).

¹⁶ For convenience, the term 'people employed' is used below, though the figures refer to 'person years' worked.

Table 1.8: Evolution of Staff Managing EC Aid (1992 and 1997)

DG	Region	Headquarters Staff ^a		Delegation Staff ^b		Total Staff	
		1992	1997	1992	1997 ^c	1992	1997
DG IA ^d	CEECs & NIS	136	689	18	267	154	956
DG IB ^d	ALA & MED	252	452	118	274	370	726
DG VIII	ACP	480 ^e	472	245	274	970	746
ECHO	All	– ^f	87	–	– ^g	–	87
DG I	China	n.a	10	n.a	6	n.a	16
Total		868	1710	381	821	1249	2531

Notes:

1. Staffing data must be treated with caution as it is very difficult to obtain data which are perfectly comparable across the DGs and for both 1992 and 1997. Figures given are the best estimates available, given that precise totals vary during a single year.

2. Data for 1992 were obtained directly from the respective DGs, and provide an estimate of the number of staff dealing with development cooperation in that year. Data for 1997 were prepared by DG I based on figures from the DGs, and provide an estimate of the 'person years' available for development cooperation for each DG at the start of 1997. This difference in methodology may mean that numbers for each year are not perfectly comparable.

^a Headquarters staff include permanent and temporary officials together with 'external resource' staff, such as seconded national experts and other external personnel.

^b Delegation staff for 1992 include European officials only, while for 1997 the figures include European officials together with local staff with university qualifications. In 1997, local staff (GR I level) accounted for approximately one-third of total delegation staff.

^c Delegation staff for 1997 may not be perfectly comparable across the DGs since, for example, DG IA and IB may include under the delegation total staff which DG VIII include as project personnel.

^d In 1992, cooperation with the CEECs, NIS, ALA and Med was managed by DG I (which had not yet been divided into DG IA and IB). Here, an attempt has been made to estimate the numbers of people within DG I dealing with the regions subsequently associated with DG IA and DG IB. These are therefore identified separately for 1992 as well as for 1997. DG IA staffing levels refer to those dealing with issues related to cooperation with the CEEC, NIS and former Yugoslavia, and not those dealing with Common Foreign and Security Policy, relations with multilateral and international institutions and the management of the Commission's External Service.

^e The 480 refers to permanent and temporary officials only, as the number of 'external resource' staff for DG VIII is not available for 1992.

^f ECHO did not exist in 1992.

^g ECHO does have about 50 coordinators or 'cellules' (including temporary staff, consultants and local staff) working in the field, which are not included here.

Sources: European Commission DG I, DG IA, and DG VIII, 1997

Delegations in Asia and Latin America have more restricted authority than those in the ACP countries, while Mediterranean delegations lie somewhere between the two, having some authority to approve technical assistance contracts, though this is currently under review. In the case of Phare, Delegations work with Programme Management Units, usually run by local civil servants supported by outside experts, in preparing, implementing and monitoring Phare projects. Increasingly the PMUs are also responsible for launching tenders for supplies and services, depending on the contract value. Tacis Co-ordinating Units play a more restricted role, being responsible for project identification only.

Table 1.9: European Community Delegations (1997)

DG	Region	Number of countries ^a	Number of delegations/offices	European officials & senior local staff ^b	Average staff per delegation/office
DG IA	CEEC and NIS	30	} 27 ^c	267	14.8
	Asia	18			
DG IB	Latin America	21			
	Mediterranean	15			
DG VIII	ACP	71	60 ^d	274	4.6
TOTAL		155	105^e	815	7.8

Notes:

1. Data on the number of delegations (start 1997) was provided by DG IA. Data on staffing numbers (start 1997) was provided by DG I. This data should be treated with caution since it is very difficult to obtain data which are comparable across the directorates; eg DG IA and IB may include under the delegation total staff which DG VIII include as project personnel.

^a Countries receiving commitments of more than 1 m ecu of EC aid in 1995; source ODI database 1997.

^b Delegation staff total includes European officials together with local staff with university qualifications.

^c This includes 25 delegations and 2 representations.

^d This includes 48 delegations and 12 offices with a resident adviser. In addition, there are 3 offices with support staff only and 2 offices in OCTs.

^e The Community also has 9 delegations under DG I and additional EC offices which form part of the Unified Foreign Service. These are located in each of the EU Member States, plus Switzerland, Norway, the United States, Canada and Japan.

Source: European Commission DG I, DG IA, DG VIII, ODI database 1997

Administrative Costs

The DAC includes the following under the heading of administrative costs: i) the administrative budget of the central aid agencies and executing agencies wholly concerned with ODA delivery; ii) a share of the total administrative costs of the executing agencies proportional to the share of ODA disbursements in the agencies' total disbursements; and iii) administrative costs related to the aid programme borne by overseas representatives and diplomatic missions. All costs not appearing as part of the aid programmes, such as salary and overheads costs, must be included.

It is possible to arrive at an estimate of the salary costs at headquarters and overseas, together with the overheads costs of the overseas delegations, using data supplied by the individual directorates and the Directorate General for Personnel and Administration (DG IX) (see Table 1.10). Although only indicative, the estimate for the beginning of 1997 was 270.5 m ecu, representing about 4% of total aid commitments (for year ending 1995). While this includes some of the administrative costs (for overseas delegations), it does not include the share attributable to development cooperation of the cost of maintaining and renting headquarters buildings. This partial estimate of 270.5 m ecu implies an average administrative cost of 40 000 ecu for every 1 m ecu committed. It should be noted, however, that, unlike some other donor organisations, EC administrative costs are not paid for out of the aid budget and they therefore do not reduce the funds available for development assistance.

Table 1.10 indicates that the administrative costs of ECHO are by far the lowest, but it should be borne in mind that it has not been possible to include the costs associated with the staffing of 50 or so 'cellules'. Of the three directorates responsible for the main regional programmes, the provisional

figures calculated in Table 1.10 suggest that DG IA has the highest administrative costs relative to the volume of aid it manages, at 5.7% of total commitments. This may be explained, as suggested earlier, by the fact that Phare and Tacis are essentially technical assistance programmes which are by their nature highly staff-intensive. Estimates for DG IB, responsible for the ALA and Med programmes, indicate slightly higher than average administrative costs, at 4.6% of aid committed. DG VIII appears to have the lowest administrative costs, apart from ECHO, accounting for some 3.8% of its budget.

Table 1.10: Partial Estimate^a of Administrative Costs per Directorate General & ECHO, 1996 (m ecu)

DG	Headquarters salary costs ^b	Delegation salary costs ^c	Delegation other costs ^d	Total costs	Commitments 1995 ^e	Costs (ecu) per m ecu committed
DG IA	50.1	24.0	18.6	92.7	1 600	57 000
DG IB	36.3	26.3	15.8	78.4	1 700	46 000
DG VIII	37.1	24.3	32.2	93.6	2 780	37 500
ECHO ^f	5.8	–	–	5.8	640	9 000
TOTAL	129.4	74.7	66.6	270.5	6 720	40 000

Notes:

^a The estimate is partial since elements of the total administrative costs are not included, such as the share of the cost of maintaining and renting headquarters buildings attributable to development cooperation. Aid managed by the EIB and EIB salaries and administrative costs are not included. The figures are indicative only, since the variety of different contractual arrangements and the imperfect comparability of data on staff numbers across directorates make precise comparisons impossible.

^b Headquarters salary costs refer to gross salaries (1996/97 scale), including an expatriate allowance, pension, and health and accident insurance. Totals were calculated using DG IX data for the numbers of staff (end 1996) within each DG at each grade to compute an average salary cost for each DG. The average salary was multiplied by the total number of headquarters staff (permanent, temporary and external) using DG I data (for start 1997).

^c Delegation salary costs also refer to gross salaries including allowances. Totals were calculated using DG IX data (end 1996) on the numbers of staff in delegations within each DG at each grade to compute an overall average salary cost for an average delegation official. The average salary was multiplied by the total number of delegation staff (European officials and local staff with university qualifications) using DG I data for start 1997. Note, these figures do not include all the delegation staff costs, since only the salary costs of total local staff, only those with university qualifications are included.

^d Delegation 'other costs' include, for example, the cost of maintaining and renting delegations (data supplied by DG IA).

^e These are rough estimates calculated on the basis of the aid commitments managed by the different directorates general. The total budget for DG VIII has been adjusted upwards to take account of its management of food aid to all countries. Emergency aid managed by ECHO has been excluded from the aid commitments totals for DGs IA, IB and VIII, and included under ECHO; source ODI, 1997.

^f ECHO's staff and other costs are not fully reflected here; eg the cost of its 'cellules' is not included.

Source: DG I, DG IA, DG IX, ODI database 1997

Decision-Making

Decisions on EC aid policies are formally taken by the Council of Ministers (the Development Council) which adopts regulations and directives on the basis of the Commission's proposals. The Development Council consists of the Ministers for Development Cooperation (or their equivalents) of the 15 Member States, but their resolutions are not binding on the Member States. Since the Maastricht Treaty, decisions on development cooperation financed through the EC Budget are taken on the basis of qualified majority voting. EC aid to the ACP countries supplied under the Lomé Convention is decided on an intergovernmental basis, also subject to qualified majority voting.

One of the consequences of the intergovernmental nature of Lomé spending is that the European Parliament has no formal role in controlling the expenditure of the EDF, although its Development Committee has 'monitored' decisions taken, eg in the mid-term review of Lomé IV. The Parliament has also sought to exert influence by 'discharging' EDF spending each year, and in 1996 it refused to give such a discharge and asked that the EDF be budgetised (made part of the overall EC Budget). National parliaments of the Member States do have control over the EDF, which some exercise more than others. All other aid flows, apart from the EDF, are subject to the control of the European Parliament, which approves each individual budget line. In the past the Parliament has used its power to block financial protocols, such as in the case of Syria and Turkey.¹⁷

Policies relating to the Lomé Convention are decided according to the procedures set out in the Convention. Most areas for decision-making are shared by the Community and the ACP countries. Joint ACP-EC institutions exist at three levels: the Council of Ministers, the Committee of Ambassadors and the Joint Assembly (bringing ACP and EC Members of Parliament together).

For the Community, rules on EDF decision-making for the *ACP countries* are included in the Internal Financing Agreement. The Commission submits country programmes and projects to be financed from the EDF for consideration by the Member States in the EDF Committee, which meets every month. The voting power of each Member State in the Committee is related to its contribution to the EDF, but it is rare that financing proposals are put to a vote. The Committee expresses an opinion and it is the Commission which has the formal power to approve or reject proposals. The Committee rarely expresses a negative opinion, but when it does the proposal is usually reconsidered at the next meeting to allow DG VIII officials time to amend it. The Committee has more authority over programmable aid (National and Regional Indicative Programmes) than over non-programmable resources, such as Stabex.

A separate committee of Member States representatives, (the 'Article 28 Committee') meets five or six times a year to approve the allocation of interest rate subsidies and risk capital from the EDF managed by the European Investment Bank.

The overall financial framework for Community aid to *Asia, Latin America, and the Mediterranean* follows a five-year plan, though the authority to commit and disburse funds is granted on an annual basis only. Decisions are taken by the Commission, taking into account the views of the management committees of the ALA and Med programmes in which the Member States are represented. In practice, the Commission has greater scope to respond to changing political or economic conditions in these countries, and can vary amounts to individual countries providing it stays within the overall annual budget appropriation. Currently, there is no formal mechanism in place to ensure that National Indicative Programmes are prepared and approved for the Asian and Latin American countries, though country strategy papers are usually drawn up. In the case of the Mediterranean countries, since the approval of the Meda Regulation in mid-1996, Indicative Programmes for three years (1996-98) have become compulsory, and will be revised on a rolling basis. It has been proposed that a Regional Indicative Programme also be prepared for the Mediterranean region, though this has yet to be approved.

As with the ALA and Mediterranean programmes, *Phare* and *Tacis* are funded through the Communities general Budget, determined by the European Parliament and the Council of Ministers. Multi-annual Indicative Programmes are prepared in cooperation with partner countries, indicating the nature of interventions for each sector. These programmes run for three years in the case of *Phare*, while for *Tacis* they have been extended since 1995 to cover four years. The shift from annual to multi-

¹⁷ Following the cooperation procedure (of the Maastricht Treaty art. 189c) amendments made by the EP can be rejected by the Council only if there is unanimity.

annual programmes has been found to accelerate the implementation of the EC's programmes, as well as providing scope for a more strategic approach. Commitments and disbursements, however, remain subject to the annual budget cycle of the Commission.

Operational programmes and the associated funds within the *Phare* programme are subject to approval by the Phare Management Committee. However, substantial moves towards decentralisation away from Brussels have been made, particularly with respect to financial management as well as programme planning and implementation. The intention is to transfer many of the functions of task managers (currently carried out at Brussels headquarters) to Commission and recipient government officials in the partner countries, leaving Brussels to concentrate on policy development.

Decision-making in *Tacis* also reflects an increasing emphasis on decentralisation, though it is less advanced than for Phare. Community attempts to strengthen political and economic ties with the New Independent States resulted in the establishment of a number of delegations which have also helped to strengthen Tacis's presence on the ground. Delegations (co-ordinating units) were established in Moscow in 1991, in Kiev (Ukraine) in 1994, and more recently in Almaty (Kazakhstan) and Tbilisi (Georgia). The intention is to open technical offices in some partner countries with close links to a co-ordinating unit and reporting directly to Brussels. In addition to the regional committees of Member State representatives, there is a separate financial committee for food aid.

2

How is EC Aid Spent?

Categorising EC Aid

Attempts to analyse where European Community aid as a whole has been spent (as distinct from parts reported on separately to the Council and Parliament), and what it has been spent on, have always been hampered by the inadequate or inconsistent categorisation of EC aid within the Commission. Except in the case of the EDF, data have been collected to meet internal administrative requirements rather than to facilitate an understanding of the development purposes of the aid. The EDF is currently the only programme which conforms to the reporting procedures of the OECD Development Assistance Committee, of which the European Commission is a member, although the other regional programmes are in the process of improving their management information systems. As a result, although a considerable amount of information is available on EC aid flows for 1986–95 it is difficult to use because of its diffuse and non-standardised nature.

In preparing this analysis, data have been collected at a highly disaggregated level to permit the presentation, for the first time, of an overall picture of the nature of EC aid. The raw data available for each aid programme have been reclassified according to a standard sectoral classification, thus providing a basis for comparing the main regional programmes. The recategorisation of EC aid according to these instruments, sectors and subsectors yields reasonably comprehensive information, with only 6.8% of all EC aid commitments remaining unclassifiable by country or region, while 10% was unallocable by development purpose or sector.¹

Data were collected for commitments and disbursements (where available) and not for the intermediary stage, used within parts of the Commission, called ‘contracts’ or ‘secondary commitments’. In this study commitments are understood to correspond to an internal Commission act which precedes the signing of the project financing agreements with beneficiary governments or regional or other (eg NGO) entities. Disbursements represent the actual payments made to the governments or other bodies, and they follow a timetable specific to each project agreement and contract. The categorisation adopted is based on that used by the DAC, but has been adapted to take account of the particularities of EC aid. (Furthermore, by being based on the DAC sector codes it is hoped that this preliminary review of EC aid will also help the European Commission to fulfil its reporting requirements to the Development Assistance Committee.) Five main instruments have been identified, with the fifth – Project Aid – subdivided into six sectors. These eleven headings correspond closely to the principal types of EC aid, and allow a more detailed picture to be presented than would reliance on the eight main categories used by the DAC.² Some of the instruments and sectors have in turn been subdivided into subsectors giving a total of 26 categories.³ The instruments and categories are listed below:

¹ For disbursements the unallocable is higher, which is why the present analysis is undertaken mainly on the basis of commitments.

² The DAC uses 10 main headings but ‘Action relating to debt’ falls outside the Community’s remit, and ‘Administrative costs’ cannot currently be discretely identified.

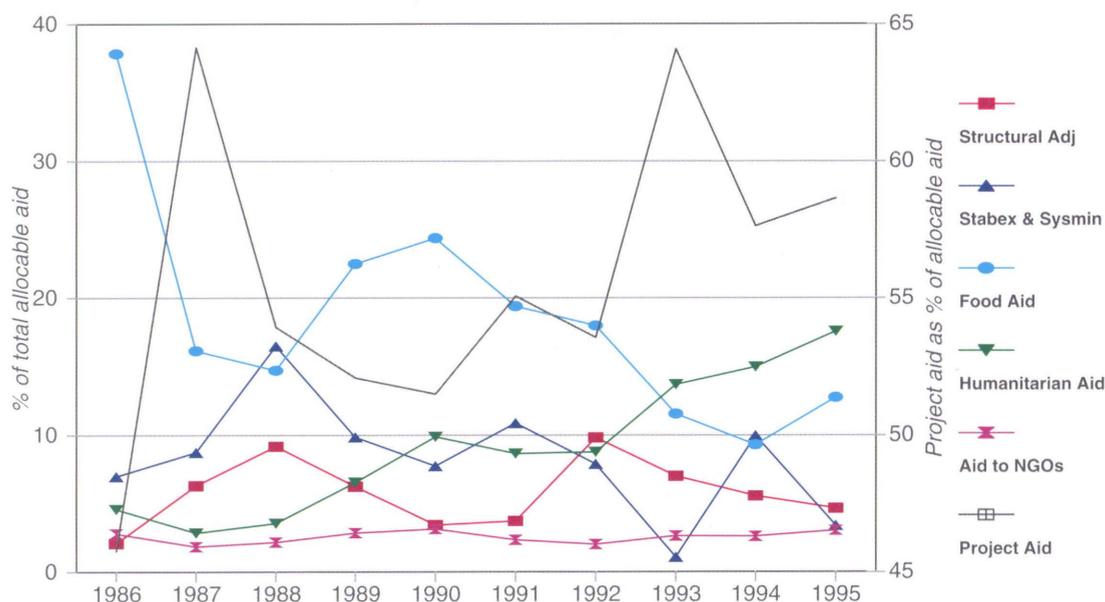
³ This represents a simplification of the DAC system, which uses 35 categories relevant to EC aid. The ODI categories, however, remain compatible with DAC codes.

1. **Programme Aid**
 - Support for structural adjustment
 - Stabex
 - Sysmin
2. **Food aid (developmental)**
3. **Humanitarian Assistance**
4. **Aid to NGOs**
5. **Project Aid**
 - 5.1 **Natural Resources Productive Sectors**
 - Agriculture
 - Forestry
 - Fisheries
 - 5.2 **Other Productive Sectors**
 - Industry, mining and construction
 - Trade
 - Tourism
 - Investment promotion
 - 5.3 **Economic Infrastructure and Services**
 - Transport and communications
 - Energy
 - Banking, finance and business services
 - 5.4 **Social Infrastructure and Services**
 - Education
 - Health and population
 - Water supply
 - Other social infrastructure and services
 - 5.5 **Governance and Civil Society**
 - 5.6 **Multi-sector/Crosscutting**
 - Environment
 - Women in development
 - Rural development
 - Other multisector
6. **Unallocable**

It is currently not possible to categorise data on EC aid flows by 'theme'. Although progress has recently been made in introducing a 'marker' system for such themes as Women in Development and the environment, implementation is insufficiently advanced to permit a thematic analysis in this study. This means that statistical data for Women in Development or the environment, for example, include only funds allocated specifically to these themes, and therefore may underestimate the EC aid contribution in these areas.

Overview of the Main Instruments and Sectors of EC Aid

General trends in allocations to instruments and sectors are covered here, and a more detailed analysis is provided later in the chapter and in Chapters 3 to 6. Over the 1986–95 period, aid through the four main instruments has declined slightly as a share of total allocable EC aid, from an average of 46% for

Figure 2.1: Main Instruments of EC Aid 1986–95 (commitments m ecu)

Note: The left-hand axis indicates commitment levels for the first four instruments of EC aid – programme aid (structural adjustment assistance, Stabex & Sysmin), food aid, humanitarian aid, and aid to NGOs – while the right-hand axis indicates the level of project aid.

Source: ODI database 1997

1986–90 to 42% for 1991–95.⁴ Total aid through the first four instruments (programme aid, food aid, humanitarian assistance, and aid to NGOs) increased in absolute terms (from 6.9 bn ecu to 12.8 bn ecu), but project aid increased by even more (more than doubling), which explains why the share through the first four instruments declined slightly.⁵ Project aid, the fifth instrument, remained relatively stable as a proportion of total allocable aid, accounting for less than 55% of all aid during the 1988–92 period, though it subsequently rose to about 60%.

Yet these aggregate figures conceal a number of opposing trends, which are clearly shown in Figure 2.1. Aid through one instrument – humanitarian assistance – increased enormously, more than doubling from 1986–90 to 1991–5 as a proportion of total aid, to 13%. This increase reflects the increased priority given to humanitarian assistance since the establishment of ECHO in 1992 and the EC's response to the crises in former Yugoslavia and Rwanda/Burundi. Aid through the other three instruments, however, either stagnated or decreased as a proportion of total aid, though even here the picture is not a straightforward one. Thus programme aid declined relative to the total EC aid programme from 17% to 13% over the two periods, due very largely to the negligible total for Stabex in 1993; support to structural adjustment and Sysmin actually increased in absolute terms and remained

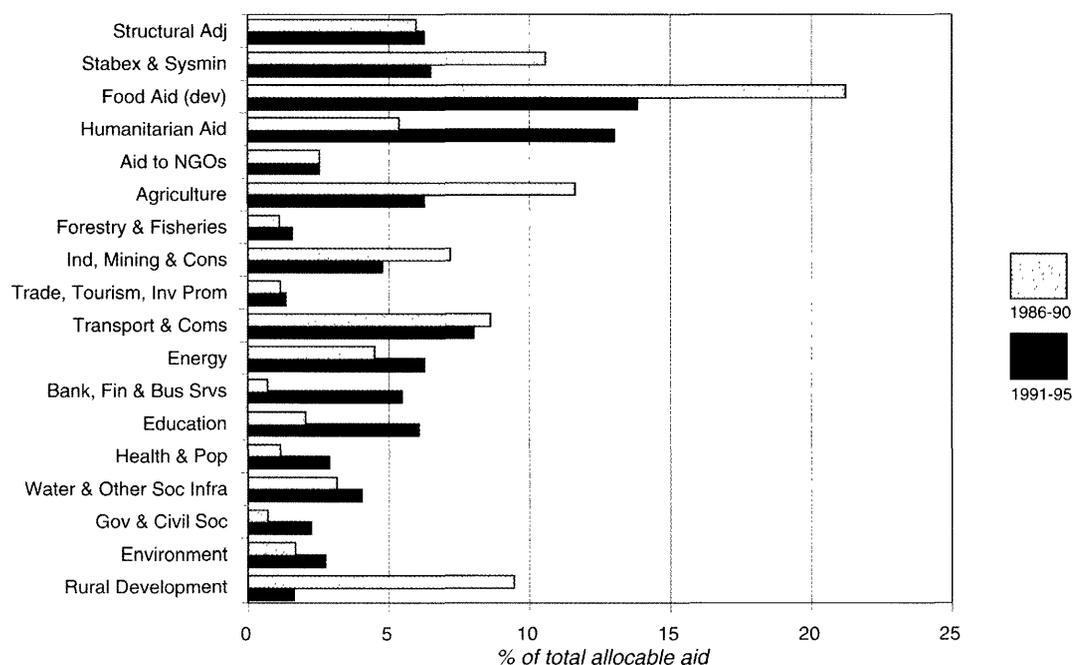
⁴ Trends in sectoral shares over time could be influenced by fluctuations in the proportion of EC aid that is unallocable by sector. To avoid this the shares cited in this chapter are expressed as a proportion of total allocable aid. For completeness, however, Table 2.1 includes the unallocable amount and expresses shares as a proportion of total aid.

⁵ For convenience the term 'instruments' will be used to refer to the first four instruments, while the fifth instrument will henceforth be referred to as 'project aid'.

steady in relative terms (see Table 2.1). Food aid, on the other hand, increased only slightly in absolute terms, but declined as a proportion of the whole programme, from an average of over 21% for 1986–90 to 14% in the 1990s (Figure 2.1).⁶ Aid committed to NGOs, largely through the co-financing instrument, doubled over the period, thereby retaining a constant share (2.5%) of the entire programme.

A sketch of the trends in project aid reveals that aid to every sector and subsector but one increased in absolute terms over the two periods (see Figure 2.2). The exception, rural development, experienced a decline in commitments, from a total of 1433 m ecu for 1986–90, to under 500 m ecu in the 1990s, representing an even larger decline in relative terms from 9% to under 2% of total EC aid. Aid to the natural resources sector declined moderately relative to the whole aid programme, falling from 13% to 8%. This was due to a levelling off of aid to agriculture (its share was halved at 6%), while aid to the forestry and fisheries subsectors grew from 165 m ecu in the latter half of the 1980s to 475 m ecu in the 1990s (a rise from 1.1% to 1.6%). Aid to the 'other productive sectors' (industry, trade, tourism and investment promotion) fell in relative terms (from 8% to 6%), due to a decline in the share of aid to industry, mining and construction.

**Figure 2.2: Sectoral Allocation of allocable EC Aid to all Regions 1986–95
(commitments m ecu)**



Source: ODI database 1997

⁶ Only in the ACP region did food aid increase as a share of total aid, from 5% to 13%. For the regional trends in sectoral allocation see Chapters 3 to 6.

Table 2.1: Sectoral Allocation of all EC Aid (commitments, m ecu and %)

VOLUME OF COMMITMENTS, m ecu	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid	159	529	983	487	339	716	1097	512	1048	512	6384
Structural Adjustment	37	222	351	189	104	183	608	444	376	297	2810
Stabex	122	308	566	283	220	515	397	4	615	131	3161
Sysmin	–	–	66	16	15	18	92	64	57	84	413
Food Aid (developmental)	665	568	563	681	741	950	1115	734	626	809	7451
Humanitarian Aid	80	100	135	198	299	423	543	870	1009	1117	4776
Humanitarian Aid excl rehabilitation	59	74	106	165	259	379	502	823	915	812	4095
Rehabilitation	21	27	29	32	41	44	41	47	94	305	681
Aid to NGOs	49	65	83	86	95	115	125	168	175	193	1153
Natural Resources Productive Sectors	163	560	464	322	414	443	432	568	483	452	4300
Agriculture	154	530	413	290	370	406	322	466	377	333	3661
Forestry	–	23	1	8	27	6	87	68	79	117	417
Fisheries	9	6	49	24	17	32	23	34	27	2	223
Other Productive Sectors	214	245	306	274	215	380	314	402	387	363	3102
Industry, Mining & Construction	203	232	275	240	132	340	235	284	319	274	2533
Trade	7	13	16	21	48	28	45	61	24	27	289
Tourism	3	1	14	9	23	1	12	28	5	21	117
Investment Promotion	–	–	1	5	13	12	22	29	39	42	162
Economic Infrastructure & Services	249	613	396	498	316	1009	993	1225	1408	1366	8073
Transport & Communications	130	445	257	331	136	449	380	437	615	555	3735
Energy	112	166	132	162	102	276	320	367	491	446	2575
Banking, Finance & Bus Services	8	1	7	4	78	283	292	421	303	365	1763
Social Infrastructure & Services	86	207	285	145	228	524	743	1042	747	881	4887
Education	13	69	72	53	100	236	295	553	429	330	2150
Health & Population	24	47	56	26	22	146	168	209	117	227	1042
Water Supply	49	60	144	49	90	64	210	186	89	246	1186
Other Social Infra & Services	1	31	13	17	16	78	69	94	112	78	509
Governance & Civil Society	3	12	17	12	53	58	120	165	207	117	765
Multisector/Crosscutting	89	621	599	326	339	284	720	673	653	550	4854
Environment	4	4	16	50	172	106	160	164	140	250	1066
Women in Development	–	–	–	1	–	–	2	5	7	39	54
Rural Development	7	579	529	239	80	91	195	95	67	33	1914
Other Multisector	78	38	54	37	86	87	363	410	439	228	1820
Unallocable by Sector	796	335	365	286	216	666	394	487	571	981	5099
TOTAL	2553	3857	4196	3314	3255	5567	6597	6847	7316	7343	50845
SHARE OF COMMITMENTS (%)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid	6.2	13.7	23.4	14.7	10.4	12.9	16.6	7.5	14.3	7.0	12.6
Structural Adjustment	1.4	5.7	8.4	5.7	3.2	3.3	9.2	6.5	5.1	4.0	5.5
Stabex	4.8	8.0	13.5	8.5	6.8	9.2	6.0	0.1	8.4	1.8	6.2
Sysmin	–	–	1.6	0.5	0.5	0.3	1.4	0.9	0.8	1.2	0.8
Food Aid (developmental)	26.0	14.7	13.4	20.5	22.8	17.1	16.9	10.7	8.6	11.0	14.7
Humanitarian Aid	3.1	2.6	3.2	6.0	9.2	7.6	8.2	12.7	13.8	15.2	9.4
Humanitarian Aid excl rehabilitation	2.3	1.9	2.5	5.0	7.9	6.8	7.6	12.0	12.5	11.1	8.1
Rehabilitation	0.8	0.7	0.7	1.0	1.3	0.8	0.6	0.7	1.3	4.2	1.3
Aid to NGOs	1.9	1.7	2.0	2.6	2.9	2.1	1.9	2.4	2.4	2.6	2.3
Natural Resources Productive Sectors	6.4	14.5	11.1	9.7	12.7	8.0	6.5	8.3	6.6	6.2	8.5
Agriculture	6.0	13.8	9.8	8.7	11.4	7.3	4.9	6.8	5.2	4.5	7.2
Forestry	–	0.6	0.0	0.3	0.8	0.1	1.3	1.0	1.1	1.6	0.8
Fisheries	0.3	0.2	1.2	0.7	0.5	0.6	0.4	0.5	0.4	–	0.4
Other Productive Sectors	8.4	6.4	7.3	8.3	6.6	6.8	4.8	5.9	5.3	4.9	6.1
Industry, Mining & Construction	8.0	6.0	6.6	7.2	4.0	6.1	3.6	4.1	4.4	3.7	5.0
Trade	0.3	0.3	0.4	0.6	1.5	0.5	0.7	0.9	0.3	0.4	0.6
Tourism	0.1	0.0	0.3	0.3	0.7	0.0	0.2	0.4	0.1	0.3	0.2
Investment Promotion	–	–	0.0	0.1	0.4	0.2	0.3	0.4	0.5	0.6	0.3
Economic Infrastructure & Services	9.8	15.9	9.4	15.0	9.7	18.1	15.0	17.9	19.3	18.6	15.9
Transport & Communications	5.1	11.5	6.1	10.0	4.2	8.1	5.8	6.4	8.4	7.6	7.3
Energy	4.4	4.3	3.2	4.9	3.1	5.0	4.8	5.4	6.7	6.1	5.1
Banking, Finance & Bus Services	0.3	0.0	0.2	0.1	2.4	5.1	4.4	6.2	4.1	5.0	3.5
Social Infrastructure & Services	3.4	5.4	6.8	4.4	7.0	9.4	11.3	15.2	10.2	12.0	9.6
Education	0.5	1.8	1.7	1.6	3.1	4.2	4.5	8.1	5.9	4.5	4.2
Health & Population	0.9	1.2	1.3	0.8	0.7	2.6	2.5	3.1	1.6	3.1	2.0
Water Supply	1.9	1.6	3.4	1.5	2.8	1.1	3.2	2.7	1.2	3.3	2.3
Other Social Infra & Services	0.0	0.8	0.3	0.5	0.5	1.4	1.1	1.4	1.5	1.1	1.0
Governance & Civil Society	0.1	0.3	0.4	0.4	1.6	1.0	1.8	2.4	2.8	1.6	1.5
Multisector/Crosscutting	3.5	16.1	14.3	9.8	10.4	5.1	10.9	9.8	8.9	7.5	9.5
Environment	0.1	0.1	0.4	1.5	5.3	1.9	2.4	2.4	1.9	3.4	2.1
Women in Development	–	–	–	0.0	–	–	–	0.1	0.1	0.5	0.1
Rural Development	0.3	15.0	12.6	7.2	2.5	1.6	3.0	1.4	0.9	0.4	3.8
Other Multisector	3.1	1.0	1.3	1.1	2.6	1.6	5.5	6.0	6.0	3.1	3.6
Unallocable by Sector	31.2	8.7	8.7	8.6	6.6	12.0	6.0	7.1	7.8	13.4	10.0
TOTAL	100.0										

Source: ODI database 1997

Aid to all other sectors and subsectors rose, or at least remained stable, relative to total EC aid over the two periods. The social infrastructure and services sector rose most, from nearly 1 bn ecu during 1986–90 to nearly 4 bn ecu for 1991–95. Within that the subsectors of education (which tripled as a share of total aid to 6%) and health experienced the largest rises. Economic infrastructure also grew very significantly, from 2 bn ecu to 6 bn ecu, with the banking, finance and business services and energy subsectors growing most. Aid to strengthen government and civil society also grew substantially, particularly with the establishment of a budget line (B7-5053/B7-5220) in 1992 to promote human rights and democracy, increasing from 0.6% to 2.2%. Aid targeted specifically at the environment became quite sizeable in the course of the 1990s, totalling some 820 m ecu for the 1991–95 period, or nearly 3% of the entire aid programme. Finally, it should be noted that these figures have been calculated to avoid the possibility of double-counting (where aid flows are counted towards more than one sector).

EC Aid Through Instruments

Programme Aid

The category ‘programme aid’ includes support for structural adjustment (which includes import support programmes initiated under Lomé III) and the EC’s two distinct commodity compensation schemes – Stabex and Sysmin. The programme aid instrument is largely a feature of EC aid to the ACP, which received 95% of all commitments over the decade, and where it accounted for over a quarter of all aid.

Support for structural adjustment is provided as import support, in kind or foreign currency, to support the central budget of recipient countries. Most of these concessional funds benefit the ACP countries and have been financed from the EDF, though a small amount of structural adjustment support was allocated to Mediterranean countries from the EC budget in recent years.

Import support for ACP countries has evolved substantially since 1986 when it was first introduced in the Commission. Initially ACP countries received support in the form of ‘sectoral development and import programmes’ (art. 188 of Lomé III). These programmes were designed to support economic growth and address basic needs in recipient countries. Subsequently, in 1987, the ‘Special Debt Programme’ was introduced. This special facility provided import support to ACP countries which were heavily indebted and implementing a structural adjustment programme or which had undertaken macroeconomic adjustment policies acceptable to the EC. In Lomé IV the Community’s commitment to support structural adjustment programmes as approved by the IMF and World Bank was strengthened and a new facility for structural adjustment support was created (art. 243–250 of Lomé IV); 1150 m ecu and 1400 m ecu were allocated from EDF 7 (1990–95) and EDF 8 (1995–2000) respectively for this facility. (See Chapter 3 for further information on import support to ACP countries.)

From 1992 onwards, four south-eastern Mediterranean countries (Algeria, Morocco, Jordan and Tunisia) received such structural adjustment assistance with a special facility of 300 m ecu included in Protocol 4 for this purpose. Loans for balance of payments support have also been provided to Mediterranean countries and the CEECs and NIS, although these are excluded from the present analysis since they are lent at market rates. (See also section on balance of payments support in Chapter 1.)

Stabex and *Sysmin* are financed by EDF contributions to ACP countries, with the exception of some *Stabex*-type assistance for some non-ACP countries in a number of years.⁷ *Stabex* and *Sysmin* are therefore discussed further in Chapter 3.

Between 1986 and 1995 almost 6 bn ecu has been committed to programme aid. More than half of this (3.2 bn ecu) was committed through the *Stabex* facility. Support for structural adjustment accounted for 42% (2.5 bn ecu) of all programme aid commitments, while only 7% was committed through *Sysmin*. The quick-disbursing nature of programme aid is demonstrated by the high disbursement levels throughout the period which add up to 94% of commitments between 1986 and 1995.

Food Aid

Dating from 1967, food aid was the first instrument to be introduced outside the framework of existing cooperation agreements and financed from the EC budget. Food aid, which is provided on a grant basis, is donated to all regions without conditionality. Three forms of food aid can be distinguished: food security projects, emergency food aid and programme or structural food aid. The latter is sold on the local markets and generates counterpart funds which are managed in a similar way to those generated by general import support. These funds were initially intended for agricultural development, but this has changed since the DAC Principles of 1992 have indicated that counterpart funds should contribute to a country's general budget, rather than being tied to particular projects or sectors. Emergency food aid has become the responsibility of ECHO since its establishment in 1992, and a separate budget line was created for it in 1993.

Food aid originally responded to the need to dispose of European Community food surpluses, and was therefore managed according to the rules of the Common Agricultural Policy. It was managed in conjunction with the agricultural directorate (DG VI), but the main responsibility for its allocation and for negotiations with the recipients lay with DG VIII.

Over the years food aid policy has gradually been reformed (in 1983, 1986 and 1996), delinking it from the Common Agricultural Policy and integrating it more firmly into Community development policy in response to concerns about food security. From 1986 it has been managed by a special Food Aid Division in DG VIII, though DG VI has remained responsible for the mobilisation of most of the food aid sourced from European surpluses.

The 1986 Council Regulation defined policy and management guidelines for EC food aid more clearly. This has now been superseded by a Regulation in June 1996 which sought to take into account the objectives of the Treaty on European Union, and further stressed the need for coordination of policies

Box 2.1: Objectives of Food Aid and Operations in support of food security

- to promote food security;
- to raise the standard of nutrition;
- to promote the availability and accessibility of foodstuffs to the public;
- to contribute to balanced social and economic development;
- to support efforts to improve food production;
- to reduce dependence on food aid;
- to encourage independence in food by enhancing food production and/or purchasing power;
- to contribute to initiatives to combat poverty.

The allocation criteria for EC food aid are (i) food shortages, (ii) per capita income and the existence of particularly poor population groups, (iii) social indicators of the welfare of people, (iv) BoP situation of the country, (v) the economic and social impact and financial cost of the proposed action and (vi) the existence of a long-term policy on food security in the recipient country. The last criterion has been introduced recently.

Source: Council Regulation 1292/96, 27.6.1996

⁷ Between 1987 and 1991 a special budget line analogous to *Stabex* existed in support of non-ACP countries Bangladesh, Nepal, Yemen, and Haiti (the last becoming a signatory of the Lomé Convention only in 1991). Information about this budget line is included in the section on *Stabex* in Chapter 5.

and practice of the Member States and the Community. It focuses on the need for a long-term sustainable solution to the problem of food insecurity and emphasises the importance of development operations that are geared to stimulating local production and trade. The Regulation calls upon the Community to enhance the flexibility with which funds can be directed towards operations in support of food security.

**Table 2.2: Main Recipients of Developmental Food Aid 1986–95
(commitments m ecu)**

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
ACP	6	–	14	248	224	410	279	331	365	337	2212
Ethiopia	–	–	–	68	41	106	75	56	74	89	510
Sudan	–	–	–	28	38	109	27	27	22	6	256
Mozambique	–	–	3	38	44	41	24	46	12	20	228
Angola	–	–	3	11	5	21	10	17	39	47	153
Malawi	–	–	3	11	12	19	17	5	30	26	123
Rwanda	–	–	–	1	1	2	6	23	41	34	108
Kenya	–	–	–	–	5	7	12	15	15	12	73
Somalia	–	–	1	7	5	14	34	6	1	0	69
Eritrea	–	–	–	–	–	–	–	31	24	10	65
Liberia	–	–	–	0	4	11	4	26	14	2	62
Uganda	–	–	–	8	11	8	9	10	10	4	60
Haiti	–	–	–	9	9	7	6	8	8	10	58
Asia	–	–	19	173	81	69	100	56	63	98	659
Bangladesh	–	–	0	49	31	30	36	30	30	49	255
China	–	–	17	44	22	10	3	8	12	11	128
India	–	–	–	40	5	4	37	5	4	5	99
Pakistan	–	–	1	19	8	22	15	1	0	2	68
Latin America	–	–	6	67	58	55	48	56	50	52	392
Peru	–	–	3	11	14	14	17	16	24	22	121
Nicaragua	–	–	1	11	11	8	11	13	6	6	67
Bolivia	–	–	3	11	6	9	7	7	0	8	51
Cuba	–	–	–	4	8	5	6	5	4	10	43
Med & Middle East	–	–	3	111	73	77	67	76	48	57	512
Egypt	–	–	–	47	31	16	31	27	17	18	188
Tunisia	–	–	–	20	12	7	8	6	3	17	74
Palestinian Adm Area	–	–	–	5	4	19	8	11	16	8	71
CEECs (EAGGF: 420 m ecu)	–	–	–	43	183	63	64	94	8	–	456
Regional Phare	–	–	–	7	183	63	20	0	–	–	274
Albania	–	–	–	–	–	–	44	75	5	–	124
NIS (EAGGF: 717 m ecu)	–	–	–	–	–	207	254	64	29	167	722
Soviet Union (former)	–	–	–	–	–	207	210	19	12	–	448
Regional Tacis	–	–	–	–	–	–	–	–	17	163	180
Baltic States	–	–	–	–	–	–	44	44	0	–	89
Unallocable	659	568	521	39	121	69	303	57	63	98	2498
Total	665	568	563	681	741	950	1115	734	626	809	7451
Food Aid as Share of Total Budget Aid (%)	51.2	44.4	44.8	46.6	35.0	25.7	27.6	17.3	15.2	15.7	26.0
Food Aid as Share of Total EC Aid (%)	26.0	14.7	13.4	20.5	22.8	17.1	16.9	10.7	8.6	11.0	14.7

Source: ODI database 1997

Food aid and food security projects may be implemented by the recipient countries, international bodies, NGOs, or directly by the Commission. In 1994 only 35% was direct aid. Food aid has traditionally represented a large proportion of EC aid, and over the 1986–95 period it formed the second largest sector after economic infrastructure and services (see Table 2.2). Commitments to the sector accounted for as much as 40–50% of EC Budget aid in the late 1980s, and fluctuated between 14% and 26% of total EC aid. In recent years, however, the importance of food aid has declined significantly. Between 1993 and 1995 it accounted for only 9–11% of all EC aid. In absolute terms, however, commitments of food aid contributions increased from 3.2 bn ecu in the 1980s to 4.2 bn ecu in the 1990s.

The main recipients of developmental food aid are listed in Table 2.2. From 1989 onwards the country allocation of the vast majority of food aid is readily available; for 1986–8 the geographical distribution cannot be provided by the Commission's own food aid authorities and so has to be classed as 'unallocable'. This is obviously unsatisfactory, especially for a period following the major African food crisis of 1984/85.

Humanitarian Assistance

EC humanitarian assistance encompasses a broad range of actions, from providing emergency relief to victims of natural disasters and wars, to disaster prevention and preparedness, to coping with refugees, or to carrying out short-term rehabilitation and reconstruction work. The boundaries between these activities inevitably overlap, and the distinction between humanitarian and development assistance is itself far from explicit. However, relief, rehabilitation and development may be linked in a continuum whereby long-term 'development' can reduce the need for emergency relief, effective emergency 'relief' can contribute to development, and better 'rehabilitation' can ease the transition between the two.⁸ Account is taken of this by differentiating between rehabilitation assistance and other humanitarian aid (mainly relief actions). For the EC, the explicit aim of relief operations is to save the lives of victims of emergency situations and reduce their suffering. Rehabilitation provides an intermediate strategy of reconstruction, improvement of infrastructure and services, and institutional reinforcement, all aiming at the resumption of sustainable development.

Table 2.3 shows the growth in humanitarian assistance from 1993 onwards, when it rapidly increased to over 1 bn ecu, representing 15% of all EC aid by 1995. With commitments totalling 4.8 bn ecu over the 1986–95 decade, humanitarian aid was the fourth largest sector (jointly with social infrastructure and services and multisector aid), and in 1995 was the third largest (after economic infrastructure and food aid). This increase reflects the increase in overall expenditures on humanitarian aid by EU donors as a whole in response to a sequence of major relief operations in Somalia, Bosnia and the Great Lakes Region in Africa, and the additional impetus given

Box 2.2: European Community Humanitarian Office (ECHO)

The Commission formally created ECHO on 1 April 1992, though it did not become fully operational until the beginning of 1993 when it received adequate levels of staff. ECHO assumed responsibility for emergency food aid as well as non-food (eg medical) humanitarian aid. ECHO was put on a legal footing only in July 1996 (Council Regulation (EC) 1257/96). This set out the following objectives:

- i) to save and preserve life during emergencies and their immediate aftermath;
- ii) to provide assistance and relief during longer-lasting crises;
- iii) to finance the transport of aid and make it accessible;
- iv) to carry out short-term rehabilitation and reconstruction;
- v) to cope with refugees, displaced people and returnees.

⁸ This is elaborated in COM(96) 153 final, 30.4.1996, *Communication from the Commission to the Council and the European Parliament on Linking Relief, Rehabilitation and Development*.

to humanitarian aid within the Commission by the establishment of the European Community Humanitarian Office in 1992 (see Box 2.2). This was created in order to respond more efficiently to humanitarian crises, and has at the heart of its approach an emphasis on the need for a better relationship with NGOs. In May 1993 it adopted Framework Partnership Agreements as the basis for this, with the objective of regularising relations and simplifying decision-making. ECHO provided humanitarian assistance to over 60 countries in 1996, as well as managing a disaster preparedness programme in high-risk areas of the world.

From 1993 onwards most humanitarian aid (1 658 m ecu, or over 55%) has been financed through ECHO's budget lines, and a further 400 m ecu has been financed from the EDF but managed by ECHO (see Table 2.3). The EDF has itself provided and managed over 500 m ecu of humanitarian aid since 1986 (with a further 400 m ecu of EDF funds being managed by ECHO). Other budget lines have also provided some 2.2 bn ecu of humanitarian aid during the 1986–95 period. These have either been created to meet specific needs (eg B7-407: aid to the UN refugee programme in the Palestinian Administrative Areas), or are the major budget lines for regional programmes, part of which is spent on humanitarian aid (eg B7-3000: Asia; and B7-600: Phare).

**Table 2.3: Sources of Humanitarian Assistance 1986–95
(commitments m ecu & % of total aid)**

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Total Humanitarian Aid	80	100	135	198	299	423	543	870	1009	1117	4776
Total Humanitarian excl Rehab	59	74	106	165	259	379	502	823	915	812	4095
Total Rehabilitation	21	27	29	32	41	44	41	47	94	305	681
Humanit. aid as % of total EC Aid	3.1	2.6	3.2	6.0	9.2	7.6	8.2	12.7	13.8	15.2	9.4
SOURCES:											
ECHO	–	–	–	–	–	–	–	516	499	642	1658
Humanitarian excl Rehab	–	–	–	–	–	–	–	516	499	642	1658
Rehabilitation	–	–	–	–	–	–	–	–	–	–	–
EDF	8	31	56	78	50	53	87	118	255	205	939
Humanitarian excl Rehab	8	28	55	76	50	53	86	117	255	30	759
Rehabilitation	0	3	0	1	0	0	0	1	0	175	181
Portion of EDF managed by ECHO	–	–	–	–	–	–	–	90	263 ^b	46	399
Other Budget Lines^a	72	70	80	120	249	370	456	236	255	271	2179
Humanitarian excl Rehab	51	46	51	89	209	326	415	190	161	140	1678
Rehabilitation	21	24	29	31	40	44	41	46	94	131	501

^a The largest are: B7600 (Phare); B7302 (refugees); B7500; B7407 (UN refugees); B73000 (Asia); B75076 (rehabilitation); B7217 (refugees); B7210; B75071 (rehabilitation)

^b That this figure exceeds EDF commitments for 1994 is probably due to differences in the allocation of commitments for 1994 and 1995 in different parts of the Commission.

Source: ODI database 1997

In 1996, two Regulations relating to humanitarian aid and to rehabilitation and reconstruction were adopted by the Council of Development Ministers, both emphasising the need to strengthen the coordination of EC aid with that of the Member States.⁹ The Regulation on humanitarian aid outlines

⁹ Regulations (EC) No. 1257/96 of 20.6.1996 and (EC) No. 2258/96 of 22.11.1996, respectively.

criteria for selecting non-governmental partners for funding, and supports increased cooperation between NGOs in the Member States and their equivalents in recipient countries. The importance of ensuring greater coherence and continuity across the fields of humanitarian aid, rehabilitation and development is underlined in the Regulation on rehabilitation and reconstruction. The Community's priorities are defined as relaunching production on a lasting basis, the rehabilitation of basic infrastructure, the social reintegration of refugees, displaced persons and demobilised soldiers, and rebuilding local institutional capacities.

Table 2.4: Regional and Country Distribution of EC Humanitarian Aid (commitments m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
ACP	18	36	61	83	72	79	117	144	348	417	1374
Rwanda/Bur Emerg	–	–	–	–	–	–	–	–	177	82	259
Angola	–	3	1	6	9	10	19	14	32	83	177
Sudan	6	1	26	22	8	15	9	10	24	19	140
Zaire	–	–	1	1	1	3	–	8	11	89	113
Somalia	–	1	0	1	1	11	41	32	8	7	102
Mozambique	–	5	4	17	6	8	19	11	13	15	98
Ethiopia	4	10	18	19	7	9	4	1	3	2	77
South Africa	–	–	–	2	1	–	1	0	0	–	3
Asia	2	17	10	37	20	65	84	88	90	95	508
Afghanistan	1	–	7	1	5	4	19	20	27	21	104
Bangladesh	–	11	1	22	–	33	5	19	5	3	100
Vietnam	0	–	–	0	0	10	22	25	2	11	71
Cambodia	–	–	–	–	3	2	14	11	15	21	66
Pakistan	–	–	–	4	5	7	10	2	24	0	51
Latin America	3	1	9	29	12	16	22	32	59	59	241
Nicaragua	0	–	4	1	5	5	6	5	22	16	65
Cuba	–	–	–	–	–	–	–	8	14	15	37
El Salvador	1	–	–	3	3	3	13	6	3	4	36
Med & Mid East	57	33	25	39	34	172	34	70	85	94	642
Palestinian Adm Area	57	27	24	24	26	59	29	40	50	52	387
Iraq	–	–	–	–	–	111	3	22	23	25	184
Lebanon	0	5	–	8	1	0	–	2	4	12	32
CEECs	–	2	–	8	105	80	282	441	310	272	1499
Yugoslavia (ex)	–	–	–	–	30	14	210	420	300	269	1244
Romania	–	–	–	5	13	35	22	10	–	1	86
Albania	–	–	–	–	–	10	50	10	9	1	80
NIS	–	–	19	–	5	11	4	75	92	137	344
Former Soviet Union	–	–	10	–	5	6	4	51	–	–	75
Russian Federation	–	–	9	–	1	5	0	–	10	30	55
Azerbaijan	–	–	–	–	–	–	–	–	19	29	48
Georgia	–	–	–	–	–	–	–	–	18	27	45
Armenia	–	–	–	–	–	–	–	–	19	24	43
Unallocable	–	12	12	–	51	1	–	21	25	43	164
Total Humanitarian Aid	80	100	135	198	299	423	543	870	1009	1117	4776

Source: ODI database 1997

The greatest proportion of humanitarian assistance has been channelled to Central and Eastern Europe, largely to the states of former Yugoslavia which together received 1.3 bn ecu over the four years 1992–5, making the EC the largest donor (see Table 2.4). Sub-Saharan African countries have traditionally been the largest recipients of EC humanitarian assistance, with Rwanda and Burundi ranking as by far the largest recipients within the region. Angola has also been a major recipient of both relief and rehabilitation aid as a result of its 35-year war, while Sudan, Mozambique, Somalia and Ethiopia have been steady recipients of humanitarian assistance. The Mediterranean and Middle East region received some 13% of all humanitarian assistance, Asia 11%, the NIS 7% and Latin America 5%.

In 1994 the Commission's rehabilitation programmes received a boost, doubling in 1994 and tripling to 300 m ecu in 1995, following the Council decisions in 1993 setting out guidelines for the Special Initiative for Africa. This approved additional funding for rehabilitation activities in Africa following the cessation of conflicts in the Horn and southern Africa. Not surprisingly, therefore, 80% of rehabilitation aid was concentrated in sub-Saharan Africa in 1995, despite the difficulties experienced by a number of countries in absorbing this assistance.

Aid to NGOs

EC aid supports the work of NGOs both by 'contracting' them to provide particular services and through its co-financing scheme (see Box 2.3). EC aid *through* NGOs, where the NGO is contracted to implement Commission-designed projects and programmes, is accounted for under the total of aid to the particular sector (e.g. agriculture, or humanitarian aid). The amount of EC aid through NGOs is significant, but there is no reliable way at present to quantify it. Commission aid *to* NGOs through the co-financing scheme is examined separately, since in this case the initiative remains with the NGO itself, and it is this figure which is listed in the sectoral tables. It should be emphasised, however, that the distinction between aid *to* and aid *through* NGOs is rather blurred, owing to the difficulty of judging the degree of autonomy and initiative enjoyed by NGOs. It is possible, therefore, that this analysis underestimates the amount of EC financing to NGOs.

The NGO co-financing scheme provides funds up to a maximum of 500,000 ecu for any one project for a maximum of five years. The Commission contribution is normally up to 50%, though in some circumstances up to three-quarters of the cost may be borne by the EC. The mechanism is intended to offer rapid co-financing, which is sufficiently flexible to take account of the diversity of situations in which NGOs work. It is seen as a response to the commitment and support shown for years by the European public towards non-governmental efforts to improve the living conditions of the poor.

EC aid to NGOs has increased significantly in recent years, doubling from 378 m ecu in 1986–90 to nearly 800 m ecu for 1991–5, which is in line with the growth in EC aid overall. The vast majority of aid to NGOs was funded through the co-financing budget line (B7-5010), which dates back to 1976, and went mainly to the ACP and

Box 2.3: NGO co-financing

The main pillar of the Commission's support to European NGOs is through the co-financing programme which began in 1976, and which has since provided over 1 bn ecu of aid. The EC's support goes both to NGO development projects in countries in the South and to their activities to mobilise public opinion in favour of development and fairer international relations between North and South. NGOs are seen as vehicles by which official aid can reach the poorest and most marginalised people. The Commission supports the role of NGOs in encouraging participatory development and the creation of a democratic base at grass roots level. The basis of the EC's support to European NGOs is the support that they give to their partners in the South.

The NGO Liaison Committee is the central point of contact for dialogue between development NGOs and the Commission. It seeks to represent partner NGOs (some 800) in dealings with the European institutions, and also acts as a forum for discussion between European NGOs themselves.

Latin American regions, each receiving a quarter of allocable funds for 1986–95. Ethiopia was the largest ACP recipient, receiving some 28 m ecu over the period, while Zaire, Burkina Faso, Kenya and Tanzania each received slightly under 20 m ecu. Chile was the largest Latin American recipient by far (65 m ecu), benefiting from flows from a budget line specifically for NGO activities in Chile (B7-5013). NGO actions in Brazil received only slightly less (58 m ecu), while Peru, Nicaragua and Bolivia were all major recipients, each receiving about 30 m ecu over the 1986–95 period. The Asian region received some 12% of NGO aid, with India (39 m ecu), the Philippines and Cambodia (20 m ecu each), and Vietnam (16 m ecu) ranking largest, Cambodia and Vietnam benefiting from individual budget lines (B7-5015 and B7-5014 respectively). The Phare programme provided some 90 m ecu for NGO activities in the Central and Eastern European countries (8%), while the NGO activities in the NIS received negligible amounts. Likewise the Mediterranean and Middle East benefited relatively little from this instrument, receiving 3% of funds, most of which went to the Lebanon and the Palestinian Administrative Areas.

Project Aid

This section complements the discussion of the main trends in the sectoral composition of project aid outlined earlier with a more detailed analysis of some of the sectors. The distinction between the four instruments and project aid is in many ways an imperfect one, since aid through instruments such as structural adjustment, Stabex, NGOs or humanitarian aid may be designed to assist the social and economic infrastructure sectors, natural resources or governance and civil society, among others. However, the double counting of sectors/instruments would be unhelpful in an inventory. Of particular importance is the way in which counterpart funds generated by the structural adjustment facility are used to support social sectors (health and education in particular), and the relative importance of these flows is discussed below with respect to the health sector. EC aid to NGOs provides a second example of how the line between aid through instruments and project aid may become blurred. While aid to NGOs is discussed as an instrument of EC aid in this analysis, since their funding through the co-financing facility is not focused on particular sectors, it is of course true that NGO activities will contribute to many project aid sectors (particularly the social infrastructure and services sector). These qualifications apart, examining project aid as a distinct category remains a useful mechanism by which EC aid can be better understood.

Natural Resources Productive Sector

Agriculture and Rural Development: Although the areas of agriculture and rural development are treated discretely in the OECD DAC sectoral categorisation and are presented in this way in this book, the two are closely related in the Community's aid programme. For this reason they are considered together in this section.

Support for rural development and agriculture in developing countries has traditionally been a very important focus of EC aid. Taken together, they accounted for over one-fifth (3.2 bn ecu) of all aid in the late 1980s. This has been particularly true of the ACP region, which received nearly 70% of all EC aid to rural development and agriculture for 1986–95. The preponderance of this sector in the late 1980s reflects the evolution in the priorities of the Lomé Convention. In the early 1980s (Lomé II) self-sufficiency and food security were high priorities, while in the late 1980s Integrated Rural Development Projects became the new priority area under Lomé III (1985-90). These projects often involved a mix of micro-projects for the improvement of the living conditions of the rural population. This ambitious attempt to provide a comprehensive approach to combating rural poverty generated rather disappointing results, and in the 1990s it gave way to a focus on sustainable development and

the environment.¹⁰ In the 1990s, therefore, funds for integrated rural development amounted to less than 2% of all EC aid, and aid to agriculture fell to 6%.

Forestry and the Environment: Just as *tropical* forests have become a major international concern in the past decade, so the profile of EC aid to this sector has risen in the 1990s. Aid to the sector amounted to only 60 m ecu for 1986–90, or 0.3% of total allocable aid. It increased six-fold to 357 m ecu for 1991–5, accounting for 1.2% of total aid. This rise directly reflects various policy initiatives since 1989. In October 1989 the Commission prepared a policy document on the conservation of tropical forests, and at the European Council in Dublin in June 1990 it was agreed to set in motion an EC tropical forestry programme, with a particular focus on Brazil. To this end a specific budget line was created in 1991 (B7-5041) at the behest of the European Parliament.¹¹ This complemented existing expenditure in forestry, largely through the European Development Fund and the main financial and technical cooperation line to Asia (B7-3000). The EDF provided some 85 m ecu to the ACP countries between 1986 and 1996, though more in the 1980s than the 1990s, while over 11% of financial and technical cooperation for Asia (131 m ecu) for 1992–5 was in the forestry sector.

Forestry had been viewed largely as a component of rural development, but since 1992 EC forestry projects have enjoyed a higher profile. Forestry conservation measures were formalised in Council Regulation EC No. 3062/95 of December 1995, setting out the priority areas for the 1996–9 period and allocating some 200 m ecu over the four years. In addition to the emphasis on protecting primary tropical forests and their biodiversity, it highlights the importance of developing a system to certify wood produced in sustainably managed forests, of information on forest dwellers, and of research. A similar approach was incorporated into the fourth Lomé Convention during the mid-term review in 1995.

In March 1997, revised guidelines to improve the quality of tropical forest assistance were issued by the Commission, stressing the links between economic, social and environmental factors. Recent projects place greater store on cooperation with EU Member States, NGOs, and international organisations, as well as initiatives in developing countries themselves. There are numerous examples of co-financed projects with Member States, particularly in Latin America, and the environment and tropical forestry have featured in recent agreements with Asian and Latin American countries including Brazil, Indonesia and Peru. The largest recipients of EC forestry aid since 1992 were Indonesia (75 m ecu), Philippines (28 m ecu), Brazil and India each with 23 m ecu and Vietnam (17 m ecu).

The Commission currently does not have a consistent definition of projects with the *environment* as their primary aim. The DAC have not yet agreed guidelines for the definition of 'environment' projects, and there is no consistent approach among other donors.¹² The fact that many activities which are classified under other sectoral headings, such as agriculture, forestry or industry, may also contribute to environmental objectives compounds the difficulty of forming a clear picture of EC aid for the environment. Our analysis takes as its starting point those activities funded by the budget line specifically created to promote environmental conservation in developing countries (B7-5040), for which commitments totalled over 100 m ecu between 1986 and 1995. It also includes those projects funded from a variety of budget lines where the project title indicates a specific environmental focus. An attempt has been made to avoid double counting.

¹⁰ The performance of the Rural Development sector was evaluated in an EC Evaluation Report in March 1994.

¹¹ Operations to promote tropical forests were formalised in Council Regulation EC No. 3062/95 in December 1995. Some forestry conservation measures were also funded under the environmental label, notably through budget line B7-5040.

¹² For further details and for a thorough attempt to provide a more complete inventory of environmental projects see the *Inventory of Environment and Tropical Forests Programmes*, May 1996, Environmental Resources Management.

Until a firm definition of environmental projects is adopted and projects are classed accordingly, attempts to assess the EC's contribution in this area will remain approximate. Table 2.1 indicates clearly the growth in commitments to the 'environmental sector' since the end of the 1980s. Total EC aid to the environment for 1986–90 stood at 246 m ecu rising to 820 m ecu for 1991–5, representing an increase in its share of total allocable aid from 1.4% to nearly 3%. In the 1990s the Phare programme has committed large sums to environmental activities in Central and Eastern Europe, amounting to some 440 m ecu or 44% (1990–5). Asia ranked second with nearly 180 m ecu (18%), followed by the ACP and the Mediterranean and Middle East with about 140 m ecu, and Latin America with 43 m ecu (4%).

Fisheries: Aid to fisheries amounted to 223 m ecu between 1986 and 1995. Half of this went to the fisheries sector in ACP countries, though the largest single beneficiaries were India, Mozambique and Algeria. Assistance to the sector used to be concentrated on infrastructure improvements, but support to artisanal fisheries grew in the 1980s, and in recent years assistance has been focused on human and institutional development.

The assistance to the sector is mainly in the form of support to: (i) efforts for greater coherence through rule-setting and enforcement, and improving information; (ii) the private sector to increase competitiveness; (iii) research and (iv) resource conservation and protection. In addition to technical and financial assistance, a specific budget line was created in 1993 for the international fisheries agreements (B7-800). However, while developing countries (and Greenland) are the recipients of these funds (some 500 m ecu for 1993–5), this has not been included as EC aid since the funds represent compensation for access for EC vessels in their waters. The main beneficiaries of these funds in 1995 were Argentina, Senegal, Mauritania, Mozambique, Angola and Guinea Bissau.

Other Productive Sectors

This encompasses a wide range of activities including industry, mining, construction, trade policy and administration, tourism policy and management and investment promotion. The largest subsector by far is industry, mining and construction, for which commitments totalled 2.5 bn ecu, or 82% of all aid to the sector. The vast bulk has gone to ACP countries, principally Nigeria, Mauritania, Guinea, Mali, Zambia and Papua New Guinea, each of which received over 100 m ecu. The Mediterranean and Middle East was also a major recipient, with 300 m ecu of the 390 m ecu total going to Egypt.

ECIP: EC aid for investment promotion represented the fastest growing subsector, in relative terms, increasing from only 19 m ecu for the 1986–90 period to 144 m ecu in the 1990s. The primary factor behind this growth has been the development and success of the European Community Investment Partners scheme (ECIP).

The Commission developed ECIP during a pilot phase (1988–91) as an instrument to help Member State private sector firms wishing to invest in Asian, Latin American and Mediterranean developing countries, and which would also respond to the increasing interest expressed by firms in developing countries in joint ventures with European firms (see Box 2.4). The scheme was originally limited to 28 countries, but now extends to 60 countries in the three regions and to South Africa.

The success of ECIP during its pilot phase led to the scheme being given a formal legal and budgetary basis with the adoption by the Council of Ministers on 3 February 1992 of Regulation EC No. 319/92. The budget made available was increased from 30 m ecu for 1988–91 to 110 m ecu for 1992–4 (all grants). A new ECIP Regulation approved in January 1996 (EC No. 213/96) expanded the scheme to 60 countries and takes account of the investment needs of developing countries in infrastructure and utilities projects by providing a new grant facility (up to a ceiling of 200 000 ecu) for the improvement or privatisation of utilities and environmental services.

Economic Infrastructure and Services

The category of economic infrastructure and services covers a broad array of activities, ranging from transport and communications, to energy, banking, and business services. Total aid to the sector amounted to 8.1 bn ecu over the 1986–95 period, or 18% of all allocable aid, making this the largest sector of all. EC aid for these activities is, however, heavily concentrated in three regions, which together receive nearly 90% of the total. The ACP region receives a full 50% of aid for economic infrastructure and services, while the Central and East European countries receive a further quarter and the New Independent States received commitments worth 14% of the total. There were differences in the precise type of aid going to each region, with the ACP receiving a particularly large share of aid in the transport and communications subsector (70%), while the CEECs and NIS received a quarter. In contrast, aid to the banking, financial and business services subsector was nearly 80% concentrated in the CEECs and NIS, reflecting the concentration of the Phare and Tacis programmes in these areas. Of the remainder, the largest part (200 m ecu) went to Asia. Finally, half of all EC aid to the energy subsector went to ACP countries, with a quarter going to the NIS, due in part to concentration there on nuclear safety. The CEECs received 10% of energy aid, and the Mediterranean 7%.

Box 2.4: European Community Investment Partners scheme (ECIP)

ECIP's objective is to facilitate the creation, in 60 developing countries in Asia, Latin America, the Mediterranean and South Africa, of private joint venture investments that contribute to the economic development of those countries. It provides finance at all stages in the gestation and realisation of EU/local joint venture private investments. ECIP is managed from Brussels in a decentralised way through a network of 108 ECIP financial institutions and investment promotion agencies.

Social Infrastructure and Services

Health and Population: The health and population sector has witnessed very significant growth since 1986, with commitments rising from 174 m ecu for the 1986–90 period to 867 m ecu for 1991–5 and its share of total aid rising from 1% to nearly 3%. In the 1990s Community aid, in accordance with agreements with the Member States,¹³ has emphasised health policy with the aim of strengthening coordination between Community and Member State aid, and developing strategies for action in areas such as drugs policy and HIV/AIDS (see Box 2.5).

The ACP region (mainly sub-Saharan Africa) received about half of the 1 bn ecu committed over the decade. However, according to a 1996 study by DG VIII the health sector has also benefited substantially from an allocation of 369 m ecu of counterpart funds generated by structural adjustment financing to the ACP between 1991 and 1995.¹⁴ This is considerably more than the 277 m ecu provided directly to the health and population sector in the ACP region. About 60% of recent commitments (EDF 7) have focused on supporting the decentralisation of health systems, and improving the quality of and access to prevention and care services.

Support for the health and population sector in Latin America grew significantly in 1995, reaching 68 m ecu. This was drawn mainly from the technical and financial cooperation budget line (B7-3010), and it is planned to increase this further. In addition, the majority of rural development programmes include components related to health, such as water supply and sanitation and the construction of health

¹³ These were reflected in Resolutions adopted by the Development Council in May 1994.

¹⁴ Under EDF 5, 139 m ecu was provided for the health sector (including HIV/AIDS) through project aid, and 455 m through counterpart funds. The corresponding figures for EDF 6 were 183 m and 44 m ecu respectively, and for EDF 7, 406 m and 563 m ecu.

centres. Asia also saw an increase in 1995, though its total for the decade was little more than half that for Latin America (108 m ecu). Commitments to the CEECs equalled those to Asia, though they have fallen sharply since 1991.

In the specific field of HIV and AIDS, programmes have been adopted, notably in Mozambique and Tanzania, to support national strategies to reduce the spread of the virus. Research has also been financed into the management of sexually transmitted diseases and blood safety. From 1987 to 1996, 192 m ecu were committed to the HIV/AIDS subsector. Of HIV/AIDS funds that could be allocated by region 70% went to sub-Saharan Africa, 15% to South-east Asia and 9% to Latin America, with the rest spread among the Caribbean, the Mediterranean and the Pacific.

Education and Training: Community aid policy was clarified in a Council Resolution on Education and Training in developing countries in 1994. The priority areas were increasing access to education, redressing the bias against the education of girls and disadvantaged groups, and improving the quality of education.

EC aid to the education sector totalled 2.1 bn ecu over the 1986–95 period, the main share (over 60% for 1991–5) going to the CEECs and NIS. The former Soviet Union and the Russian Federation alone received close to a fifth of all EC aid to education (1986–95), while Poland received 180 m ecu (8%) and Hungary and Romania some 100 m ecu since 1991. The ACP region received 460 m ecu (21% of the total), with Nigeria and Uganda the largest individual recipients. As with health, however, the ACP region also benefited from counterpart funds from structural adjustment assistance channelled towards education. These represented 280 m ecu for 1991–5, doubling commitments for that period to the ACP (see Box 3.1 in Chapter 3). Commitments to Asia (mainly India) amounted to 12%, followed by South Africa with 9% and the Mediterranean and Middle East with 5%. Commitments to Latin America were negligible.

Governance and Civil Society: Since 1990 the Community has reinforced its policies in support of democratisation and human rights, underlined by a Council Resolution in November 1991 emphasising the linkages between human rights, democracy and development. Aid under the banner of governance and civil society averaged over 500 m ecu a year over the 1990–5 period, or a little less than 2% of the total. In addition to support for electoral processes such as election monitoring, actions to strengthen judicial institutions or parliaments, the creation of ombudsmen, the independence of the media, and civil society have been funded.

Loans

EC aid is provided in loan form through the European Investment Bank (see Chapter 1). The aim of this aid, according to the EIB, is to encourage efficient management of the means available and to tailor the type of financial assistance to local economic conditions. EIB financing is only awarded to projects which are technically viable and economically justified. Long-term loans for industrial projects have a duration of about 10–12 years, while infrastructure and energy projects receive loans with a slightly

Box 2.5: HIV/AIDS

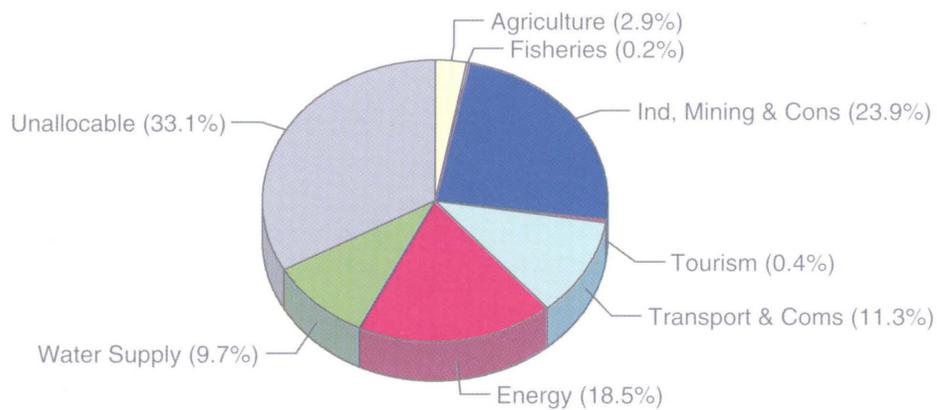
In 1987 the Commission launched an HIV/AIDS programme for the ACP countries, which was extended through a new budget line (B7-5046) in 1988 to all developing countries. The four priority objectives of the EC programme are:

- i) to minimise the spread of the disease through preventive measures, and promote respect of the human rights of affected people;
- ii) to strengthen the health sector to cope with growing needs resulting from the epidemic;
- iii) to help countries take account of the socio-economic consequences of AIDS;
- iv) to develop scientific research.

longer repayment period of 12–15 years. Almost two-thirds of EIB lending went to the ACP countries, with one third going to the Mediterranean and Middle East region. Less than 3% went to Latin America, with a tiny residual going to Slovenia.

Infrastructure was the main sector to benefit from aid loans, with industry, mining and construction receiving a quarter of loan finance, energy nearly a fifth, transport and communications 11%, and water supply 10%. However, a full one-third of loans remained unallocable by sector (see Figure 2.3).

**Figure 2.3: Sectoral Allocation Loans Managed by the EIB, 1986–95
(commitments m ecu)**



Source: ODI database 1997

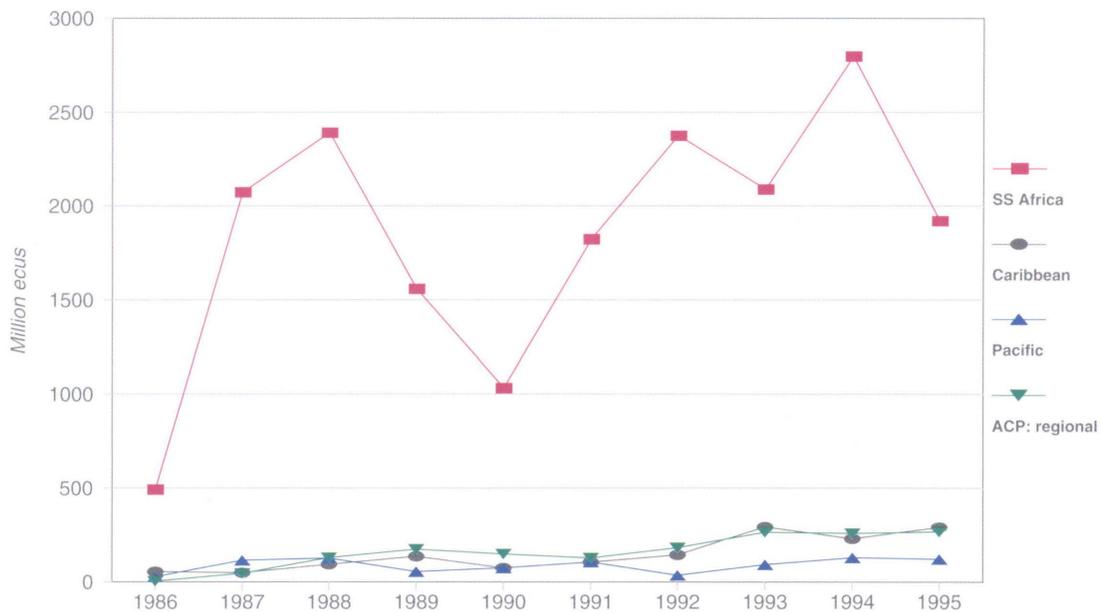
3

EC Aid to African, Caribbean and Pacific Countries

Trends and Distribution of EC Aid to the ACP Countries¹

Total EC aid committed to the ACP countries amounted to 23.8 bn ecu between 1986 and 1995, of which nearly 80% was provided under the Lomé Conventions. Commitments rose from 1.1 bn ecu in 1986 to 2.6 bn ecu in 1995, while disbursements increased from 1 bn ecu to 2.3 bn ecu.

Figure 3.1: Regional Distribution of EC Aid to the ACP, 1986–95 (commitments m ecu)



Source: ODI database 1997; excludes the unallocable portion of ACP aid

This aid accounted for almost half of all aid committed by the EC and more than 50% of all disbursements between 1986 and 1995. It has grown significantly in the last decade, though with several ups and downs.

¹ African countries in the ACP group are those benefiting from the Lomé Convention, ie all sub-Saharan African countries, and – since April 1997 – South Africa. Until then South Africa received financial assistance from the EC Budget and it is therefore discussed later in this chapter. Development cooperation with the Overseas Countries and Territories of the EC is also dealt with in this chapter as they are mainly in the Caribbean and Pacific regions and also benefit from the Lomé Convention.

The evolution of commitments and disbursements is dominated by the aid flows to sub-Saharan Africa, which is the biggest region in the group, both in terms of aid received and in terms of population. More than 18 bn ecu was allocated to sub-Saharan Africa (78% of commitments made between 1986 and 1995), while the Caribbean and Pacific ACP countries and the Overseas Countries and Territories (OCTs) in those regions received 6% and 4% of all aid respectively.² Almost 7% of the ACP aid represented regional assistance (eg to West Africa, Southern Africa, Indian Ocean, etc.) and the remaining 5% was unallocable by country or sub-region.

Table 3.1: Regional Distribution of EC Aid to the ACP (m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Commitments	1141	2632	2869	1994	1362	2123	2765	2774	3514	2599	23774
sub-Saharan Africa	491	2073	2390	1558	1031	1823	2374	2088	2798	1921	18546
Caribbean	55	49	94	137	74	106	145	292	230	291	1472
Pacific	27	115	127	54	73	104	35	92	128	121	876
Regional ^a	4	44	128	173	149	126	182	264	258	266	1594
Unallocable	564	352	129	73	35	-36	31	38	100	1	1286
Disbursements	1057	1235	1542	1779	1703	2012	2592	1898	2445	2287	18550
sub-Saharan Africa	329	629	1025	1336	1289	1586	2117	1524	1971	1647	13453
Caribbean	26	27	33	94	74	108	70	101	149	259	941
Pacific	23	93	91	37	51	48	91	64	48	115	662
Regional	1	3	27	54	78	113	151	106	169	224	926
Unallocable	680	482	366	258	210	157	163	103	107	41	2567

^a The unallocable figure for 1986 and 1987 is relatively high as it includes a large proportion of aid committed from EDF 5 (Lomé II: 1980–85) for which no accurate country breakdown was available. The negative commitment in 1991 is a decommitment from EDF 5 resulting from a transfer of a residual sum to EDF 6. The exceptionally high figure in 1994 relates to the regional response of humanitarian assistance to the crisis in Rwanda and Burundi.

Source: ODI database 1997

Total commitments to Africa varied considerably over the period. Assistance increased steeply from 491 m ecu in 1986 to 2390 m ecu in 1988, fell again between 1989 and 1990 to 1031 m ecu and rose between 1990 and 1992. In 1993 commitments dropped due to the lack of an agreement on Stabex payouts, with the consequent boost in 1994 when Stabex funds for both 1993 and 1994 were committed (see section on Stabex below). After that, commitments dropped from 2798 m ecu in 1994 to 1921 m ecu in 1995 which was even smaller than commitments in 1987. The disbursements have been considerably lower but more stable, as they climbed more or less continuously between 1986 and 1993. The disruption of the trend in 1993 can be explained by the problems with Stabex disbursements in that year. The main recipients of EC aid to sub-Saharan Africa are Ethiopia, Côte d'Ivoire, Mozambique, Cameroon and Nigeria which together accounted for 26% of all aid to sub-Saharan Africa.

In the Caribbean annual commitments were between 49 m ecu and 105 m ecu up to 1991. After that flows rose significantly, up to 291 m ecu in 1995. The steep increase can be explained by the inclusion of Haiti and the Dominican Republic in the ACP group during Lomé IV. The Dominican Republic accounted for 35% and 26% of all aid to the Caribbean in 1992 and 1993 respectively, while commitments to Haiti represented around 26% and 32% in 1994 and 1995 respectively. The resulting increase in disbursements

² The OCTs in the Caribbean and Pacific accounted for almost 8% and 11% respectively of all aid committed to those regions.

lags somewhat behind, only appearing in 1994 and 1995. Compared with the aid flows to sub-Saharan Africa there was only a small decline in 1993, indicating the relatively lower significance of Stabex for the region. The main recipients in the Caribbean ACP region have been the two newer members of the Lomé Convention, Haiti and the Dominican Republic, and Jamaica and Trinidad and Tobago. These four countries make up 57% of all aid to the region.

The pattern of commitments to the Pacific has also fluctuated considerably over time (see Table 3.1). Papua New Guinea, the island on which around 69% of the region's population lives, accounted for more than half (58%) of the total commitments to the Pacific, followed by the Solomon Islands (9%).

The ratio of disbursements to commitments has improved over time – from 46% in 1986–90 to 64% in 1991–95, partly thanks to the introduction of fast-disbursing structural adjustment assistance. Varying levels between commitments and disbursements result from different constraints, depending on the individual countries. Because of the political situation (eg failure to observe human rights) or for security reasons, aid to some countries may be suspended for a period, affecting the implementation of projects. Economic conditions in countries also play a role as they influence the provision of structural adjustment assistance, a growing part of EC aid to the ACP. When countries which first seemed eligible fail to comply with the basic conditions of their agreement for reform, payment will be held up. Finally, it should not be underestimated that, in the case of the Lomé Convention, the complexities of the joint management of funds between the EC and ACP can delay payments after commitments have been made. The management and absorption capacity within the ACP countries is of importance here, as is also the capacity of EC delegations in the recipient countries and officials in Brussels.

Recipients of EC Aid to the ACP

The main beneficiaries of EC aid to the ACP are all sub-Saharan African countries with the exception of Papua New Guinea which ranks seventeenth. The top 15 recipients shown in Table 3.2 account for 46% of all commitments made to the ACP between 1986 and 1995.

Shifts in the main beneficiaries among the ACP and OCT countries have not been all that great between the second half of the 1980s and the first half of the 1990s (see Table 3.2). The commitments of Stabex funds and structural adjustment assistance (in the second period) are relatively significant in the ranking. Changes in the top 15 countries occur mainly because of a decrease in aid following suspension (eg Sudan) or an increase in aid as a result of a crisis (eg Rwanda) or rehabilitation (eg Mozambique and Angola).

In terms of aid per capita the Caribbean and Pacific island states, including most of the OCTs, rank highest among recipients in the 1990s. The top African states are Mauritania, Namibia, Botswana and Mauritius. Zaire and Nigeria, with high populations, are rather at the bottom of the league but Ethiopia, with one of the largest populations in the ACP group, has consistently been the leading recipient of EC aid (EDF and budget combined) both before and after the fall of the Mengistu Government.

Table 3.2: Top 15 Recipients of EC Aid – ACP (commitments m ecu)

Total 1986–90		Total 1991–95		Total 1986–95	
Ethiopia	573	Ethiopia	841	Ethiopia	1414
Côte d'Ivoire	554	Rwanda ^a	564	Côte d'Ivoire	1053
Nigeria	415	Mozambique	547	Mozambique	848
Sudan	344	Côte d'Ivoire	499	Cameroon	788
Cameroon	321	Cameroon	468	Nigeria	777
Kenya	315	Zambia	442	Rwanda	711
Senegal	310	Uganda	430	Sudan	707
Mozambique	301	Tanzania	414	Tanzania	666
Guinea	259	Zimbabwe	375	Kenya	646
Tanzania	252	Angola	369	Uganda	622
Zaire	240	Sudan	363	Senegal	590
Mali	211	Nigeria	362	Guinea	585
Malawi	207	Burkina Faso	347	Zambia	565
Niger	203	Kenya	330	Zimbabwe	538
Uganda	192	Guinea	326	Malawi	521
Top 15: total, m ecu	4695	Top 15: total, m ecu	6678	Top 15: total, m ecu	11030
Top 15: total ACP	47.0	Top 15: total ACP	48.5	Top 15: total ACP	46.4
Total ACP aid, m ecu	9998	Total ACP aid, m ecu	13776	Total ACP aid, m ecu	23774

^a In 1994–95, 259 m ecu of emergency assistance went to the Rwandan crisis. Some of this aid may have been to the benefit of Burundi, but the data do not allow a distinction for this amount of emergency aid.

Source: ODI database 1997

Sectoral Distribution of EC Aid to the ACP

The main instruments of EC aid (programme aid, food aid, humanitarian assistance and aid to NGOs) accounted for 42% of all aid to the ACP countries, while the other 58%, 12.5 bn ecu, was spent on project aid – mainly through the National and Regional Indicative Programmes and some smaller budget lines (see section on project aid below). Programme aid accounted for more than 6 bn ecu, over a quarter of all aid to the ACP between 1986 and 1995, and food aid and humanitarian aid for about 9% and 6% respectively. The fluctuations in aid committed through these instruments, especially programme aid, had a major impact on the trend in EC aid to the ACP. Most project aid went to the transport and communications sector (10.9%), followed by the industry, mining and construction sector (8.0%), the social infrastructure sectors (7.4%), rural development (6.9%), and agriculture (5.8%).

Figure 3.2 compares the sectoral breakdown of aid to the ACP in the period 1986–1990 with that in 1991–1995 (as shares of total allocable aid in each period). In the second period the instruments, support for structural adjustment, food aid and humanitarian aid, gained in importance, while Stabex transfers increased only slightly and fell as a share of the total.

In terms of project aid, support for rural development and the natural resources sector declined dramatically. The high proportion for rural development in the earlier period can be explained by the Integrated Rural Development Programmes (IRDPs) implemented in those years. In the later period rural development support is more likely to be included in other sectors such as social and economic infrastructure, as individual projects were more common than the IRDPs. As a proportion of all aid, assistance to industry, mining and construction and to the transport and communications sectors

Table 3.3: Sectoral Allocation of EC Aid to the ACP 1986–95
(commitments, m ecu and %)

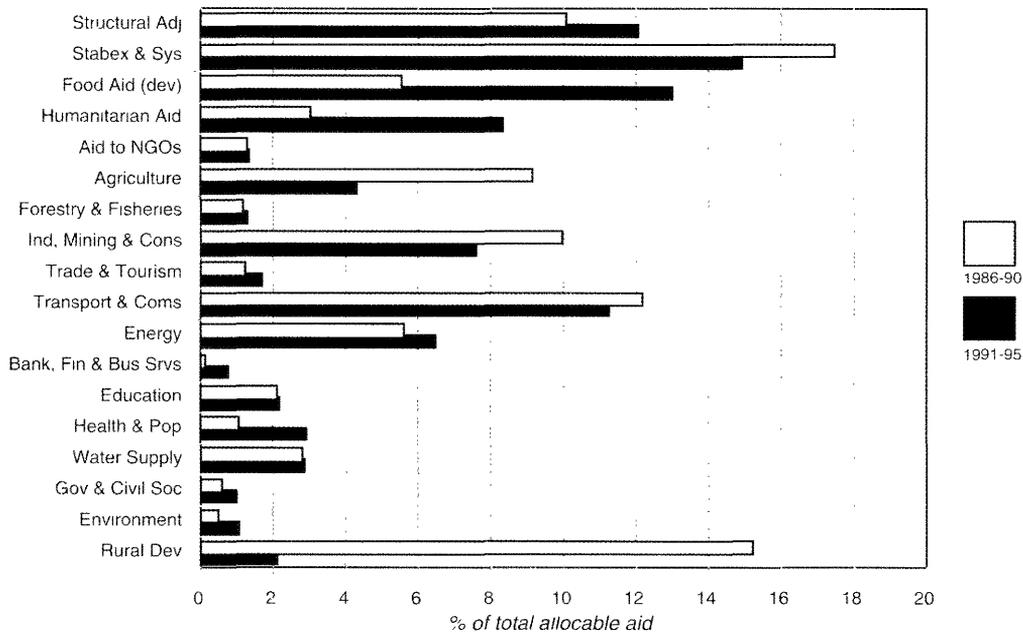
Vol of commitments (m ecu)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid	159	523	972	481	338	715	892	487	988	492	6049
Structural Adjustment	37	222	351	188	104	183	403	419	316	277	2499
Stabex	122	301	554	278	219	515	397	4	615	131	3137
Sysmin	–	–	66	16	15	18	92	64	57	84	413
Food Aid (developmental)	6	–	14	248	224	410	279	331	365	337	2212
Humanitarian Aid	18	36	61	83	72	79	117	144	348	417	1374
Humanitarian aid excl rehabilitation	18	33	55	76	57	62	104	127	316	187	1037
Rehabilitation	0	3	5	7	14	17	13	17	33	229	338
Aid to NGOs	13	22	23	27	29	34	29	36	36	41	289
Natural Resources Prod Sectors	29	328	374	107	85	61	112	265	191	102	1653
Agriculture	27	302	352	86	54	43	70	220	146	87	1387
Forestry	0	23	0	8	27	6	31	18	18	14	145
Fisheries	2	4	21	12	3	12	11	27	27	2	120
Other Productive Sectors	149	242	299	233	76	250	252	295	166	258	2221
Industry, Mining & Construction	139	231	272	208	43	239	196	216	139	210	1894
Trade	7	10	13	16	12	10	43	52	21	25	210
Tourism	3	1	14	9	21	1	12	27	5	21	114
Economic Infrastructure & Services	126	578	313	354	229	411	388	462	653	533	4047
Transport & Communications	49	442	197	278	128	299	288	259	358	287	2586
Energy	77	135	114	75	98	104	99	187	262	206	1357
Banking, Finance & Bus Servs	1	1	2	1	2	9	0	16	33	40	104
Social Infrastructure & Services	38	142	174	111	106	57	268	393	235	226	1750
Education	7	48	48	38	41	4	67	96	86	24	459
Health & Population ^a	0	27	43	14	9	12	108	143	40	78	474
Water Supply	30	40	78	49	51	37	77	108	62	88	620
Other Social Infra & Services	0	26	4	10	6	5	16	46	48	36	197
Governance & Civil Society	0	3	7	8	28	19	41	22	10	31	170
Multisector/Crosscutting	15	557	564	279	114	86	295	265	322	63	2558
Environment	3	4	6	20	8	13	20	66	14	19	171
Rural Development	4	529	516	239	77	52	145	47	18	7	1633
Other Multisector	8	24	43	20	29	21	128	152	289	37	752
Unallocable by Sector	587	201	69	63	63	1	94	74	199	99	1451
Total volume, m ecu	1141	2632	2869	1994	1362	2123	2765	2774	3514	2599	23774
Share (%)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid	13.9	19.9	33.9	24.1	24.8	33.7	32.3	17.6	28.1	18.9	25.4
Structural Adjustment	3.2	8.4	12.2	9.4	7.6	8.6	14.6	15.1	9.0	10.6	10.5
Stabex	10.7	11.5	19.3	13.9	16.1	24.3	14.4	0.2	17.5	5.0	13.2
Sysmin	–	–	2.3	0.8	1.1	0.8	3.3	2.3	1.6	3.3	1.7
Food Aid (developmental)	0.5	–	0.5	12.4	16.4	19.3	10.1	11.9	10.4	13.0	9.3
Humanitarian Aid	1.6	1.4	2.1	4.2	5.3	3.7	4.2	5.2	9.9	16.0	5.8
Humanitarian aid excl rehabilitation	1.6	1.3	1.9	3.8	4.2	2.9	3.8	4.6	9.0	7.2	4.4
Rehabilitation	0.0	0.1	0.2	0.3	1.1	0.8	0.5	0.6	0.9	8.8	1.4
Aid to NGOs	1.1	0.8	0.8	1.3	2.1	1.6	1.0	1.3	1.0	1.6	1.2
Natural Resources Prod Sectors	2.5	12.5	13.0	5.4	6.2	2.9	4.0	9.5	5.4	3.9	7.0
Agriculture	2.4	11.5	12.3	4.3	4.0	2.0	2.5	7.9	4.1	3.3	5.8
Forestry	0.0	0.9	0.0	0.4	2.0	0.3	1.1	0.6	0.5	0.5	0.6
Fisheries	0.2	0.1	0.7	0.6	0.2	0.6	0.4	1.0	0.8	0.1	0.5
Other Productive Sectors	13.1	9.2	10.4	11.7	5.6	11.8	9.1	10.6	4.7	9.9	9.3
Industry, Mining & Construction	12.2	8.8	9.5	10.4	3.2	11.2	7.1	7.8	4.0	8.1	8.0
Trade	0.6	0.4	0.5	0.8	0.9	0.5	1.6	1.9	0.6	0.9	0.9
Tourism	0.3	0.0	0.5	0.4	1.5	0.1	0.4	1.0	0.1	0.8	0.5
Economic Infrastructure & Services	11.1	22.0	10.9	17.8	16.8	19.4	14.0	16.7	18.6	20.5	17.0
Transport & Communications	4.3	16.8	6.9	13.9	9.4	14.1	10.4	9.4	10.2	11.1	10.9
Energy	6.7	5.1	4.0	3.8	7.2	4.9	3.6	6.7	7.5	7.9	5.7
Banking, Finance & Bus Servs	0.0	0.0	0.1	0.1	0.2	0.4	0.0	0.6	0.9	1.5	0.4
Social Infrastructure & Services	3.3	5.4	6.1	5.6	7.8	2.7	9.7	14.2	6.7	8.7	7.4
Education	0.6	1.8	1.7	1.9	3.0	0.2	2.4	3.5	2.4	0.9	1.9
Health & Population ^a	0.0	1.0	1.5	0.7	0.7	0.6	3.9	5.1	1.1	3.0	2.0
Water Supply	2.7	1.5	2.7	2.4	3.7	1.7	2.8	3.9	1.8	3.4	2.6
Other Social Infra & Services	0.0	1.0	0.1	0.5	0.4	0.2	0.6	1.7	1.4	1.4	0.8
Governance & Civil Society	0.0	0.1	0.2	0.4	2.0	0.9	1.5	0.8	0.3	1.2	0.7
Multisector/Crosscutting	1.3	21.2	19.7	14.0	8.3	4.0	10.7	9.5	9.2	2.4	10.8
Environment	0.2	0.1	0.2	1.0	0.6	0.6	0.7	2.4	0.4	0.7	0.7
Rural Development	0.3	20.1	18.0	12.0	5.6	2.4	5.2	1.7	0.5	0.3	6.9
Other Multisector	0.7	0.9	1.5	1.0	2.2	1.0	4.6	5.5	8.2	1.4	3.2
Unallocable by Sector	51.5	7.6	2.4	3.2	4.6	0.1	3.4	2.7	5.7	3.8	6.1
Total share, %	100.0										

^a This may be an underestimate, as one DG VIII source indicates a total for 1986–95 of 575 m ecu.

Source: ODI database 1997

decreased significantly, while the share of aid to health and population almost tripled. The section on project aid below provides more detail about the sectoral distribution of project aid within each of the sub-regions.

**Figure 3.2: Sectoral Distribution of EC Aid to the ACP
(% of allocable aid, 1986–95)**



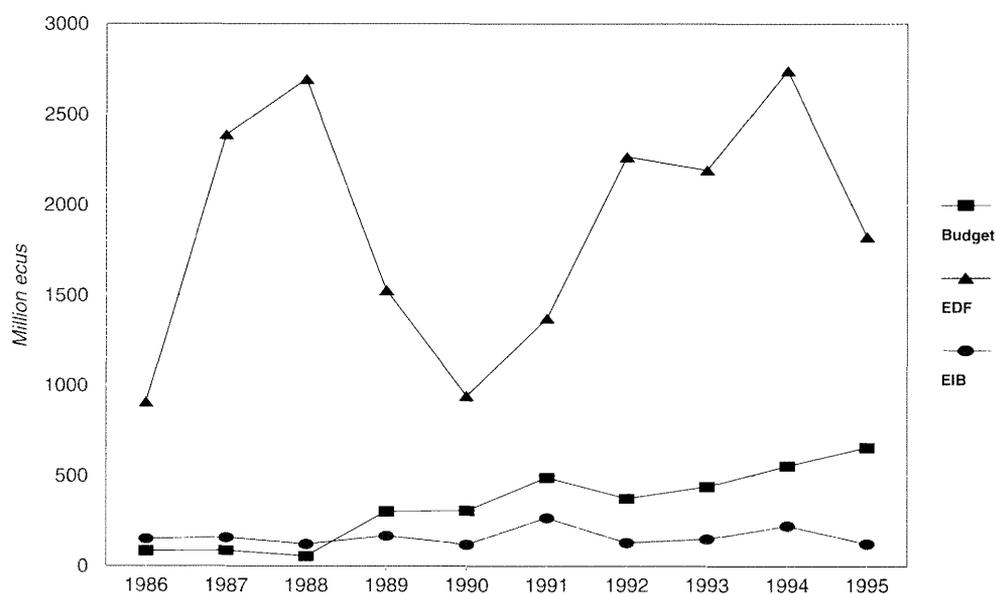
Source: ODI database 1997

Sources of EC Aid to the ACP

The ACP countries received 18.8 bn ecu over the 1986–95 period from the European Development Fund, which represents 79% of all EC aid to ACP countries. 14% of aid to the region, 3.3 bn ecu, was allocated from the EC Budget, mainly from the lines for food aid and humanitarian aid (particularly in 1994 and 1995). The remaining 7% was provided from the ‘own resources’ of the European Investment Bank in the form of concessional loans. 7.1% of EDF flows are provided in the form of risk capital, and are managed by the European Investment Bank (see also Chapter 1). Figure 3.3 shows the trend in resources including grants and concessional loans.

Budget lines to assist ACP countries were established as a response to recipient needs (or donor concerns) not covered by the framework of the EDF. Compared with the EDF the contribution from the EC Budget is substantially lower, though rising. Between 1986 and 1995, 66% of this was committed as food aid (2.2 bn ecu) and another 15% as humanitarian aid (434 m ecu). The remaining 341 m ecu, which accounted for only 11% of all aid to the ACP countries, was disbursed through other budget lines (see section on Financial and Technical Cooperation Instruments below).

**Figure 3.3: Trend in Sources of EC Aid to the ACP 1986–95
(commitments m ecu)**



Source: ODI database 1997

The European Development Fund

Policies and Objectives of the Lomé Convention

The main objective of the Lomé Convention is 'to promote and expedite the economic, cultural and social development of the ACP states and to consolidate and diversify their (ACP and EU) relations in a spirit of solidarity and mutual interest', as stated in article 1 of Lomé III (1985–90). Before 1985 this objective was not so explicit, as the legal text of Lomé I and II focused more narrowly on trade and industrial and financial cooperation. The principles on which the Convention has been based from its inception are:

- (i) equality between partners, and respect for sovereignty, mutual interests and interdependence;
- (ii) the right of each state to determine its own political, social, cultural and economic policy options (although this is now partly in abeyance);
- (iii) and security of relations based on the achievements of the cooperation system (art. 2).

The main characteristics which distinguish Lomé from many other donor-recipient agreements are:

- (i) the contractual relationship between the industrialised EU Member States and the ACP developing countries which contains obligations and rights for both partners;

- (ii) the partnership principle, which attaches great importance to the equality of the partners, their sovereignty and the dialogue between them,³
- (iii) the combination of trade and aid provisions in a single agreement, with the diversity of instruments that can be used alongside each other;
- (iv) the long-term perspective brought to the Convention by its five-yearly duration (ten currently) and programmed allocation of funds which are unique in the donor community.

Lomé I and II concentrated heavily on the promotion of industrial development. During Lomé III this objective was overtaken by a more pressing concern: self-reliant development on the basis of self-sufficiency and food security. In addition to these priorities, Lomé IV put greater emphasis on the promotion of human rights, democracy and good governance (art. 5), strengthening of the position of women (art.4), the protection of the environment (art.6, 14), decentralised cooperation (art.20–22), diversification of ACP economies (art.18), and the promotion of the private sector. The Convention has always shown a commitment to regional cooperation.

With each Convention, the ACP group expanded, more ‘areas’ of cooperation were added (now twelve compared with four in Lomé I) and new instruments were introduced. The main provisions and instruments of the Convention can be divided into: (i) technical and financial cooperation (including cooperation in the field of commodities); (ii) trade cooperation including the special protocols; and (iii) other areas of cooperation. The level of funding available through each Convention and through the EIB is shown in Table 3.4.

Table 3.4: Evolution of the EDF and EIB Own Resources (m ecu)

	1957 Rome Treaty EDF 1	1963 Yaoundé I EDF 2	1969 Yaoundé II EDF 3	75–80 Lomé I EDF 4	80–85 Lomé II EDF 5	85–90 Lomé III EDF 6	90–95 Lomé IV EDF 7	95–2000 Lomé IV EDF 8
EDF total	581	666	828	3072	4724	7400	10800	12967
Grants ^a	581	620	748	2150	2999	4860	7995	9592
Special Loans	–	–	–	446	525	600	–	–
STABEX	–	–	–	377	634	925	1500	1800
YSMIN	–	–	–	–	282	415	480	575
Risk Capital	–	46	80	99	284	660	825	1000
EIB own resources ^b	–	64	90	390	685	1100	1200	1658
Total EDF + EIB	581	730	918	3462	5409	8500	12000	14625
Per capita EDF: current (ecu) ^c	10.5	9.7	10.5	12.3	13.5	17.9	21.9	
p.c. constant (ecu) ^d	9.7	7.0	5.3	3.6	2.5	2.6	2.5	

^a This includes assistance for regional cooperation, interest rate subsidies, structural adjustment assistance (Lomé IV), emergency and refugee assistance (Lomé IV) and other grants.

^b This is a ceiling set by the board of the EIB which has never been reached.

^c EDF current values divided by associated countries' population (millions) at the beginning of each convention period; 55, 69, 80, 250, 248, 413 and 493 million respectively (excluding EDF 8).

^d Per capita EDF totals in real terms: current values deflated by the EC GDP deflator index centred in the mid-year of each convention period.

Source: Grilli, Enzo R, *The European Community and the Developing Countries*, Cambridge: Cambridge University Press, 1993, p.99; and the ACP-EC *Courier*, January/February 1996

³ This is evident in the co-management of EDF funds and the existence of joint institutions such as the EC–ACP Council of Ministers, and the Joint Assembly (for MPs).

Financial and Technical Cooperation

This is the aid component of the Convention financed from the EDF. Flows can be divided into programmable and non-programmable allocations. The *programmable* allocations are the National (NIP) and Regional (RIP) Indicative Programmes, that are allocated from each EDF to individual ACP countries and regions.⁴ The allocation is effected every five years on the basis of a formula which captures objective criteria of a geographic, demographic and macroeconomic nature (GNP per capita, economic situation, external debt, etc.). The formula includes considerations of physical elements (landlocked and island states), the status of least developed countries (art.8 of the Convention), and other factors not precisely specified.

After notification by the Commission of the amount of programmable resources for each ACP country, the NIP is drawn up jointly by the recipient government and the Commission. It records priority areas for the spending of the NIP. The implementation of these country allocations differs by country, but commitments and especially disbursements can be subject to considerable delays. The implementation cycle of each Lomé Convention is therefore longer than the five years of the Convention itself, and the Commission thus manages several funds simultaneously.⁵

The Convention attaches special importance to regional cooperation among the ACP countries (Title XII) and devotes a significant share of EDF funds to this purpose (14% between 1986 and 1995 – see Box 3.1). RIPs are organised according to seven geographic regions plus a linguistic grouping (for Portuguese-speaking countries). For RIPs 1000 m ecu was available from Lomé III and 1250 m ecu from Lomé IV, 9.3% and 9.6% respectively of all programmable resources.

The *non-programmable* funds from the EDF (ie those excluded from the NIPs and RIPs) are generally quick-disbursing instruments. Although their overall amount is fixed by each Convention, their allocations to the individual countries are not defined. These funds are granted to ACP countries case-by-case, depending on their eligibility for the particular non-programmable instrument. The main non-programmable resources of Lomé are the three categories within programme aid: support for structural adjustment, Stabex and Sysmin, and humanitarian and rehabilitation assistance. The latter two are additional to the budget lines that exist in parallel for the same purpose. These will be included in the discussion of main instruments in the section below.

Box 3.1: EC-ACP Regional Cooperation

Regional cooperation has formed an important component of Community assistance to the ACP countries. Regional programmes accounted for 10% of total EDF financing under Lomé I, rising to 14% under Lomé II and III, and falling to below 10% for Lomé IV. This recent dip probably reflects a dearth of good quality regional programmes suitable for funding, rather than a decline in the need for or relevance of regional cooperation itself.

Evaluation of Community regional cooperation programmes in Africa indicate that political ownership is essential for success, and that cooperation is effective only where the mutual dependence of the participating countries is obvious.

Regional projects serve national goals as well as bringing benefits to a region. Since governments have generally given greater weight to the former, the regional component of projects is usually the last one to receive support. Nonetheless, evaluation suggests that most regional projects have made some positive contribution towards an intensification of cooperation.

⁴ Regions distinguished in the ACP group are Sahelian and Coastal West Africa, the Horn of Africa and East Africa, Southern Africa, the Indian Ocean, the Caribbean and the Pacific.

⁵ EDF 5, for instance, of Lomé II (1980–85) was closed at the end of 1993. Outstanding balances which still existed then were transferred to EDF 7.

During Lomé I–III certain instruments were given as a loan (eg Sysmin, Stabex to a few countries), but since Lomé IV the EDF has become entirely concessional, with the exception of risk capital (8% of flows allocated to the ACP countries in EDF 7).

Trade Cooperation

The EC offers duty and quota-free access to exports from ACP countries, although this excludes most exports covered by the Common Agricultural Policy. Such exports nonetheless receive more preferential treatment than through the Most Favoured Nation arrangement. In addition, Protocols exist for EC imports of beef and veal, for sugar⁶ which grant selected ACP countries guaranteed import quota-type ceilings, and for bananas⁷ and rum which offer the beneficiaries a special import regime. The banana and sugar protocols have been particularly significant in boosting the export revenues of certain ACP countries, Mauritius being the best example.

In addition to the preferential treatment of ACP exports the Lomé Convention provides support for trade promotion and trade development, including that of trade in services. EDF funds can be utilised for participation in trade fairs and for technical assistance in preparation. A Trade Development Project was created in Lomé IV to assist in the trade development of 20 ACP pilot countries. The Lomé Conventions have also provided support for a number of special institutions benefiting ACP exporters, such as the Centres for Development of Industry and Tropical Agriculture and the ACP–EC institution APROMA (for soft commodities).

Financial and Technical Cooperation Instruments

Support for Structural Adjustment

EC support for structural adjustment, which started in the late 1980s, has changed considerably in the last decade. Between 1986 and 1995, it took the form of Sectoral Import Programmes, General Import Programmes and the Structural Adjustment Facility. These support programmes (i) support the budget or a particular sector of the budget, through foreign currency transfers or counterpart funds; (ii) are quick-disbursing; and (iii) usually have conditionalities attached to them relating to economic and institutional reform (particularly in recent years).

On the basis of Article 188 in Lomé III the Community developed programmes for import support to ACP countries in 1986. The funds for this support were drawn from National Indicative Programmes (ie the programmable funds) allocated to individual countries and were targeted on specific sectors. General Import Programmes under the Special Debt Programme (established in 1987) were introduced to complement the Sectoral Import Programmes. Although the Special Debt Programme was officially linked to structural adjustment efforts by the ACP countries, interventions under the sectoral and general import programmes during Lomé III were not linked to specific reform objectives at a sectoral or macroeconomic level.

⁶ The Sugar Protocol predates the Convention and has its origins in the Commonwealth Sugar Agreement. It forms a reciprocal agreement between the EC and the ACP under which the Commission undertakes to purchase and the ACP to supply certain quantities of ACP sugar each year at guaranteed threshold prices.

⁷ The ACP banana producers have also been supported through Stabex which compensated them for the losses in export earnings from reduced prices in recent years and through a special budget line set up in 1994 to support diversification. This is aimed particularly at the smaller Caribbean islands which depend heavily on banana exports to the Union for their export revenue.

This changed radically with Lomé IV, under which the Community would provide import support only to those countries which had signed up to a structural adjustment programme agreed with the World Bank or IMF. A new emphasis was placed on specific Community concerns outlined in 1992 (Joint Report and Council Resolution of EC/ACP Council): namely the need: (i) to reconcile adjustment with long-term development, to adapt the pace of reform to country-specific situations, and to take into account the regional and social dimensions of structural adjustment; (ii) to maximise consistency with other Community instruments affecting a country's balance of payments and generating counterpart funds; (iii) to become more involved in the public finances of ACP states; and (iv) to improve coordination with other donors.

Guidelines for the management of structural adjustment support were developed and a special unit dealing with these quick-disbursing funds was established in DG VIII at the beginning of the 1990s. A special facility for structural adjustment support was introduced in Lomé IV and used alongside funds from the NIPs allocated for this purpose. The use of counterpart funds generated from structural adjustment support, as well as food aid, Stabex and Sysmin, is discussed in Box 3.2.

The trend in support for structural adjustment shows two steep increases; one when the Special Debt Programme was introduced and Sectoral Import Programmes started to be implemented in 1987; the other when the Structural Adjustment Facility became operational in 1992.⁸ Total structural adjustment support for the period 1986–95 amounted to approximately 2500 m ecu. More than 60% of this was committed in 1992–5 when support was more strictly linked to policy and institutional reform in ACP countries.

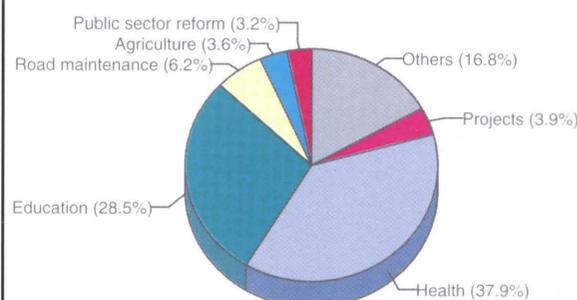
49 ACP countries benefited from structural adjustment support (39 African, 8 Caribbean and 2 Pacific). The main recipients were Tanzania, Zambia, Ethiopia, Côte d'Ivoire, Ghana, Mali, and Burkina Faso, which each received more than 100 m ecu between 1986 and 1995. It has not been possible to allocate all commitments for the earlier years, particularly the country breakdown for 1987–9 and the sectoral breakdown for the Sectoral Import Programmes. The relatively high proportion which was unallocable may therefore have distorted the picture for some countries.

Box 3.2: Counterpart Funds generated by Structural Adjustment Assistance

Since Lomé IV an increasing share of EDF funds is provided in the form of counterpart funds from structural adjustment support, food aid, Stabex and Sysmin. Although strict rules for the use of counterpart funds did not exist before, since Lomé IV they have been targeted on financing local EDF projects and programmes, on social sector headings in the budget of ACP countries, and on mitigating the negative social consequences of structural adjustment (art. 226).

Between 1991 and 1995 1349 m ecu of counterpart funds were generated by structural adjustment finance provided under Lomé IV. More than three-quarters of this had been disbursed in the same period. Most of these funds (74%) came from the structural adjustment facility.

A study undertaken by the DG VIII indicated that 15 countries absorbed about 80% of all counterpart funds generated. Most of these countries are in Africa with the exception of the Dominican Republic and Papua New Guinea. Counterpart funds mainly benefited the health and education sectors which received 369 m ecu and 277 m ecu respectively between 1991 and September 1995. Other sectors receiving assistance through counterpart funds were road maintenance and public sector reform.



⁸ As 89% of all structural adjustment support has gone to the ACP countries, the trend shown in Figure 2.2 gives a good impression of this trend.

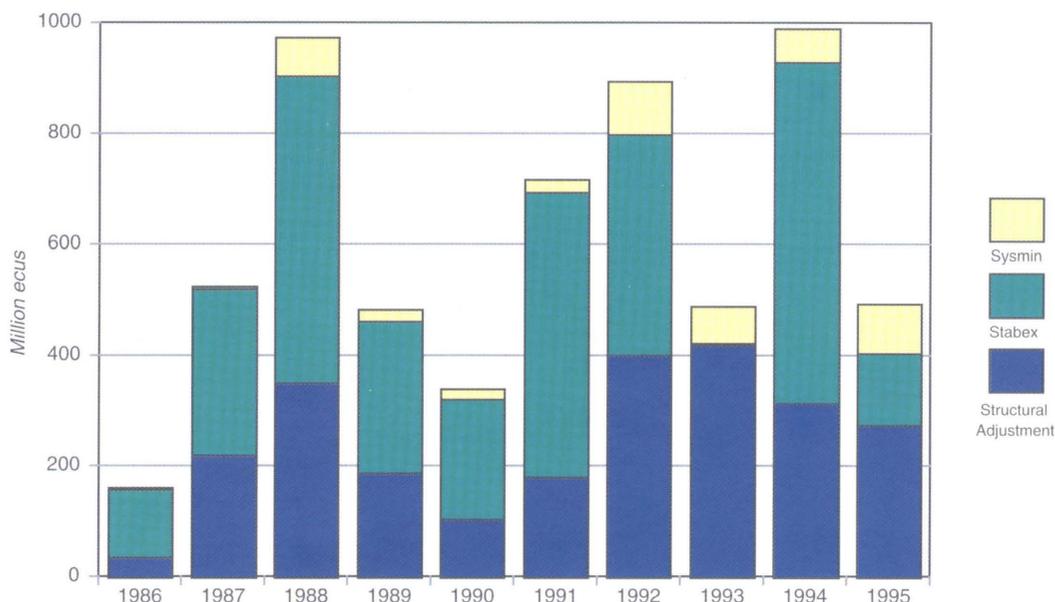
Stabex

Stabex was introduced in Lomé I to compensate ACP countries for the shortfall in export earnings due to fluctuations in the prices or supply of non-mineral – largely agricultural – commodities. The stabilisation of export earnings is intended to be a means of helping countries achieve the broader objective of economic and social progress by safeguarding purchasing power in the countries affected by losses (art. 186). The Stabex scheme is characterised by a product-by-product approach, and transfers are calculated on the basis of losses accrued on exports to the EC only, except for ACP countries where ‘all destinations’ exports may apply (art. 189). Transfers are made from a fixed allocation in each EDF to ACP governments.

The products eligible for Stabex transfers from the EDF and the criteria for losses are defined in articles 187 and 189 of the Lomé Convention respectively. The list of eligible products has gradually been expanded from 29 to 50 products. Originally an ACP country could request compensation but from Lomé IV onwards there are no ACP requests. ACP compensations are calculated solely by the Commission, the provisions of Articles 189, 196 and 197 in particular being taken into account. The freedom in utilisation of the transfer has also become more limited over time and is, since Lomé IV, determined by a ‘framework of mutual obligations’ for each transfer agreed between the EC and the ACP country. In the earlier Lomé Conventions a few of the more advanced ACP countries were liable to have to repay these transfers, but now they are all in the form of grants.

Stabex transfers usually account for a large share of the EDF. Indeed, Stabex has been the most important instrument overall, followed by structural adjustment finance which gained in importance in recent years. Fluctuations in transfers therefore have a significant impact on the trend in the EDF and subsequently in the aid to the ACP countries. A clear demonstration of this came in 1993 when no agreement could be reached on Stabex transfers. Hardly any commitments were made that year and aid from the EDF stagnated (see Figure 3.4).

Figure 3.4: Programme aid, m ecu (1986–95)



Source: ODI database 1997

During the period 1986–95 3.1 bn ecu was committed through Stabex. With the exception of 1991, Stabex accounted annually for between 11% and 20% of all aid to the ACP until 1994, when it peaked at 24% making up for the near zero level in 1993 when there was no agreement on distribution. In 1995 Stabex transfers were relatively low and accounted for only 5% of all aid to the ACP.

Tropical beverages, coffee and cocoa, and cotton exports dominate and accounted for 88% of the transfers between 1990 and 1993. The main beneficiaries of Stabex have been Côte d'Ivoire, Cameroon, Ethiopia, Papua New Guinea, Sudan, Kenya, Uganda and Senegal. Together they represented 63% of all transfers between 1986 and 1995. Most of these countries also appear among the top ten recipients of EDF aid. For some of them Stabex is also the most significant flow of aid from the Community. For instance, Côte d'Ivoire received 58% of its aid through Stabex, Cameroon 54% and Papua New Guinea 37%.

Sysmin

From Lomé II onwards there has also been a scheme to help alleviate fluctuations in revenue arising from the production and sale of minerals (bauxite, alumina, copper, cobalt, iron, tin, phosphates, and manganese, and uranium since Lomé IV). The objective of the scheme is to 'contribute to establishing a more solid and wider basis for the development of the ACP states while supporting their efforts to safeguard their mining production and exports sector by remedial or preventive action, or for states heavily dependent on exports of one mining product to diversify and broaden the bases of their economic growth, notably by helping them complete development projects and programmes under way where these are seriously jeopardized owing to substantial falls in export earnings from that product' (art. 214).

ACP countries can request aid under Sysmin if they are dependent on mineral exports for a substantial part⁹ of their export earnings, and if the viability of one or more enterprises in the mining sector has been or is about to be affected by temporary or unforeseeable difficulties that cause a fall in production or export capacity of around 10% and/or deterioration of the external balance (art. 215), or if those difficulties threaten the completion of development projects and programmes. During Lomé II and III the transfers took the form of special loans but since Lomé IV they are all grants. Sysmin funds may be 'on-lent' by the government to mining companies in need of restructuring, with a view to preventing difficulties in the future.

Procedures for decision-making on Sysmin projects are the same as for financial and technical cooperation (see above) and are subjected to thorough analysis. Utilisation of Sysmin funds for diversification has been emphasised in the current Convention.

Of the 1175 m ecu made available to the Sysmin facility between 1986 and 1995, only 413 m ecu were committed, benefiting 16 countries. This was due to the fact that Sysmin by its nature is an 'accident insurance' system, which only comes into operation when the eligibility criteria (such as a decline in mineral export prices) are met. It might have been possible to adopt a more proactive approach by broadening the scope of Sysmin projects to include the mining sector as a whole, which might have raised disbursement levels. The countries which have benefited most from Sysmin are Mauritania, Zaire, Zambia, Niger, Namibia and Guinea. Only four non-African countries received aid through Sysmin, namely Guyana, Jamaica, Papua New Guinea, and the Dominican Republic.

⁹ Countries can request aid under Sysmin if the relevant mining products have on average represented more than 15% of total exports for 4 years (10% for LLDCs) or 20% or more of their export earnings from all mining products (12% for LLDCs, landlocked and island countries).

Humanitarian Aid and Aid for Refugees

In addition to the main budget line for humanitarian assistance discussed in Chapter 2, some Lomé funds have been set aside for emergencies. For 1990–95 150 m ecu had been allocated under art. 254 to emergency operations (such as in Rwanda, Sudan, Angola, Liberia and Sierra Leone).¹⁰

During the period 1986–1995 the ACP countries received 1036 m ecu in humanitarian assistance (excluding rehabilitation), 70% of which was spent in the last 4 years following the establishment of ECHO.¹¹ In 1994, 316 m ecu of humanitarian assistance and 33% of all humanitarian aid allocations, went to the ACP countries. 263 m ecu came from the EDF; most of which went to the crisis in Burundi and Rwanda. In 1995 187 m ecu of humanitarian aid went to the ACP region; only 46 m ecu of it came from the EDF. Over the entire period 1986–95 the main beneficiaries of EC humanitarian assistance were Rwanda and Burundi, Sudan, Somalia, Angola and Ethiopia, which together accounted for half of the assistance.

Assistance for refugees also got special attention in EDF 7 (art. 255), and 100 m ecu was set aside to assist refugees and returnees who are not covered by emergency aid. These funds are mainly used for post-conflict rehabilitation programmes. Other funds for rehabilitation are sourced from NIPs, Stabex and the special budget lines.

ACP (and other developing) countries have received rehabilitation assistance provided from two budget lines. The first, established in 1988, primarily targets the rehabilitation process of southern African countries recovering from war, including assistance for the return of refugees, displaced people and demobilised soldiers (B7-5071),¹² while the other, created in 1994, is global and focuses on the rehabilitation of productive sectors and infrastructure (B7-5076). The major objectives of rehabilitation programmes are: the restoration of production, the repair of basic infrastructure, the resettlement and reintegration of displaced people and the re-establishment of local institutions. To be eligible for rehabilitation assistance countries have to meet criteria such as a minimum level of security, and the commitment of the government to democratic values.

Between 1986 and 1995 338 m ecu was provided to the ACP for rehabilitation. Almost a third went to Zaire in 1995 for the Rwanda crisis, a third was given to Angola for its post-war rehabilitation programme and 14% went to Mozambique for the same purpose. According to European Commission estimates, approximately 30% of payments for rehabilitation are made to NGOs.

Food Aid

Food aid is the main instrument of EC aid to the ACP which is not paid from the EDF, but financed from the EC Budget, as explained in Chapter 2. The ACP countries received 2 212 m ecu of developmental food aid between 1986 and 1995, although this figure may be somewhat distorted due to the lack of data for the 1986–8 period which leaves a lot of the food aid in earlier years unallocable. Almost a quarter of food aid received by the ACP, 510 m ecu, went to Ethiopia, followed by Sudan (256 m ecu), Mozambique (228 m ecu), Angola (153 m ecu) and Rwanda (108 m ecu) between 1986 and 1995.

¹⁰ In 1994 this was topped up exceptionally with 150 m ecu from Lomé funds for the Rwanda crisis.

¹¹ ECHO managed just over a third of these funds between 1993 and 1995, but in 1995 it managed 84% of all humanitarian assistance to the ACP.

¹² Beneficiaries of this budget line include Angola, Botswana, Lesotho, Namibia, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Initially this line was created to support the populations of the Front Line States and SADC countries, partly to counter South African destabilisation policies.

Aid to NGOs

As has been mentioned in Chapter 2, NGO co-financing is an important instrument for EC aid. From the special budget line for NGO co-financing (B7-5010) 289 m ecu (ie 29%) was committed to the ACP. This is a relatively small proportion of the total (about 1.2%), but it excludes EDF funds channelled *through* NGOs. Such NGO projects are accounted for under the appropriate sectoral heading, eg good governance. A third of the aid to NGOs went to Ethiopia (28 m ecu), Zaire (19 m ecu), Burkina Faso (18 m ecu), Kenya (17 m ecu), and Tanzania (15 m ecu).

Project Aid

Project aid accounts for 58% of all EC aid to the ACP countries and is mainly financed from the EDF through the National and Regional Indicative Programmes.¹³ In addition to this EDF financing, 216 m ecu (1% of total aid to the ACP) was spent from the EC Budget on project aid. The budget lines and relevant amounts committed between 1986 and 1995 are:

Tropical forestry	61 m ecu
Environment	53 m ecu
Democratisation and human rights	42 m ecu
Support for banana-producing countries	41 m ecu
Support for the fight against AIDS	7 m ecu
Decentralised cooperation	6 m ecu

Sub-Saharan Africa: In Africa most of the project aid went to the *transport and communications* sector which received 1.8 bn ecu between 1986 and 1995, or 8% of all aid to the region. This proportion has not fluctuated much over time (since 1989 it has always been between 9% and 13%). Not surprisingly, a substantial number of projects (19%) in this sector are categorised as regional as they are cross-country. Important beneficiaries are Tanzania, Madagascar and Benin, which each had more than 100 m ecu of their aid allocated to this sector, followed by Ethiopia, Mozambique and Burundi. Together they account for almost a third of all transport projects in Sub-Saharan Africa.

Industry, mining and construction projects constituted the second biggest sector for EC aid to Africa. 1.5 bn ecu was committed to these projects between 1986 and 1995, but there were considerable inter-year fluctuations. Mauritania, Zambia and Guinea accounted for a quarter of the commitments (364 m ecu).

Rural development has also been significant, although this is mainly due to high commitments in 1987, 1988 and 1989, when rural development projects accounted for 26%, 21% and 18% of EC aid to Africa respectively. After that commitments went down steadily and were as low as 4 m ecu in 1995. Nigeria, Mali, Senegal, Niger, Burkina Faso and Guinea received significant contributions in the form of support for rural development and made up 45% of Africa's share of aid to this sector.

Agricultural projects went up to 1.1 bn ecu and represented 6% of aid to Africa. A quarter of this was not allocated to any particular country but labelled as regional, while the main individual countries benefiting from aid to the agricultural sector were Ethiopia, Kenya and Côte d'Ivoire. Energy projects were of similar importance.

¹³ In recent years attempts have increasingly been made to give country programmes a more sectoral focus, while under Lomé IV some NIP funds have also been used for structural adjustment support in addition to the Structural Adjustment Facility.

Commitments to the *social sectors* amounted to 1.2 bn ecu – 7% of total funds to Africa. 1.5% of these total funds went to *education and training*, 2% to the *health sector* and 2.5% to *water and sanitation* projects (some of those were financed with loans managed by the EIB – see below). Commitments to the health sector were particularly high in the last four years. Commitments to the education and training sector have been relatively constant with the exception of 1991 and 1995 when little was spent on this sector. Angola, Mozambique, Chad, Burundi and Uganda were the main recipients of aid through the health sector, while most of the commitments (60%) to the education sector had a regional remit. Indirectly, the health and education sectors received aid from counterpart funds (see section on structural adjustment above).

Aid for *government and civil society*, which amounted to 130 m ecu, was spread around a large number of African countries in small amounts. Two countries which received relatively large allocations from this budget were Namibia (34 m ecu) and Mozambique.

For *environmental conservation and protection* Africa received 107 m ecu from the EDF and a special budget line. Botswana and the Central African Republic received 16 and 15 m ecu of this respectively. The special support for *gender* issues does not come out clearly in the statistics.¹⁴

Caribbean: For the Caribbean the sectoral trends are somewhat different, and because of its smaller size fluctuations quickly occur following a big project in one of the sectors and/or countries. For a start the share of *project aid* vis à vis the other instruments is larger (71%). This is mainly due to a lower overall level of *Stabex* funds and food aid to the Caribbean in comparison with Africa. *Stabex transfers* have been relatively low but peaked in three particular years 1991, 1994 and 1995 when they accounted for 14%, 12% and 24% of Caribbean aid respectively. St Lucia and St Vincent received particularly high payouts in the last two years – as compensation for the banana crisis – whereas most of the 1991 transfer went to Haiti. The main recipients of *support for structural adjustment* were Haiti, the Dominican Republic and Jamaica, which account for 70% of the total support to the Caribbean through this instrument. Haiti received 58 m ecu in food aid and 38 m ecu in humanitarian assistance, which accounted for most of that aid to the Caribbean (77% and 90% for the respective instruments).

As a share of project aid, *rural development and agriculture* are less significant for the Caribbean than for Africa, while the social sectors (mainly through commitments to the water and sanitation sector) and tourism are of considerably more importance.

The main sector to receive support in the Caribbean, however, as in Africa, was the *transport and communications sector* which accounted for 180 m ecu. Transport and communications projects accounted for a large part of aid committed to the Caribbean in 1986 and 1987 (40% and 31% respectively). Since then levels have stabilised at between 10% and 15%, with the exception of 1992 and 1995 when they fell to 8% and 7%.

In comparison with EDF funds to Africa, more was committed to the commercial sectors, *industry and tourism*. In 1990 an exceptionally high commitment was made for tourism which accounted for more than 26% of all aid to the Caribbean in that year because of commitments made to the Netherlands Antilles (an OCT). In 1993 commitments to the Dominican Republic and Guyana increased the share of industry projects to an exceptional 54 m ecu, which was 20% of all aid in that year. The Dominican Republic also received significant aid flows in the energy sector in 1994 and 1995.

¹⁴ The EC's aid programme seeks to address gender issues through two main mechanisms. First by attempting to take account of gender issues and women's needs at each stage of the design of a project or programme. Secondly by projects with women's development as a specific goal. There is currently no way of assessing the size of flows benefiting women through the channel of projects and programmes.

The high proportion of aid to the social sectors (12%) is mainly accounted for by big *water and sanitation* projects (some of which were financed by concessional loans) in Jamaica and Guyana in 1993 and 1995 respectively. *Health* issues have become more prominent in commitments to the Caribbean since 1992 and accounted for an exceptionally high 6% in 1994, mainly thanks to 9 m ecu commitments to the Dominican Republic.

Rural development appears as 5% of all aid to the Caribbean between 1986 and 1995, but this is mainly due to two years, 1988 and 1992, in which 21 m ecu and 38 m ecu (25% and 29% respectively) were allocated to this sector. Only Jamaica and Guyana received substantial commitments in support of rural development. The agricultural sector, which got 40 m ecu (3%) between 1986 and 1995, was only prominent in Surinam and Grenada. In the *environmental sector* there was only one significant commitment of 15 m ecu (in 1993) to the Caribbean. In 1992 and 1995 some commitments were made for good governance and civil society; in 1995 all of this was allocated to Haiti.

Pacific: Aid flows to the Pacific have been highly influenced by *Stabex transfers* which accounted for 32% of all aid but were more than 60% in three of the years (1987, 1991 and 1992). 282 m ecu was committed through Stabex, of which 189 m ecu went to Papua New Guinea, 29 m ecu to the Solomon Islands, 22 m ecu to Vanuatu and 17 m ecu to Western Samoa. For all of them Stabex funds are the largest single component of the EC aid they receive (42%, 28%, 61% and 40% respectively). The other instruments are not significant.

Project aid constituted 62% of the assistance to the Pacific islands. Again the main sectors are *transport and communications* (14%) and *industry, mining and construction* (13%), followed by the *energy sector* (6%), with Fiji and Papua New Guinea as the main beneficiaries. The *social sectors* accounted for 333 m ecu, most of which went to education and training. Assistance to the Pacific islands in the *rural development and agriculture sector* is considerably lower than that to the African continent.

Risk Capital and Loans from the EIB's Own Resources

From the first Yaoundé Convention the ACP countries and OCTs¹⁵ have benefited from concessional loans financed from the EDF (as risk capital) and from the EIB's 'own resources' (see Table 3.5). Loans from the EIB's 'own resources' to the ACP countries receive subsidies from the EDF in order to maintain the interest rate level at between 3% and 6%.

Concessional loans amounted to almost 3 bn ecu between 1986 and 1995, 1.6 bn ecu from the EIB's own resources and the rest from the EDF. 80% of all loans went to sub-Saharan Africa, 11% to the Caribbean and 6% to the Pacific. The main beneficiaries of concessional loans were the more advanced countries in each of the sub-regions. In Africa, Nigeria took 350 m ecu (15% of all loans), followed by Zimbabwe (9%), Kenya (6%) and Côte d'Ivoire (5%). In the Caribbean, which received 328 m ecu in concessional loans, Jamaica and Trinidad and Tobago were by far the biggest recipients of loans between 1986 and 1995 (29% and 20% respectively). Papua New Guinea accounted for more than half the loans to the Pacific, followed by Fiji and French Polynesia.

Most loans fall within the industry and energy sectors, which account for half of all concessional loans. The agriculture and transport and communications sectors are also significant (see Figure 3.5). The large sum of loans which are unallocable by sector (almost a third) are mainly 'global loans', which indicates that the EIB provides the loans to a development bank in the region which then on-lends the funds.

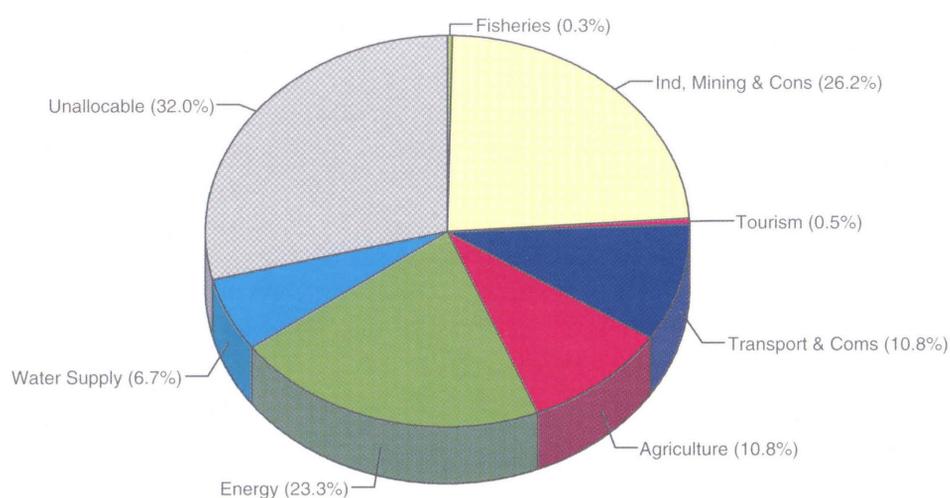
¹⁵ A small proportion of the risk capital provided from the EDF (30 m ecu for EDF 8) and loans from the EIB's own resources (up to 35 m ecu for EDF 8) are committed to OCTs.

Table 3.5: EIB-managed Loans from 'own resources' and Risk Capital (from the EDF) to the ACP 1986–95 (m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Total EIB Loans to ACP:	210	343	293	280	154	384	248	223	462	348	2945
EIB Loans: ACP total	151	158	121	166	118	266	129	147	223	124	1601
sub-Saharan Africa	109	137	94	107	109	204	121	101	137	80	1198
Caribbean	22	17	9	38	9	53	8	24	12	19	210
Pacific	21	4	18	21	–	9	–	22	4	25	124
Unallocable	–	–	–	–	–	–	–	–	70	–	70
Risk Capital: ACP total	59	185	172	114	36	119	119	75	239	225	1343
sub-Saharan Africa	56	179	156	96	31	112	116	53	197	168	1164
Caribbean	2	4	6	15	3	4	3	8	36	35	118
Pacific	1	2	10	3	2	2	–	13	4	21	57
Unallocable	–	–	–	–	–	–	–	1	2	–	4

Source: ODI database 1997

Figure 3.5: EIB-managed Loans from 'own resources' and Risk Capital to ACP Countries 1986–95 (%)



Source: ODI database 1997

Mid-term Review of Lomé IV

Although the fourth Lomé Convention was agreed for a period of ten years, the financial protocol was subject to a mandatory renewal after five years (art. 366 of Lomé IV). A mid-term review took place in 1994–95 in order to review the protocol and amend the Convention where necessary, in view of changes in the economic and political situations of the ACP countries and in the European and international environment. Many ACP countries had embarked on a democratisation process, and were undergoing structural adjustment, while the Uruguay Round Agreement had changed the international trade scene. Within Europe, enlargement had taken place and increasing attention was given to the East European and Mediterranean partners of the Union. This had also influenced the Edinburgh Summit decision to increase the budget allocation for external actions (which did not cover the EDF).

Amendments were finally approved in a number of areas, including: (i) political issues such as democracy; (ii) trade cooperation; and (iii) development finance and related procedures.

i) Political Issues: Though a reference to human rights already appeared in Lomé IV, with the mid-term review respect for human rights, democratic principles and the rule of law have been included as essential elements of the Convention. It also draws a link between good governance and effective development. If any essential elements are violated, procedures now exist which could lead to the suspension of the Convention (introduced as art. 366a), though this would be a measure of last resort.

ii) Trade Cooperation: After difficult negotiations, the ACP and EC agreed on a few areas for the extension of preferential access for ACP agricultural exports to the EU, and a minor relaxation of the rules of origin.

iii) Development Finance and Related Procedures: Despite conflicts over the contributions of individual Member States to the new financial protocol, EDF 8 was agreed at a level similar (in real terms) to the previous EDF.

A change introduced by the mid-term review, related to the financial and technical cooperation under the Lomé Convention, was phased programming, which aims to ‘build-in’ additional flexibility. This implies that funds are allocated to the ACP countries in two tranches. The first tranche is for 70% of the total allocation for the first three years, while the second tranche is performance-related, and is only earmarked for countries after an initial assessment of how the first tranche has been spent.

Assistance to South Africa

The Community’s relationship with South Africa was placed on a new footing when, in April 1997, South Africa joined the ACP countries (though it can only benefit from certain parts of the Lomé Convention). From 1986 until 1994 EC aid to South Africa was provided through a specific budget line, the Special Programme for Assisting the Victims of Apartheid. With the advent of democracy, the Community’s more positive approach to working with the new Government of South Africa was set out in a Council Regulation in November 1996.¹⁶ The EC programme was retitled the ‘European Programme for Reconstruction and Development in South Africa’, reflecting the intention that it should take account of the priorities set out in the South African Programme for Reconstruction and Development. The mandate of the new programme is broad, covering support for democratisation and human rights; education and training; health; rural development; urban development and social housing; support of the

¹⁶ Council Regulation (EC) No. 2259/96 on Development Cooperation with South Africa, 22.11.96.

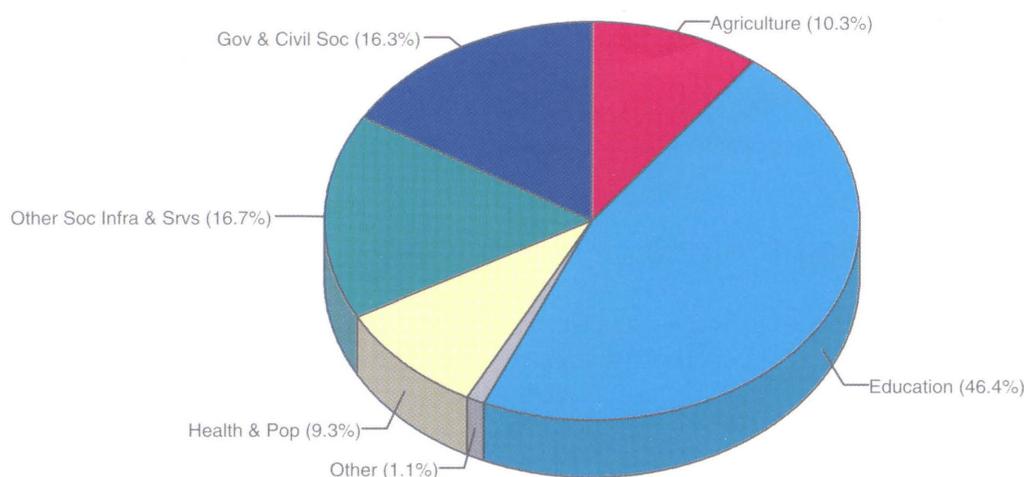
private sector (particularly small and medium-sized enterprises); strengthening local institutions and organisations; regional cooperation and integration; and the environment.

The European Council had agreed that resources necessary to support the Special Programme should be maintained at a substantial level during the transitional period. Most of the assistance has gone to projects in education and training, agriculture and rural development, community development, health care and welfare, human rights and democratisation and the media. Implementation of these projects was originally carried out mainly through NGOs and church organisations in South Africa, but since the 1994 election more projects have been implemented in cooperation with the new government.

Between 1986 and 1995 aid to South Africa from the EC budget amounted to 568 m ecu, of which almost 56% was spent in the last three years. 46% of this aid went to education, which is by far the biggest sector, 17% of all aid (69 m ecu) went to other social infrastructure, and 16% went to the good governance and civil society sector to support the election process (see Figure 3.6 and Table 3.6).

In addition to the grant support described above, in June 1995 the EIB's Board of Governors authorised the Bank to commence operations in South Africa. A framework agreement established a fund of 300 m ecu for two years from September 1995 onwards. The loans mainly target economic sectors such as industry, small and medium-sized enterprises (SMEs), energy, telecommunications and environmental protection. In 1995 45 m ecu was made available in the form of global loans for SMEs in productive sectors and for smaller public infrastructural schemes, mainly water management.

**Figure 3.6: Sectoral Allocation of EC Aid to South Africa
(% of allocable aid, 1986–95)**



Source: ODI database 1997

**Table 3.6: Sectoral Allocation of all EC Aid to South Africa
(commitments, m ecu and %)**

Vol of commitments	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Humanitarian Aid	-	-	-	2	1	-	1	0	0	-	3
Rehabilitation	-	-	-	2	1	-	1	0	0	-	3
Aid to NGOs	-	-	-	-	-	-	-	1	0	-	1
Natural Resources Prod Sectors	0	0	0	1	0	5	31	2	2	-	42
Agriculture	0	0	0	1	0	5	31	2	2	-	42
Social Infrastructure & Services	2	9	22	14	24	33	43	61	76	15	298
Education	1	5	12	8	19	26	33	37	48	-	191
Health & Population	0	1	2	1	0	2	6	4	19	3	38
Other Social Infra & Services	1	3	8	4	4	5	4	19	9	12	69
Governance & Civil Society	3	6	4	3	2	2	3	19	24	0	67
Unallocable by Sector^a	1	3	3	6	4	17	3	8	0	109	156
Total volume, m ecu	7	19	30	25	31	58	81	91	103	125	568
Share (%)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Humanitarian Aid	-	-	-	6.7	2.9	-	0.7	0.2	0.1	-	0.6
Rehabilitation	-	-	-	6.7	2.9	-	0.7	0.2	0.1	-	0.6
Aid to NGOs	-	-	-	-	-	-	-	0.8	0.1	-	0.2
Natural Resources Prod Sectors	0.9	1.5	1.1	2.6	1.3	9.3	38.8	2.1	1.9	-	7.4
Agriculture	0.9	1.5	1.1	2.6	1.3	9.3	38.8	2.1	1.9	-	7.4
Social Infrastructure & Services	32.1	47.8	74.5	55.1	76.6	56.5	53.0	66.8	74.2	12.2	52.5
Education	19.7	27.1	41.4	33.4	61.6	45.6	41.3	41.1	46.7	-	33.6
Health & Population	2.1	4.2	7.7	4.1	1.4	2.8	6.9	4.2	18.6	2.7	6.7
Other Social Infra & Services	10.2	16.6	25.4	17.7	13.6	8.0	4.8	21.4	8.9	9.5	12.1
Governance & Civil Society	47.8	33.8	12.9	12.4	6.0	4.2	3.8	20.9	23.3	0.4	11.8
Unallocable by Sector^a	19.3	16.8	11.4	23.2	13.2	30.1	3.7	9.0	0.4	87.4	27.5
Total share, %	100.0										
Total Disbursements (m ecu)	3	13	23	19	34	48	66	62	58	46	372

^a Sectorisation of data for assistance to South Africa was undertaken by the Commission up to 1994, which explains the large sum of unallocable in 1995.

Source: ODI database 1997

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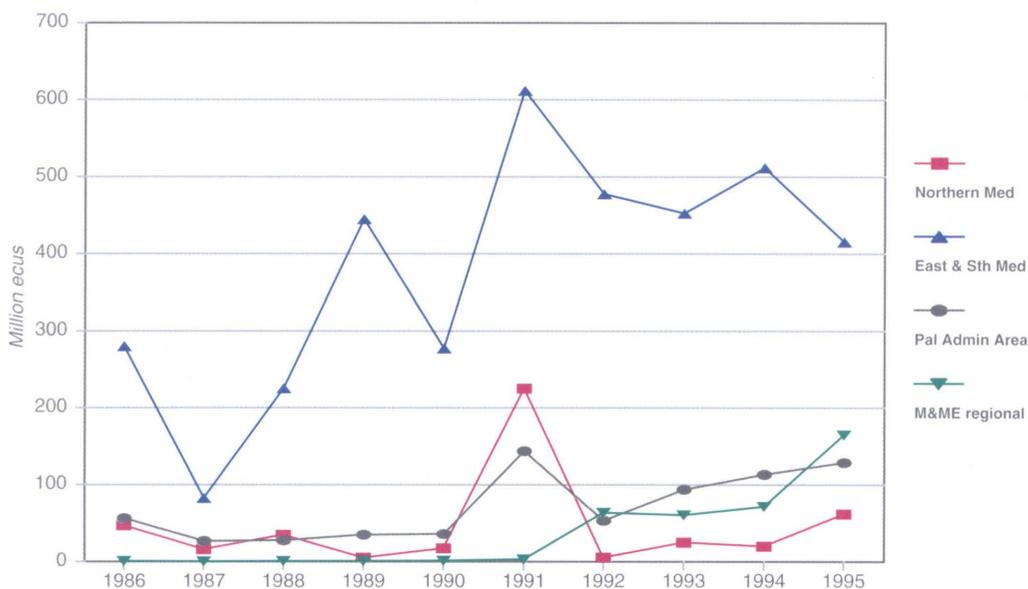
EC Aid to the Mediterranean and Middle East

Trends and Distribution

The Mediterranean and Middle East aid programme of the European Community, also known as the Mediterranean (Med) programme, has grown significantly in recent years. As Figure 4.1 and Table 4.1 show, EC aid committed to the Mediterranean and Middle East has increased substantially, from 401 m ecu in 1986 to 869 m ecu in 1995. Aid flows to the East and Southern Mediterranean went up from around 280 m ecu in 1986 to 415 m ecu in 1995. The steep increase in commitments in 1991 can be partly explained by the special support to the countries affected by the Gulf War. Another factor has been the introduction of the 'horizontal cooperation' element of the Med programme in 1992 (see below) aimed at benefiting the region as a whole or a number of partner countries in the region.

The Northern Mediterranean sub-region has seen its funds reduce over time, with the exception of high commitments in 1991 when special assistance was awarded to Turkey in particular, for the damage it faced as a result of the Gulf War. As a proportion of total aid to the region, aid to the Northern Mediterranean accounted for no more than 7% in 1995 compared with 20% in 1986, although when the periods 1986–90 and 1991–95 are compared the share of aid to the North has grown thanks to the special contribution to Turkey. The share of aid to the East and Southern Mediterranean, the biggest

Figure 4.1: Regional Distribution of EC Aid to Med & Mid East 1986–95 (commitments m ecu)



Note: The main 'regions' in the Mediterranean & Middle East (as defined by the Commission) are: (i) Northern Mediterranean (Turkey, Malta, Cyprus, and initially Greece and Portugal); (ii) East and Southern Mediterranean (Morocco, Algeria, Tunisia and Egypt, Jordan, Syria and Lebanon); (iii) Palestinian Administrative Areas; (iv) Other Middle East.

Source: ODI database 1997

recipients in the region, declined from 75% in 1986–90 to 60% in 1991–95. Aid to the Palestinian Administrative Areas more than doubled (from 40 m ecu to 90 m ecu). The commitments to Other Middle Eastern countries have gone up from non-existent in 1990 to 34 m ecu in 1995. This went almost exclusively via Iraq (largely to Kurdish refugees) and to Yemen.

In total 5.9 bn ecu was committed to the region and 4.6 bn ecu was disbursed. Disbursements grew steadily from around 138 m ecu in 1986 to 534 m ecu in 1995, with exceptionally high payouts, 769 m ecu, in 1991 due to the special support for countries affected by the Gulf War. Owing to the slow-down in commitments to the Northern Mediterranean countries in the 1990s, disbursements are higher than commitments for this sub-region. On the other hand, it is clear from Table 4.1 that disbursements for the regional programmes are lagging more behind commitments than bilateral aid programmes. This is a common feature of regional programmes involving more than one beneficiary country. (The ACP countries experience similar problems with their Regional Indicative Programmes.)

Table 4.1: Regional Distribution of EC Aid to Med & Mid East (m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Commitments	401	149	309	511	386	1133	655	711	757	869	5880
Northern Med	47	16	35	5	18	226	6	25	21	62	462
East & Southern Med	280	83	226	445	277	612	478	452	512	415	3780
Palestinian Adm. Areas	57	27	28	35	36	144	53	94	113	129	715
Other Middle East	0	0	–	6	8	125	8	41	28	33	249
Regional	1	0	1	1	1	3	64	60	71	165	368
Unallocable	16	22	19	19	45	24	46	39	12	65	307
Disbursements	311	164	249	331	285	1012	468	594	581	578	4572
Northern Med	63	50	42	16	24	232	25	34	24	64	574
East & Southern Med	218	84	178	278	222	687	320	346	358	304	2995
Palestinian Adm. Areas	25	25	26	30	30	80	61	78	92	108	556
Other Middle East	2	2	2	6	9	9	11	8	13	28	88
Regional	0	0	0	1	1	2	10	35	35	54	138
Unallocable	2	2	1	1	0	2	42	94	59	19	222

Source: ODI database 1997

There are significant differences between countries with regard to the disbursements of aid that has been committed. The disbursement/commitment ratio is highest in Jordan, Morocco and Tunisia and lower in other countries such as Algeria and Lebanon. In the case of Syria both commitments and disbursements have been low in the past decade due to the late start of the third Protocol.

Recipients

The main recipient in the region was Egypt which received 24% of the total amount committed to the region, mainly due to food aid and the special funds received during the Gulf War. The second biggest recipient was Tunisia (725 m ecu), followed by the Palestinian Administrative Areas (see Table 4.2). Compared with the late 1980s, the Northern Mediterranean countries figure less prominently in the early 1990s, while aid to Kurdish refugees has brought Iraq into the top 10 recipients. In terms of per capita aid, Tunisia and Jordan ranked at the top of the list for the East and Southern Mediterranean sub-region.

Table 4.2: Top 10 Recipients of EC Aid – Med & Mid East (commitments m ecu)

Total 1986–90		Total 1991–95		Total 1986–95	
Egypt	469	Egypt	970	Egypt	1439
Tunisia	342	Palestinian Admin Areas	533	Tunisia	725
Morocco	186	Jordan	428	Palestinian Admin Areas	715
Palestinian Admin Areas	182	Tunisia	383	Jordan	527
Algeria	144	Morocco	287	Morocco	472
Jordan	99	Algeria	241	Algeria	384
Lebanon	49	Turkey	233	Turkey	266
Portugal	44	Iraq	193	Iraq	193
Turkey	33	Lebanon	87	Lebanon	136
Malta	31	Cyprus	78	Syria	96
Top 10: total, m ecu	1578	Top 10: total, m ecu	3431	Top 10: total, m ecu	4953
Top 10: % of all Med	89.9	Top 10: % of all Med	83.2	Top 10: % of all Med	84.2
Total Med aid, m ecu	1755	Total Med aid, m ecu	4125	Total Med aid, m ecu	5880

Source: ODI database 1997

Sectoral Distribution of EC Aid to the Mediterranean

Most aid to the region has been provided as humanitarian assistance and food aid, and through projects (mainly in the agricultural sector and water supply and sanitation). Figure 4.2 shows the shift in the proportions of aid to the various sectors in the late 1980s and the first half of the 1990s.

Humanitarian assistance, which increased in importance in the first half of the 1990s, was mainly provided to refugees in the Palestinian Administrative Areas, to Kurdish refugees in Iraq and to Lebanon. Humanitarian aid amounted to 642 m ecu, around 11% of EC aid to the Mediterranean. More than 300 m ecu of support for structural adjustment was committed after the introduction of a special facility in the fourth Protocol for the East and Southern Mediterranean countries. From being non-existent in the 1980s this instrument accounted for 12% of all aid to the region in 1995. Food aid appears significantly from 1989 onwards, rising to more than 20% of the total (see Table 4.3).

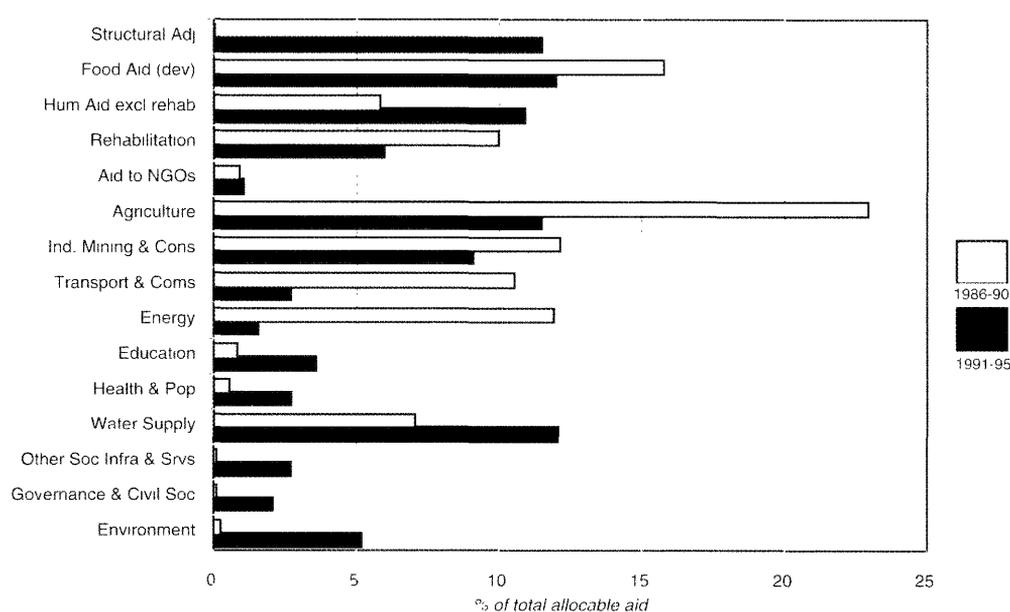
In the sectors for project aid, aid to the agricultural, energy and transport and communications sectors has declined sharply. Although these sectors were stable in absolute terms, their share of EC aid is now less than two-thirds of what it was in the late 1980s. Sectors that gained in importance, apart from the instruments mentioned above, were the social sectors and the environment. The high figure for the social sectors is mainly explained by water and sanitation projects, which amounted to 410 m ecu, or 7% of all aid to the region. About half of these funds were financed through loans managed by the EIB (see below). The education and training sector was significant, with 105 m ecu of commitments.

The focus on environmental conservation and protection in EC aid policy to the Mediterranean is reflected in the significance of aid to the environmental sector, especially in recent years. More than 140 m ecu was committed to this sector between 1986 and 1995. Compared with the ACP, relatively more funds were committed to banking, finance and business services.

Greater priority has recently been accorded to financing development NGOs to reach the poor, particularly in the Western Maghreb countries of Algeria, Tunisia, and Morocco, using decentralised cooperation funds to build partnerships between European NGOs and NGOs in the Maghreb. The main objectives are to strengthen local institutions and support grassroots groups, and to encourage the exchange of experience of NGOs in the participating countries.

A relatively high proportion of aid to the Mediterranean is unallocable by country, mainly due to commitments of 500 m ecu in 1991 for countries immediately affected by the Gulf War. Commitments from that particular budget line, B7-700, accounted for 44% of total commitments for 1991 and 9% of all EC aid to the region for 1986–95.

**Figure 4.2: Sectoral Allocation of EC Aid to Med & Mid East 1986–95
(% of total allocable aid)**



Source: ODI database 1997

Sources of Aid to the Mediterranean

Most of the aid funds to the Mediterranean region are channelled through the budget lines for financial cooperation with the respective countries or sub-regions (Table 4.4). However, the Mediterranean countries also benefit from some special budget lines. Two examples are the line created to provide support for countries immediately affected by the Gulf War, and the line in support of Kurdish refugees. In 1991, 500 m ecu from the Gulf War budget line went to Egypt (175 m ecu), Jordan (150 m ecu) and Turkey (175 m ecu).

More than a quarter of the flows to the Mediterranean countries has been provided in the form of loans, from the EIB's own resources or the EC Budget. The Protocols for the East and Southern

**Table 4.3: Sectoral Allocation of EC Aid to Med & Mid East 1986–95
(commitments, m ecu and %)**

Vol of commitments, m ecu	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid^a	–	–	–	–	–	–	205	25	60	20	310
Structural Adjustment	–	–	–	–	–	–	205	25	60	20	310
Food Aid (developmental)	–	–	3	111	73	77	67	76	48	57	512
Humanitarian Aid	57	33	25	39	34	172	34	70	85	94	642
Humanitarian aid excl rehabilitation	36	9	1	15	9	145	6	40	51	52	362
Rehabilitation	21	24	24	24	25	27	28	30	35	42	280
Aid to NGOs	1	2	2	2	2	2	3	5	8	10	37
Natural Resources Prod Sectors	90	4	17	92	73	43	22	74	109	75	599
Agriculture	90	4	16	92	72	31	22	74	109	75	584
Other Productive Sectors	42	–	1	30	80	87	13	51	138	7	449
Industry, Mining & Construction	42	–	1	28	74	68	5	42	130	1	390
Economic Infrastructure & Services	90	24	30	123	0	77	17	44	57	15	477
Transport & Communications	60	–	22	43	–	62	4	0	4	1	196
Energy	30	24	8	80	0	15	13	0	12	0	182
Social Infrastructure & Services	11	0	55	6	28	79	139	101	65	183	666
Education	1	0	1	3	3	7	7	27	14	41	105
Health & Population	–	–	2	2	2	15	10	6	9	33	78
Water Supply	10	–	52	–	22	26	117	54	21	108	410
Other Social Infra & Services	–	–	–	1	0	31	6	14	21	1	73
Governance & Civil Society	–	0	–	–	–	0	1	32	14	8	55
Multisector/Crosscutting	0	0	14	1	0	5	42	47	9	46	164
Environment	0	0	1	1	0	5	42	46	4	41	141
Unallocable by Sector	110	86	161	107	95	590	112	189	165	355	1970
Total volume, m ecu	401	149	309	511	386	1133	655	711	757	869	5880
Share (%)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid^a	–	–	–	–	–	–	31.3	3.5	7.9	2.3	5.3
Structural Adjustment	–	–	–	–	–	–	31.3	3.5	7.9	2.3	5.3
Food Aid (developmental)	–	–	1.1	21.7	19.0	6.8	10.2	10.7	6.3	6.5	8.7
Humanitarian Aid	14.3	21.9	8.0	7.6	8.9	15.2	5.2	9.8	11.3	10.8	10.9
Humanitarian aid excl rehabilitation	9.0	5.8	0.2	2.9	2.3	12.8	0.9	5.6	6.7	6.0	6.2
Rehabilitation	5.2	16.1	7.8	4.7	6.6	2.4	4.3	4.2	4.6	4.8	4.8
Aid to NGOs	0.2	1.2	0.7	0.4	0.6	0.2	0.4	0.7	1.0	1.1	0.6
Natural Resources Prod Sectors	22.4	2.4	5.4	18.1	18.9	3.8	3.4	10.4	14.4	8.7	10.2
Agriculture	22.4	2.4	5.0	18.1	18.7	2.7	3.4	10.4	14.4	8.7	9.9
Other Productive Sectors	10.5	–	0.2	5.8	20.6	7.7	2.0	7.1	18.2	0.8	7.6
Industry, Mining & Construction	10.5	–	0.2	5.4	19.3	6.0	0.8	5.9	17.2	0.1	6.6
Economic Infrastructure & Services	22.4	15.8	9.9	24.1	0.0	6.8	2.6	6.2	7.6	1.7	8.1
Transport & Communications	15.0	–	7.1	8.5	–	5.5	0.6	0.1	0.6	0.1	3.3
Energy	7.5	15.8	2.8	15.7	0.0	1.3	1.9	0.0	1.5	0.0	3.1
Social Infrastructure & Services	2.6	0.3	17.7	1.2	7.1	7.0	21.3	14.1	8.5	21.1	11.3
Education	0.2	0.3	0.4	0.6	0.8	0.6	1.0	3.9	1.8	4.7	1.8
Health & Population	–	–	0.6	0.4	0.5	1.3	1.5	0.8	1.1	3.8	1.3
Water Supply	2.4	–	16.8	–	5.7	2.3	17.9	7.6	2.8	12.4	7.0
Other Social Infra & Services	–	–	–	0.1	0.0	2.7	0.9	1.9	2.8	0.1	1.2
Governance & Civil Society	–	0.3	–	–	–	0.0	0.1	4.4	1.9	0.9	0.9
Multisector/Crosscutting	0.1	0.0	4.6	0.2	0.1	0.5	6.4	6.5	1.2	5.2	2.8
Environment	0.1	0.0	0.4	0.1	0.0	0.5	6.4	6.5	0.5	4.7	2.4
Unallocable by Sector	27.4	58.1	52.3	20.9	24.7	52.0	17.1	26.5	21.8	40.9	33.5
Total share, %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a Stabex and Sysmin do not apply to the Mediterranean and Middle East.

Source: ODI database 1997

Mediterranean, financed from the EC Budget, include provisions for risk capital, though this accounted for only 5% of all concessional loans to the region. The majority of loans were financed from the EIB's own resources. The Protocols for some Northern Mediterranean countries also included provisions for risk capital which came to 8 m ecu, ie 6% of loans to this sub-region (for more information see section on loans below).

The level of concessionality of aid to the Mediterranean has gradually decreased and is significantly lower than in the case of the ACP countries. It still varies according to country. It is zero for Israel, which only gets loans and no grant aid (and therefore does not feature in this analysis), and Algeria receives only 28% of its funds in the form of grants.

Table 4.4: Sources of EC Aid to the Mediterranean

Budget lines	1986-95 Coms, m ecu	Recipients
Northern Mediterranean:		
B7-4000	50	Portugal
B7-4001	5	Greece
B7-401	34	Malta
B7-403	36	Turkey (3rd Protocol; special aid, other fin. coop.)
B7-404	17	Cyprus
East & Southern Mediterranean:		
B7-4050	180	Maghreb and Mashraq countries ^a (1st & 2nd Protocol)
B7-4051	1553	Maghreb and Mashraq countries ^a (3rd & 4th Protocol)
B7-402	14	Lebanon
Palestinian Administered Areas		
B7-406/4083	182	Palestinian Administered Areas
B7-407	266	Aid channelled through UNRWA
Regional Mediterranean		
B7-408/410	197	Regional budget lines (incl. for university cooperation, measures in favour of employment creation, against migration, investment promotion in the region).

^a In EC terminology Maghreb = Morocco, Algeria and Tunisia; Mashraq = Egypt, Jordan, Syria and Lebanon.

Source: European Commission

Protocols: Policy and Objectives

Historical Background

Cooperation with the Mediterranean countries initially consisted mainly of trade and economic cooperation. Beyond trade preferences, the cooperation can be largely divided into two types, that with Northern and that with East and Southern Mediterranean countries, although the individual agreements differ substantially.

The Northern Mediterranean countries (Turkey, Cyprus and Malta) have had an association agreement with the EC since 1963, 1970 and 1972 respectively, with a view to creating a customs union. Turkey has now proceeded to that stage, while Cyprus and Malta are awaiting their accession to the Union in a future enlargement. A financial protocol was annexed to each of the association agreements for Turkey in 1963, Cyprus in 1978 and Malta in 1979.

The East and Southern Mediterranean countries, the Mashraq (Egypt, Jordan, Lebanon and Syria) and the Maghreb (Algeria, Morocco, Tunisia), have had individual cooperation agreements with the EC since the late 1970s, some of which replaced trade agreements. The cooperation agreements offered economic cooperation in the form of trade preferences and conventional financial and technical cooperation. They were of unlimited duration, though their Financial Protocols were not. Given its level of development, Israel has received no grant aid or concessional loans but has had a free trade area agreement with the EC since 1989. The Palestinian Administrative Areas are governed by a separate policy.

The Financial Protocols attached to the cooperation or association agreements of the Mediterranean countries stated the priorities of the cooperation, set out a five-yearly allocation of financial assistance in the form of grants and loans, and instituted preferential treatment for Mediterranean exports to the EC. They also contain institutional provisions for dialogue between the EC and the region.

New Mediterranean Policy

In 1990 and 1991, when the fourth financial protocols for the East and Southern Mediterranean countries entered into force, the EC brought out its 'New Mediterranean Policy'. This aimed at improving the economic and social stability of the region as a whole, and significantly increased aid to the major Mediterranean countries (Algeria, Egypt, Morocco and Tunisia). The policy contained two innovations: greater support for economic reform, and the introduction of horizontal cooperation. In addition, trade cooperation was enhanced.

Support for Structural Adjustment: The Policy attached greater importance to the process of economic reform and structural adjustment in the region and created a separate fund worth 300 m ecu to support this process.

Horizontal Cooperation: Apart from the country-oriented Protocols, the Policy created a special fund of 2030 m ecu for horizontal cooperation (between non-governmental actors in the Mediterranean and the EU), 230 m ecu of it provided from the Community Budget (B7-4080) and 1800 m ecu provided as loans and managed by the EIB (1300 m ecu for regional cooperation and 500 m ecu for environmental projects, with an interest rate subsidy of 3%).

The funds, which account for almost half of the allocation for 1991–6, are targeted on operations aimed at supporting multilateral and (sub)-regional cooperation in the Mediterranean region with priority for: (i) decentralised cooperation; (ii) environmental protection and conservation; (iii) demographic issues; (iv) promotion of investment; (v) micro-projects; (vi) cultural development (see Box 4.1).

The Mediterranean countries benefit from a programme of decentralised cooperation,¹ which provides a framework to support cooperation between various groups in society in the EU Member States and the Mediterranean. The projects are selected by a Programme Committee of Experts from the EC and Mediterranean countries. Generally the projects run for two years and are 80% financed from the Community budget (ie a co-financing mechanism). A Trans-Mediterranean Networks Agency has the

¹ Decentralised cooperation is described by the Commission as forming direct links ('networks') between groups or organisations that share common interests and purposes.

responsibility for administering the Programmes. Other priority areas include family planning and cultural development. Disbursements made from this regional cooperation budget line amounted to 73 m ecu between 1992 and 1995.

Box 4.1: Horizontal Cooperation – MED Programmes

MED-URB is a programme in support of cooperation among local authorities in the EC and Mediterranean. It is mainly aimed at improving the quality of life in Mediterranean cities and strengthening local democracy. Priority areas for cooperation within the networks are urban management, urban social and economic development and urban environment. Since 1992 48 networks have been established (each consisting of at least 2 EU and 2 Mediterranean municipalities) which received 22.4 m ecu between 1993 and 1995.

MED-CAMPUS encourages collaboration among universities and institutions of higher education. There are three main types of activities: (i) training the trainers, aimed at improving techniques and methods of staff ; training of administrative and technical managers of public administration and private companies; post-university training. 23.5 m ecu was allocated to these activities set up by 103 networks between 1993 and 1994.

MED-MEDIA assists in the establishments of networks for media professionals, institutions and organisations in order to allow exchange of experience and know-how between the EC and the Mediterranean. 35 networks have been established and 11 m ecu has been committed in this field.

MED-INVEST fosters the development of SMEs in the Mediterranean region. This programme consists of two parts: i) an extension of EC programmes to the Mediterranean , with an emphasis on partnership between enterprises in the EC and Mediterranean; and ii) experimental projects designed to provide instruments which support the growth and development of existing or new companies in the Mediterranean. The first part is implemented by DG XXIII (DG for Enterprise Policy, Distributive Trades, Tourism and Cooperatives).

MED-TECHNO aims at the improved application of efficient technologies in the Mediterranean countries and at the exchange of experience and know-how between EC and Mediterranean partners. Activities financed range from small joint development projects to networks of scientists and institutions.

MED-MIGRATION This relatively new programme will focus on the creation and strengthening of Trans-Mediterranean cooperation networks among local communities and organisations involving immigrants.

Trade Cooperation

Trade provisions were initially the main component of cooperation with the Mediterranean countries and are still important. Since the agreements of the 1960s and 1970s the Maghreb and Mashraq countries have enjoyed duty-free access to the EU market for industrial products on a non-reciprocal basis (with some exceptions for certain textile and clothing exports in recent years). For agricultural exports, the Mediterranean countries enjoy preferential access which is stated in Additional Protocols to their agreements. The exports receive preferential rates and, for some products, tariff quotas within which the tariff is gradually reduced to zero. Israel, in 1989, was the first country to sign a free trade area agreement with the Community giving it free access for industrial products to the EC on a reciprocal basis.

The Euro-Mediterranean Partnership agreed in the Barcelona Declaration in November 1995 (see below) aims at gradually moving towards a free trade area between the European and South and East Mediterranean countries by the year 2010.

Financial and Technical Cooperation

Grants

Northern Mediterranean: Cooperation with the Northern Mediterranean countries is regulated by the Financial Protocols which run for 5 years (see Table 4.5). The actual duration, however, of Protocol financing lasts longer than 5 years, because the commitments and disbursements of the Protocol allocations continue until exhausted (as in the case of the EDF).²

Table 4.5: Protocol Commitments from Budget and EIB Resources to Northern Mediterranean Countries (m ecu)

	Protocol 1		Protocol 2		Protocol 3	
	Budget	EIB	Budget	EIB	Budget	EIB
Turkey ^a	175	–	195	25	220	90
Cyprus ^b	10	20	16	28	18	44
Malta ^b	10	16	13.5	16	15	23
Total	195	36	224.5	69	253	157

^a Turkey: Protocol 1 – 1963–70, Protocol 2 – 1971–76, Protocol 3 – 1977–81

^b Cyprus and Malta: Protocol 1 – 1979–83, Protocol 2 – 1984–88, Protocol 3 – 1989–94

Source: European Commission

During the second and the third Protocols (1971–81), almost half the funds provided to Turkey (277 m ecu) went to the *infrastructure sector*. A relatively large share was committed to *energy*, which accounted for 29% between 1963 and 1982. The fourth Protocol has been blocked since then for political reasons. This explains the relatively low levels of commitments for recent years, when funds to Turkey have mainly come from horizontal budget lines. Between 1986 and 1995 Turkey received only 90 m ecu (in addition to 175 m ecu assistance after the Gulf War). Most of this was committed to the *social sectors* in 1995. Small amounts of aid were given to *investment promotion* (5.7 m ecu), *health and population* (2.6 m ecu) and *governance issues* (1.4 m ecu).

Cyprus received 87 m ecu, approximately half of which was committed as grant aid between 1986 and 1995 and benefited *urban infrastructure*, the priority sector for aid to Cyprus. The rest was provided in loans. Malta received 54 m ecu during that period and spent most of this on *telecommunications* projects and *trade and industry development*. In the most recent Protocols for Malta and Cyprus more funds were committed to prepare their economies for eventual accession to the Union.

East and Southern Mediterranean: During the first three Protocols for the East and Southern Mediterranean countries (1978–81; 1982–86; 1987–91) grants were disbursed mainly by way of financial and technical cooperation through project aid (see Table 4.6). Since Protocol 4, with the introduction of the New Mediterranean Policy, support for structural adjustment and regional cooperation has become more important.

² The situation has changed since the introduction of the MEDA budget line by the European Parliament in 1995, and the allocation of 4 685 m ecu for the 1995–99 Mediterranean Policy by the Cannes Summit.

From 1992 to 1995, 310 m ecu was allocated to Jordan (100 m ecu), Morocco (80 m ecu), Algeria (70 m ecu) and Tunisia (60 m ecu) in the form of *support for structural adjustment*. *Food aid* to the region amounted to almost 400 m ecu between 1986 and 1995; Egypt received around 188 m ecu in food aid and Tunisia, the second biggest recipient of food aid in the region, received 74 m ecu. *Humanitarian assistance* to the East and Southern Mediterranean sub-region went mainly to Morocco and Lebanon. The latter received 15 m ecu of emergency assistance in the 1980s and 14 m ecu of rehabilitation assistance in the 1990s.

Table 4.6: Protocol Commitments from Budget and EIB Resources to East and Southern Mediterranean Countries (m ecu)

	1978–81		1982–86		1987–91		1992–96	
	Protocol 1		Protocol 2		Protocol 3		Protocol 4	
	Budget	EIB	Budget	EIB	Budget	EIB	Budget	EIB
Morocco	74	56	109	90	173	151	218	220
Algeria	44	70	44	107	56	183	70	280
Tunisia	54	41	61	78	93	131	116	168
Egypt	77	93	126	150	200	249	258	310
Lebanon	10	20	16	34	20	53	24	45
Jordan	22	18	26	37	37	63	46	80
Syria	26	34	33	64	36	110	43	115
Israel	–	30	–	40	–	63	–	82
Total	307	362	415	600	615	1003	775	1300

Source: European Commission

In terms of project aid, which still accounted for more than three-quarters of allocable aid to the sub-region between 1986 and 1995, most went to the *agricultural sector* (517 m ecu), which accounted for 14% of EC aid to the sub-region. *Industry, mining and construction* and *water and sanitation* projects largely benefited from loans to the sub-region. Other important sectors were *transport* and *energy* (5% each), *environmental protection* (4%) and *banking* (3%). Included in the industry sector is the support for *investment promotion* (125 m ecu) and ECIP (25 m ecu) from budget lines B7-4085 and B7-500 respectively. The sub-region also received 20 m ecu for population programmes. The relatively large share of 'unallocable' (26%) is partly accounted for by smaller budget lines, such as aid for scientific cooperation (15 m ecu) and support for the fight against drugs (7 m ecu) which do not fit into sectoral categories.

Assistance to the Palestinian Administrative Areas: The Palestinian Administrative Areas have been an important aid recipient in the region since the 1970s. Initially EC aid was mainly targeted on the Palestinian refugees and channelled through the UN. From 1986 onwards a regular aid programme with preferential trade arrangements for exports from the Areas was established, its main focus being the strengthening of the economic, social and productive infrastructure. Between 1986 and 1995 almost 715 m ecu of direct EC aid was committed and 586 m ecu disbursed in the Palestinian Administrative Areas.

There are three components of financial and technical assistance to the Areas:

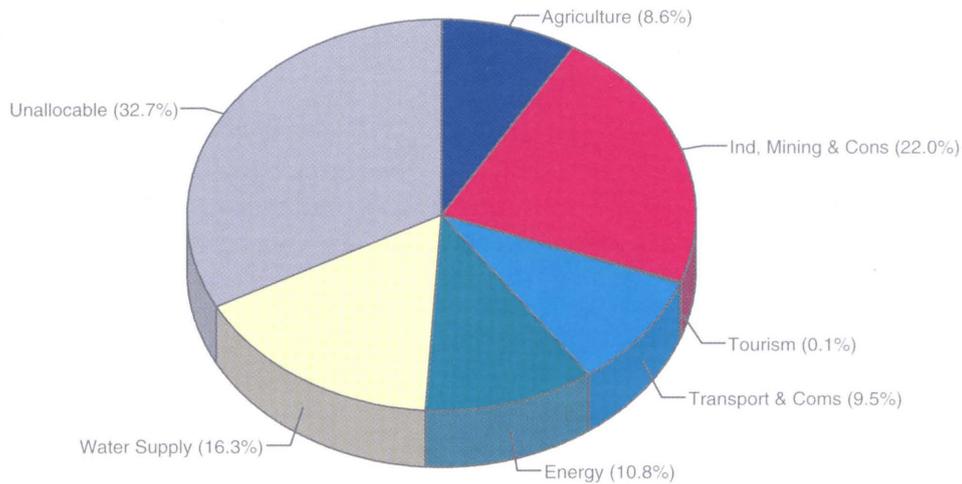
- (i) *Financial support managed by UNRWA*, the United Nations Relief and Works Agency for Palestinian Refugees, established in 1949 after the Israel-Arab war had caused 726 000 Palestinians to flee to the West Bank of the River Jordan. It supports refugees in the Palestinian Administrative Areas and in Lebanon, Syria and Jordan. The EC started its contribution to the education, health and food aid programmes of UNRWA in 1971. Between 1971 and 1995 it has contributed more than 650 m ecu, most of which (52%) was spent on food aid.
- (ii) *NGO co-financing*: From 1979 onwards the EC financed NGO operations in the Palestine territories. Between 1979 and 1995 more than 20 m ecu was spent in this way, 9 m ecu of it in the last ten years. This was the equivalent of almost half the total contribution of projects, most of which were in the health or education sectors or in support of economic development.
- (iii) *Direct aid managed by the European Commission*: After the European Council issued guidelines in 1986, a special budget line was introduced (B7-406 and B7-701, later B7-420) for direct aid to the Palestinian Administrative Areas. In 1991 an exceptional provision was granted to support recovery from the effects of the Gulf War. For the period 1994–98 the EC has set aside 500 m ecu for the Palestine territories, half to be disbursed as grants (50 m ecu per year) and half as loans from the European Investment Bank (from 1995 onwards). In 1997, an allocation of 20 m ecu was agreed to support the recurrent costs of the Palestinian Ministry of Education to strengthen primary and secondary school provision.

Loans from the EIB

Under Protocols 1 and 2, the Maghreb and the Mashraq countries received special loans granted for 40 years at 1% interest with a 10-year grace period. These were lent and managed by the Commission but recovered by the EIB. From Protocol 3 (1986) onwards, these special loans have been replaced by risk capital in order to benefit joint ventures, the industrial sector and SMEs in particular. Although the funds are still provided from the Budget, risk capital is lent and managed by the EIB. Under the first three Protocols, the Mediterranean countries also benefited from interest rate subsidies on loans from the EIB. Under Protocol 4 only Egypt and Jordan have used the subsidised loan facility. Although concessional loans have increased in absolute terms from 585 m ecu for 1986–90 to 971 m ecu for 1991–95, as a share of total financial assistance to the Mediterranean they have decreased in importance from about a third in 1986–90 to just under a quarter in 1991–95.

The Mediterranean countries received 1.6 bn ecu in concessional loans between 1986 and 1995. Most went to the East and Southern Mediterranean (91%), with Egypt, Algeria and Morocco the main beneficiaries. The main sectors for lending were industry, mining and construction and water and sanitation which together accounted for 38% of all concessional loans. As in the case of the ACP, the large share of unallocable loans (almost a third) is mainly due to the proportion of 'global' loans which are lent to banks in the region rather than directly to projects (see Figure 4.3).

Figure 4.3: EIB-managed Loans from Own EIB Resources and Risk Capital to Med & Mid East 1986–95 (%)



Source: ODI database 1997

Future Cooperation: Euro-Mediterranean Partnership

Barcelona Declaration

A new stage in relations between the EU and the countries of the South and East Mediterranean began at the end of 1995 at a ministerial conference in Barcelona between the 15 Member States of the Union plus the Commission, 11 Mediterranean nations and the Palestinian Authorities.³

The Euro-Mediterranean partnership aims at a comprehensive form of cooperation between the two regions. Cooperation has now been agreed in a broad range of political, social and economic fields. The priorities for a work programme set out in the Barcelona Declaration are:

(i) Political and Security Partnership: The European and Mediterranean countries committed themselves to a Euro-Med zone of peace and stability (including issues of human rights, democracy, good governance and security).

(ii) Economic and Financial Partnership: The main objectives of the Partnership are: to speed up progress towards lasting social and economic development; to improve living conditions by increasing

³ The eleven Mediterranean countries plus the Palestinian Authorities are now known as the Med 12.

employment and closing the development gap in the Euro-Mediterranean region; and to promote cooperation and regional integration.

The gradual establishment of a free trade area between the EC-15 and the Med-12 by 2010 is seen as the principal vehicle to achieve this. It will involve the progressive elimination of tariff and non-tariff barriers on manufactured products and a progressive liberalisation of trade in agricultural products and in services.

The Declaration also refers to a 'substantial' increase in the financial assistance to be provided by the EC. In June 1995, the European Council in Cannes agreed that 4685 bn ecu should be provided from the EC Budget between 1995 and 1999 (see below). In addition, EIB loans will be available to the Med-12. The Barcelona conference agreed that a key factor in developing free trade will be cooperation and the growth of trade among the Med-12 themselves. In order to improve regional cooperation, companies will be encouraged to make cross-border agreements and to give a high priority to improving and protecting the environment.

(iii) *Partnership in Social, Cultural and Human Affairs:* Aid has been allocated to provide support in the areas of culture, religion, education and the media, as well as between trade unions and public and private companies. The commitment to strengthen cooperation in order to reduce migratory pressures and illegal immigration is a further concern.

Initiatives under consideration include: investment in human resources, decentralised cooperation, and cooperation between law and order authorities as part of the fight against terrorism, drug trafficking, organised crime and illegal immigration.

The MEDA Budget Line

From 1997 the (fourth) Financial Protocols, which expired in October 1996, will be replaced by a single MEDA budget line (B7-410), which was introduced in 1995. This should increase the flexibility and speed of commitment and disbursement of funds and improve aid. One of the main differences from the Financial Protocols in budgetary terms is that the MEDA line credits cannot be carried over from one financial year to another. The budgetary construction is therefore similar to that of Phare and Tacis. Programming of these funds will be undertaken on a three-year rolling basis with annual revisions (reflecting the way most EU bilateral donors undertake their programming exercises). There will be a distinction between the regional programming (of MED programmes, regional projects, micro activities and regional EIB programmes) and the programming of national indicative programmes.

The latter will have priority areas related to the Euro-Mediterranean Partnership Policy outlined above. In addition to governments, parastatals, private companies and NGOs may also be beneficiaries of MEDA credits.



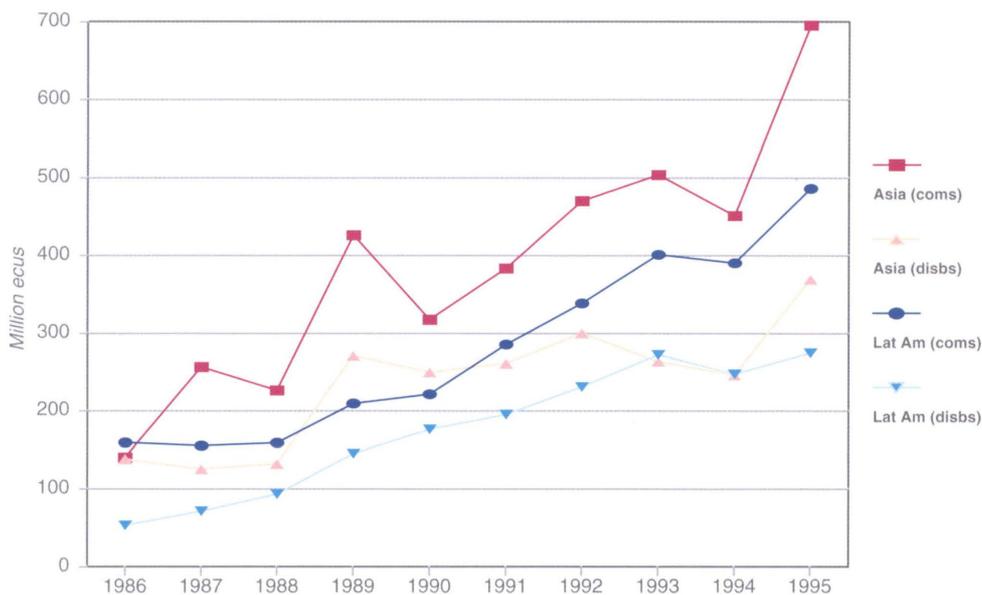
5

EC Aid to Asia and Latin America

Trends in Distribution

EC aid commitments to Asia and Latin America (usually known as the ALA programme) stood at an historically high level in 1995, at 1.2 bn ecu or 17% of total allocable EC aid (see Table 5.1). Nonetheless, while aid to Asia has increased by over 80% since the late 1980s and that to Latin America has more than doubled, ALA's share of total aid declined slightly from 15.3% in 1986–90 to 13.6% in 1991–95. Both regions exhibit a similar pattern of growth of aid over the decade, and broad similarities in the type of aid committed. Financial and technical cooperation represented about half of all aid to each region (55% for Asia, 45% for Latin America), followed by food aid (19% and 16%), and economic cooperation (7% each), though its profile is increasing (see below). The peak in aid to Asia in 1989 was due to unusually large amounts of food aid to Bangladesh, China and India in that year, totalling over 130 m ecu.

Figure 5.1: EC Aid to Asia and Latin America (commitments and disbursements m ecu)



Source: ODI database 1997

There has long been an informal understanding in the Commission that two-thirds of the EC aid programme to Asia and Latin America would be allocated to Asia, with the remaining third going to Latin America.¹ However, the balance between the two regions was 60:40 for the 1986–90 period, and Latin America further increased its share in the 1990s, when the split became 57:43. The average ratio of aid disbursements to commitments is similar for both regions over the 1986–95 period, with both disbursing more than 60% of all commitments. However, while the rate at which aid has been disbursed has increased moderately for Latin America, rising from 60% in the 1980s to 64% in the 1990s, the trend has been in the opposite direction for Asia, where the rate declined from 67% to 58%.

Table 5.1: Regional Distribution of EC Aid to Asia and Latin America (m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Asia commitments	140	257	226	426	317	383	470	504	451	696	3871
East Asia	5	12	29	54	26	21	11	21	40	62	280
South Asia	72	230	91	254	194	295	230	302	203	288	2161
South-East Asia	44	6	39	87	76	46	153	146	165	200	961
Unallocable	19	9	67	31	21	21	76	35	44	146	470
Asia disbursements	138	125	132	271	250	261	300	264	246	369	2357
East Asia	2	3	8	42	38	33	24	16	11	22	200
South Asia	75	78	80	171	146	135	174	144	132	189	1325
South-East Asia	37	27	31	37	37	66	75	53	76	112	550
Unallocable	23	17	14	21	29	26	28	50	27	46	283
Latin America commitments	160	156	159	210	222	286	338	401	390	486	2808
South America	43	52	65	85	100	134	160	170	173	232	1214
North & Central America	16	66	25	46	59	73	129	140	182	212	949
Regional	17	25	39	50	13	16	6	49	20	28	262
Unallocable	84	12	30	30	49	62	44	42	15	14	383
Latin America disbursements	53	72	94	146	176	196	231	273	247	275	1763
South America	8	25	25	62	77	78	88	100	108	100	672
North & Central America	4	14	24	41	49	62	66	98	75	94	528
Regional	–	4	12	2	24	7	21	21	17	33	140
Unallocable	41	29	32	41	27	49	55	54	48	47	423
Asia & Latin America coms	300	413	385	636	539	669	808	905	841	1182	6679
Asia & Latin America disbs	191	197	226	417	426	457	531	537	493	644	4120

Source: ODI database 1997

Table 5.2 reveals a number of differences in the pattern of aid allocation between the two regions, as well as some continuity in the main recipients. The top ten Asian recipients received the vast bulk of all EC aid to Asia, but saw their share decline slightly from 86% to 80%. Aid was spread out among a greater number in the case of Latin America, but it became considerably more concentrated over the decade, with the share of the top ten rising from 54% to nearly 70%. Nonetheless, both programmes embraced a rapidly growing number of recipients as the decade progressed, with the number of recipients receiving an average of 5 m ecu a year rising from six to twelve for Asia, and from three to eleven for Latin America. Although Asia as a region received considerably more aid than Latin America, Asian countries received far less on a *per capita* basis. Nicaragua received a total of 66 ecu

¹ This has never been legally enshrined in EC regulations but is based on internal Commission instructions. The split is 63:37 if one looks at technical and financial assistance only.

per person between 1986 and 1995, with Bolivia and El Salvador receiving over 30 ecu, and a total of 13 Latin America countries receiving a total of over 5 ecu per person. In contrast, the highest ranking Asian country in *per capita* terms was Cambodia, which received 17 ecu, and only four Asian countries received over 5 ecu per person. Thus while Asia received more aid overall than Latin America, this did not compensate for its far greater population.

India and Bangladesh remained the largest Asian recipients, but while India saw its share of total Asian aid nearly halve from 34% to 18%, Bangladesh's share remained constant at about 18%. The Philippines rose from fourth to third ranking due to a doubling of its aid allocation. Thailand, Sri Lanka and Laos, however, slipped out of the top ten, replaced by Cambodia, Vietnam and Nepal. The ten largest Latin American recipients remained almost constant over the period, but with Honduras slipping out of the top ten to be replaced by Cuba.

**Table 5.2: Top 10 Recipients of Aid – Asia and Latin America
(commitments m ecu)**

Asia Total 1986–90		Asia Total 1991–95		Asia Total 1986–95	
India	471	India	462	India	932
Bangladesh	227	Bangladesh	459	Bangladesh	686
China	118	Philippines	184	Philippines	271
Philippines	87	Pakistan	175	China	264
Thailand	85	China	146	Pakistan	260
Pakistan	85	Cambodia	146	Indonesia	172
Indonesia	43	Vietnam	138	Cambodia	152
Sri Lanka	28	Indonesia	128	Vietnam	147
Laos	19	Afghanistan	122	Thailand	139
Afghanistan	14	Nepal	54	Afghanistan	137
Top 10: total, m ecu	1177	Top 10: total, m ecu	2013	Top 10: total, m ecu	3159
Top 10: % total Asia	86.1	Top 10: % total Asia	80.4	Top 10: % total Asia	81.6
Total Asia aid, m ecu	1367	Total Asia aid, m ecu	2504	Total Asia aid, m ecu	3871
Lat Am Total 1986–90		Lat Am Total 1991–95		Lat Am Total 1986–95	
Bolivia	107	Peru	232	Peru	327
Peru	95	Nicaragua	192	Nicaragua	258
Nicaragua	66	El Salvador	152	Bolivia	246
Chile	40	Guatemala	151	Guatemala	188
Guatemala	37	Bolivia	139	El Salvador	188
El Salvador	36	Brazil	111	Brazil	137
Columbia	29	Chile	94	Chile	135
Ecuador	29	Cuba	79	Columbia	106
Honduras	26	Columbia	77	Ecuador	100
Brazil	25	Ecuador	71	Cuba	90
Top 10: total, m ecu	491	Top 10: total, m ecu	1299	Top 10: total, m ecu	1775
Top 10: % total Lat Am	54.2	Top 10: % total Lat Am	68.3	Top 10: % total Lat Am	63.2
Total Lat Am aid, m ecu	906	Total Lat Am aid, m ecu	1902	Total Lat Am aid, m ecu	2808

Source: ODI database 1997

Evolution of EC Aid to Asia and Latin America

Whereas development cooperation between the European Community and sub-Saharan Africa and thus the ACP countries dates back to the late 1950s, the Community's aid relationship with Latin America and Asia is considerably more recent. EC relations with Latin America came first, when an arrangement called 'the Brussels Dialogue' began and the EC established official relations with members of the Andean Pact as a regional organisation, later the 'Andean Group'.² Bilateral trade agreements were established with a number of countries in the early 1970s, but cooperation was quite limited in scope and volume relative to the ACP countries. Soon after Denmark, Ireland and the United Kingdom joined the Community in 1973, a formal proposal was made to extend cooperation to the Asian and Latin American (ALA) developing countries. A programme of financial and technical cooperation followed in 1976, since which time the scope of EC aid has broadened considerably.

Initially the emphasis was firmly on financial and technical cooperation, as set out in Council Regulation 442/81 of 1981. This established an overall framework and guiding principles for cooperation, and set out five objectives: i) to assist the poorest countries; ii) to improve the living standards of the most marginalised strata of the population; iii) to promote rural development and agricultural production; iv) to promote a regional approach to development; and v) to meet humanitarian needs in cases of natural disaster.

The initial 'first' and 'second' generation bilateral agreements with Latin American countries were less favourable than the assistance offered to the ACP countries, as budgets were set by the Commission annually (rather than the multi-annual financial programmes under Lomé), and there was no contractual commitment as there was under Lomé. The cooperation agreements of the 1990s, however, have strengthened and deepened EC-Latin American relations. These 'third-generation' framework agreements were designed to provide an appropriate legal framework for developing more extensive and in-depth economic cooperation. A growing emphasis on regional cooperation has also been a feature of the Community's relations with the continent. This is reflected in the Council Resolution of 1 June 1995, which concluded that support for regional cooperation and integration was a major component of the Union's development policy and could contribute to 'the smooth and gradual integration of the developing countries into the world economy', as stated in the Maastricht Treaty (art. 130u) (see Box 5.1).

Box 5.1: EC-Latin American Regional Cooperation

EC cooperation with Latin America operates at three levels:

- i) at the regional level the Community has been conducting formal political dialogue with the Rio Group (South America and Mexico) since 1990;
- ii) at the sub-regional level the San José dialogue has been under way since 1984 with the Central American countries;
- iii) at the bilateral level the Commission has concluded 'third-generation' agreements with various countries and groups of countries, including the Andean Pact which benefits from higher levels of aid and also special trading advantages (GSP arrangements).

In addition, in line with its commitment to regional integration the Community is supporting Mercosur, the new Southern Cone common market involving Argentina, Brazil, Paraguay and Uruguay. Chile joined Mercosur in January 1997, and Bolivia has signed an agreement with Mercosur obtaining preferential tariffs.

Both the increased depth and the stress on economic development apparent in the third-generation agreements are characteristic of the broad trend in the Community's relationship with both Asia and Latin America. The 1992 Council Regulation (443/92) on financial and technical assistance to and economic cooperation with the ALA countries was an important element in this evolution. It recommended that five-year programming should be established for each objective, country or region, where possible. Furthermore, in elevating economic cooperation as a second axis, alongside financial

² The Andean Group, formalised in 1983, comprises Bolivia, Colombia, Ecuador, Peru and Venezuela.

and technical assistance, it stated that the former would target those countries or regions enjoying strong growth while the latter was aimed at the poorest countries and groups. Economic cooperation is to be directed at executives and decision-makers in particular, and seeks to render the economic, legislative and administrative institutional structures more conducive to development. Such cooperation is appropriate at a regional level as well, in support of intra-regional trade, regional institutions for economic integration, and telecommunications, *inter alia*.

The Commission has recently formulated an Asia Strategy (COM(94)314, 13 July 1994), which reaffirms the Community's commitment to raise the European profile in Asia. The strengthening of ties between the Community and Asia is reflected in recent Council Decisions approving Cooperation Agreements with Vietnam and Nepal, for example.³ These agreements represent a commitment to enhance the level of Community cooperation (both economic and development), which should be targeted on poorer groups. Both agreements emphasise employment generation, primary health care, the role of women and, in the case of Nepal, the role of NGOs in development.

Sectoral Distribution of EC Aid to Asia and Latin America

Although both regions receive broadly similar types of aid – financial and technical, and economic cooperation – the precise sectoral composition of this aid often differs significantly. The social infrastructure and services sector illustrates how the trends in composition have sometimes varied. Asia saw aid in this sector greatly increase as a share of all aid, from 2% of allocable aid in 1986–90 to 14% for 1991–95. Latin America, in contrast, started out with a high level of social aid (17%), but its share of total aid fell in the 1990s to 14% of allocable aid (see also Tables 5.3 and 5.4).⁴ Education accounted for 10% of all aid to Asia in the 1990s, but very little to Latin America. Conversely support for good governance represented a growing share of EC aid to Latin America (rising to 4% in the 1990s), while in Asia it fell from 1% to almost zero. There were similarities, however, as is illustrated by the shares of EC aid through three of the main instruments. Food aid decreased to 16% of total aid in both regions, and humanitarian aid rose, particularly in Asia where it accounted for almost a fifth (18%) of all aid for 1991–95. Aid to NGOs remained fairly constant over the decade, but accounted for a far higher share of Latin American aid (about 14%) than in the case of Asia (4%). These and other sectors are discussed in greater detail below.

Both regions experienced a growth in the aid committed to the *health and population* sub-sector. The EC programme in Asia has placed emphasis on improving health centres in poor, rural areas by upgrading existing facilities and developing district hospitals. Both regions have benefited from a budget line created in 1995 to combat drug abuse and trafficking. In 1994 a pilot programme promoting action against cancer was launched in Latin America. Initially it was limited to Costa Rica, Colombia and Paraguay with a budget of nearly 1 m ecu, but in 1996 it was extended to all of Latin America with a budget of over 13 m ecu.

Although Community support for education in Latin America was tiny relative to Asia, a Commission report outlining how the EC's partnership with the region might develop between 1996 and 2000

³ Council Decision of 14 May 1996 Concerning the Conclusion of the Cooperation Agreement between the European Community and the Socialist Republic of Vietnam (96/351/EC), and Council Decision of 20 May 1996 regarding Nepal (96/354/EC).

⁴ As in Chapter 2 the text refers to sectoral shares of *allocable* EC aid to each region, while Tables 5.3 and 5.4 indicate shares of *all* aid (including the unallocable portion).

Table 5.3: Sectoral Allocation of EC Aid to Asia 1986–95
(commitments, m ecu and %)

Vol of commitments (m ecu)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid^a	–	6	11	5	2	0	–	–	–	–	24
Stabex	–	6	11	5	2	0	–	–	–	–	24
Food Aid (developmental)	–	–	19	173	81	69	100	56	63	98	659
Humanitarian Aid	2	17	10	37	20	65	84	88	90	95	508
Humanitarian aid excl rehab	2	17	10	37	20	65	84	88	81	83	487
Aid to NGOs	5	7	11	9	14	13	14	20	20	23	137
Natural Resources Prod Sectors	28	178	47	104	79	141	47	42	86	115	867
Agriculture	21	176	25	100	79	141	15	14	49	53	673
Forestry	–	–	–	–	–	–	32	29	37	61	159
Other Productive Sectors	–	1	3	10	8	6	8	14	22	24	96
Investment Promotion	–	–	–	2	6	4	7	11	18	23	72
Economic Infrastructure & Services	33	9	27	16	8	31	44	35	33	94	329
Transport & Communications	21	3	17	10	2	9	–	2	–	1	65
Energy	5	5	5	3	1	6	31	2	9	0	68
Banking, Finance & Bus Servs	7	0	5	3	5	16	13	31	24	93	197
Social Infrastructure & Services	–	15	12	1	3	51	16	160	62	54	375
Education	–	15	10	–	–	6	5	150	50	19	255
Health & Population	–	0	1	1	2	45	8	5	12	34	108
Governance & Civil Society	–	2	6	0	8	0	0	4	4	3	27
Multisector/Crosscutting	71	13	19	45	88	4	108	71	58	154	631
Environment	0	–	8	28	58	4	33	17	1	65	215
Rural Development	71	13	11	17	30	–	75	54	57	52	379
Unallocable by Sector	2	7	61	26	7	2	48	13	14	37	217
Total volume, m ecu	140	257	226	426	317	383	470	504	451	696	3871
Share (%)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid^a	–	2.4	4.9	1.2	0.5	–	–	–	–	–	0.6
Stabex	–	2.4	4.9	1.2	0.5	–	–	–	–	–	0.6
Food Aid (developmental)	–	–	8.2	40.5	25.6	18.0	21.4	11.0	14.0	14.1	17.0
Humanitarian Aid	1.1	6.8	4.3	8.7	6.4	16.9	17.9	17.5	20.0	13.7	13.1
Humanitarian aid excl rehab	1.1	6.8	4.3	8.7	6.4	16.9	17.9	17.5	17.9	11.9	12.6
Aid to NGOs	3.4	2.8	5.0	2.2	4.5	3.3	3.0	4.0	4.4	3.2	3.5
Natural Resources Prod Sectors	19.8	69.5	20.9	24.4	25.0	36.9	9.9	8.4	19.0	16.5	22.4
Agriculture	15.0	68.5	11.1	23.5	25.0	36.9	3.2	2.7	10.8	7.7	17.4
Forestry	–	–	–	–	–	–	6.7	5.7	8.2	8.8	4.1
Other Productive Sectors	–	0.3	1.4	2.4	2.4	1.5	1.7	2.8	4.8	3.5	2.5
Investment Promotion	–	–	0.2	0.4	1.8	1.0	1.5	2.3	4.1	3.3	1.9
Economic Infrastructure & Services	23.8	3.4	11.9	3.7	2.5	8.1	9.4	6.9	7.3	13.4	8.5
Transport & Communications	15.1	1.3	7.6	2.4	0.5	2.3	–	0.3	–	0.1	1.7
Energy	3.6	2.1	2.1	0.6	0.5	1.5	6.6	0.5	2.1	–	1.7
Banking, Finance & Bus Servs	5.1	0.0	2.3	0.7	1.5	4.3	2.8	6.1	5.2	13.4	5.1
Social Infrastructure & Services	–	6.0	5.1	0.2	0.8	13.4	3.4	31.8	13.8	7.8	9.7
Education	–	5.8	4.6	–	–	1.4	1.1	29.8	11.0	2.8	6.6
Health & Population	–	0.1	0.4	0.1	0.6	11.7	1.7	1.1	2.6	4.9	2.8
Governance & Civil Society	–	1.0	2.8	0.1	2.5	0.0	0.1	0.7	0.8	0.4	0.7
Multisector/Crosscutting	50.2	5.3	8.6	10.5	27.6	1.1	23.0	14.1	12.9	22.1	16.3
Environment	0.0	–	3.7	6.7	18.4	1.1	7.1	3.4	0.2	9.3	5.6
Other Multisector	50.2	5.3	4.9	3.9	9.3	–	16.0	10.7	12.7	7.4	9.8
Unallocable by Sector	1.7	2.6	26.8	6.0	2.2	0.6	10.2	2.7	3.0	5.4	5.6
Total share, %	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a Structural adjustment financing and Sysmin do not apply to Asia.

Source: ODI database 1997

**Table 5.4: Sectoral Allocation of EC Aid to Latin America 1986–95
(commitments, m ecu and %)**

Vol of commitments, m ecu	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid^a	–	–	–	–	–	–	–	–	–	–	–
Food Aid (developmental)	–	–	6	67	58	55	48	56	50	52	392
Humanitarian Aid	3	1	9	29	12	16	22	32	59	59	241
Humanitarian aid excl rehabilitation	3	1	9	29	12	16	22	32	49	47	219
Aid to NGOs	12	15	25	24	25	34	37	39	51	43	305
Natural Resources Prod Sectors	6	35	21	11	31	16	68	70	12	25	295
Agriculture	6	35	15	3	17	9	35	41	8	22	192
Forestry	–	–	–	–	–	–	20	21	5	2	49
Fisheries	–	–	6	8	13	7	13	7	–	–	54
Other Productive Sectors	22	2	3	1	48	36	17	18	43	56	246
Industry, Mining & Construction	22	–	2	–	12	31	10	9	31	45	163
Economic Infrastructure & Services	–	3	26	4	3	6	6	–	7	10	66
Transport & Communications	–	–	21	–	–	3	–	–	7	3	34
Energy	–	3	5	4	3	4	6	–	–	7	32
Social Infrastructure & Services	34	36	15	8	20	25	35	40	20	103	335
Health & Population	22	16	1	3	2	24	17	15	16	68	183
Water Supply	9	20	13	0	17	1	16	20	–	24	119
Governance & Civil Society	–	–	–	–	5	10	10	15	14	21	75
Multisector/Crosscutting	3	50	0	1	5	49	53	65	66	58	350
Rural Development	3	50	–	–	3	39	50	48	44	21	258
Unallocable by Sector	80	13	53	65	16	38	42	66	69	58	502
Total volume, m ecu	160	156	159	210	222	286	338	401	390	486	2808
Share (%)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid^a	–	–	–	–	–	–	–	–	–	–	–
Food Aid (developmental)	–	–	4.1	31.9	26.1	19.1	14.3	13.9	12.8	10.8	14.0
Humanitarian Aid	1.7	0.6	5.8	14.0	5.3	5.6	6.4	8.0	15.0	12.2	8.6
Humanitarian aid excl rehabilitation	1.7	0.6	5.8	14.0	5.3	5.6	6.4	8.0	12.5	9.6	7.8
Aid to NGOs	7.5	9.7	15.9	11.3	11.1	12.0	10.8	9.7	13.1	8.9	10.9
Natural Resources Prod Sectors	3.6	22.5	13.0	5.2	13.9	5.7	20.2	17.3	3.1	5.1	10.5
Agriculture	3.6	22.5	9.2	1.6	7.9	3.2	10.4	10.2	1.9	4.6	6.8
Forestry	–	–	–	–	–	–	6.0	5.3	1.2	0.5	1.7
Fisheries	–	–	3.8	3.6	6.0	2.4	3.8	1.8	–	–	1.9
Other Productive Sectors	13.8	1.4	1.8	0.4	21.6	12.7	5.1	4.4	11.1	11.5	8.8
Industry, Mining & Construction	13.8	–	1.2	–	5.4	11.0	3.0	2.2	8.0	9.3	5.8
Economic Infrastructure & Services	–	1.9	16.2	2.1	1.2	2.2	1.8	–	1.8	2.1	2.3
Transport & Communications	–	–	13.0	–	–	0.9	–	–	1.8	0.7	1.2
Energy	–	1.9	3.2	2.1	1.2	1.3	1.8	–	–	1.4	1.1
Social Infrastructure & Services	21.3	23.3	9.4	3.7	8.9	8.8	10.3	10.1	5.0	21.2	11.9
Health & Population	13.6	10.4	0.6	1.6	0.8	8.3	5.1	3.8	4.1	14.0	6.5
Water Supply	5.6	12.5	8.5	0.0	7.9	0.2	4.8	4.9	–	4.9	4.3
Governance & Civil Society	–	–	–	–	2.3	3.5	3.0	3.8	3.5	4.3	2.7
Multisector/Crosscutting	1.8	32.1	0.2	0.4	2.4	17.0	15.7	16.2	16.8	12.0	12.5
Rural Development	1.8	32.1	–	–	1.5	13.6	14.8	11.9	11.2	4.3	9.2
Unallocable by Sector	50.3	8.4	33.5	30.9	7.2	13.4	12.4	16.6	17.8	12.0	17.9
Total share, %	100.0										

^a Latin America does not receive programme aid.

Source: ODI database 1997

emphasised the importance of *education and training*.⁵ This is likely to build on the so-called ALFA programme of university exchanges (of students and know-how) between the EU and Latin America. Other schemes that are put forward include basic education, literacy, vocational training and technical education, with an emphasis on access for disadvantaged groups and on teacher training.

Relative to other regional programmes, EC aid to Asia included substantial sums in support of the role of *women in development*. Although, as noted in Chapter 2, precise quantification is difficult in the absence of a reliable marker system, flows from the special budget line alone totalled some 37 m ecu over the 1991–95 period, representing about 2% of the entire programme. Promoting the concept of savings and helping women to open savings accounts has been a strategy followed in a number of EC-funded projects, as a way of helping rural women to improve their welfare and status. Credit schemes for women have been implemented by the Community in both South and South-East Asia, often combined with technical and business training.

As was noted above, both regions have been major beneficiaries of three aid instruments, food aid, humanitarian assistance and aid to NGOs. South Asia alone received *food aid* commitments worth nearly 500 m ecu between 1988 and 1995, and the total to the region as a whole stood at 659 m ecu. The main Asian recipients were Bangladesh (255 m ecu), China (128 m ecu) and India (100 m ecu). Food aid to Latin America totalled nearly 400 m ecu, and the major beneficiaries were Peru (120 m ecu), Nicaragua (67 m ecu) and Haiti, Bolivia and Cuba each with around 50 m ecu (see Figures 5.2 and 5.3).

Humanitarian aid to both regions was of an only slightly lower order, with Asia receiving over 500 m ecu and Latin America about half that. Humanitarian assistance went beyond providing relief aid or food supplies, and encompassed finance for reconstruction, rehabilitation, and disaster prevention. ECHO has, for example, helped establish a number of disaster early warning systems throughout Asia, including India, Burma, the Philippines, Vietnam, Nepal and Bangladesh. In 1992 the Commission established a programme to support the reintegration of Vietnamese returnees. This funded advice centres and over 100 000 information kits, as well as contributing to economic reconstruction. In 1995 emergency relief was provided to North Korea following exceptional floods in many provinces. Overall the largest Asian recipients over the 1986–95 period were Afghanistan and Bangladesh (100 m ecu), Vietnam (71 m ecu), Cambodia (66 m ecu), and Pakistan (51 m ecu). In Latin America the main recipient was Nicaragua (65 m ecu), with Cuba, El Salvador and Guatemala each receiving over 30 m ecu.

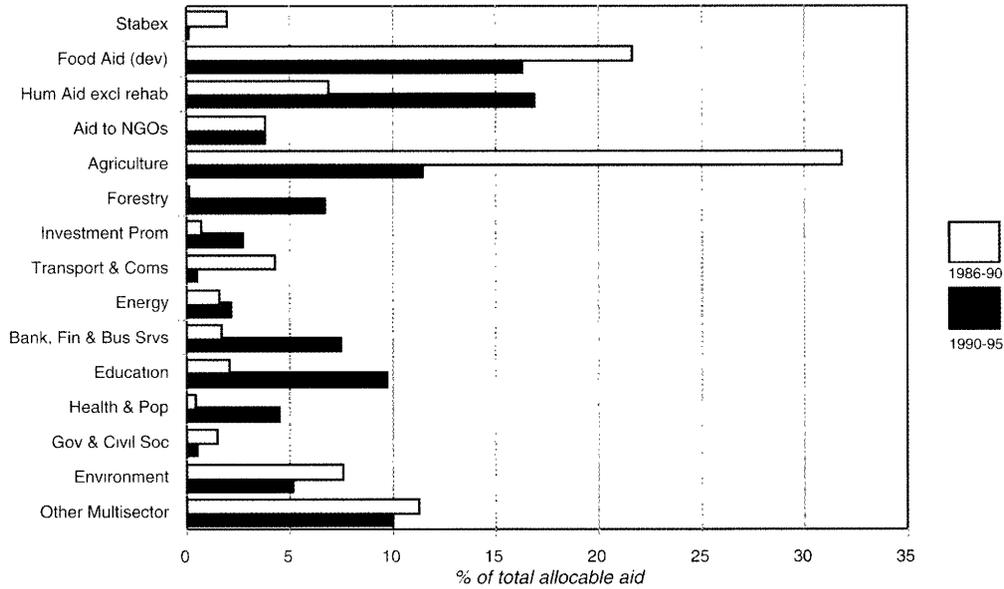
The Community recognises that the needs of refugees, returnees and demobilised soldiers may not be met by humanitarian or development aid alone, and consequently provides rehabilitation assistance to uprooted people in Asia and Latin America. The framework for such assistance was clarified in a Council Regulation in March 1997, which stated that the Community will support projects for the subsistence and self-sufficiency of uprooted people and their reinsertion into the socio-economic fabric.⁶ More specifically, operations will cover mine clearance, combatting sexual violence, recovery of property, judicial review where human rights have been violated, and support to host communities into which refugees are integrated.

Revised guidelines on ALA assistance drawn up in 1991 appear to have had an impact with respect to *environmental aid*. The guidelines specifically required that environmental considerations be taken

⁵ Communication from the Commission to the Council and the European Parliament, *The European Union and Latin America: the present situation and prospects for closer partnership 1996–2000*, Brussels, 23.10.1995, COM(95) 495.

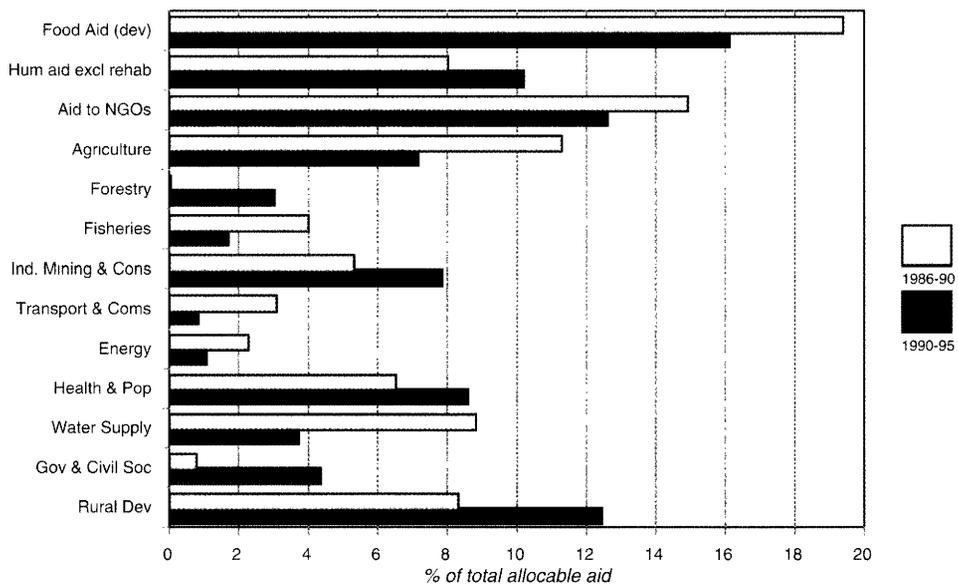
⁶ Council Regulation (EC) No. 443/97 of 3 March 1997, on Operations to Aid Uprooted People in Asian and Latin American Developing Countries.

Figure 5.2: Sectoral Allocation of EC Aid to Asia 1986–95 (commitments m ecu)



Source: ODI database 1997

Figure 5.3: Sectoral Allocation of EC Aid to Latin America 1986–95 (commitments m ecu)



Source: ODI database 1997

into account in all aid activities and that a portion of the cooperation budget be exclusively reserved for environmental measures. Thus, the environmental dimension went from being practically non-existent in bilateral agreements, to becoming one of the core features.⁷ It is clear, at least, that aid specifically targeted on the environment grew significantly in the 1990s, in Latin America from almost zero during 1986–90 to 41 m ecu in 1991–95, and in Asia from 95 m ecu to 120 m ecu (though this represents a falling share of total aid). These totals arguably underestimate the increase in environmentally focused aid, since aid to the *forestry* sector, much of which has an important environmental content, falls under ‘natural resources’ in the ODI/DAC categorisation. Forestry aid grew from nothing in the 1980s to 50 m ecu for Latin America and 160 m ecu for Asia in the 1991–95 period. This reflects a new commitment to the conservation of tropical forests enshrined in Council Regulation 443/92 of February 1992, which allocated 10% of financial and technical cooperation credits for both regions to the environmental and forestry sectors.

Figure 5.3 illustrates the growth in importance of EC support for *good governance* in the 1990s in Latin America. This reflects the introduction of a clause on human rights and democratisation in the ‘third-generation’ accords with Latin American countries, which sets out the universality of human rights and support for vulnerable groups, such as children, women and indigenous people.

Another growth area in Latin America is *rural development*, which, in contrast to all other regional programmes, saw its sectoral share increase to over 10% of all aid to the region in the 1991–95 period. The Community recognises that, despite considerable economic growth in the region in the 1990s, not all sectors of the population have benefited from this.⁸ Four priority areas have been identified: i) supporting effective and coherent economic and agricultural policies; ii) institutional strengthening of marketing organisations; iii) rural credit; and iv) technological innovation and increasing productivity. These are broad and ambitious objectives, and a 1994 Commission evaluation has indicated considerable difficulties in implementing EC rural development policies in practice.⁹

The European Community Investment Partners (*ECIP*) scheme described in Chapter 2 has been of considerable significance to both regions. In the period 1988–95 nearly half of all ECIP finance, or over 80 m ecu, was concentrated in Asia, while 30%, or 52 m ecu, was allocated to Latin America. Other Community instruments exist to promote greater integration between European and both Latin American and Asian companies. The *Al-Invest* programme promotes direct investment, joint ventures and strategic alliances between Latin American and European small and medium-sized enterprises, in particular. After a two-year pilot phase the ALA Management Committee approved its expansion in 1995–2000, with its funding doubled from 41 m ecu to 85 m ecu. Similarly for Asia, the Commission is currently developing an *Asia-Invest* programme to promote business linkages between the EU and Asia. The mechanisms for this include the Asia Enterprise and Partnership programme to co-finance EU–Asian business meetings; the Business Priming Fund, to support groups of European and Asian companies preparing for collaboration; and the Asia Invest Facility, which will fund research into investment opportunities in Asia. Asia-Invest will work closely with the ECIP scheme.

The *energy* sub-sector accounted for commitments of 49 m ecu and 17 m ecu for Asia and Latin America respectively during the 1991–95 period. Latin America faces considerable challenges in the provision of energy in view of the current and forecast rates of economic growth. The Community seeks to contribute to more efficient and rational energy use and to assist in the development of renewable energy resources. It can also assist with the drafting of energy policies and the restructuring

⁷ See *Europe Information*, DE 73, June 1992, ‘Environment in Development: European Community Policy and Action’, Brussels.

⁸ See European Community DG I–B, 1995, *La Coopération entre l’Union Européenne et l’Amérique Latine dans le domaine du Développement rural*.

⁹ European Commission, 1994, *Evaluation Sectorielle: développement rural; note de synthèse*.

of the energy sector, particularly through the ALURE programme (see Box 5.2).

A programme of cooperation (*URB-AL*) between local government and urban groups in Latin America and the EU was established in 1996 with a budget of nearly 22 m ecu over four years. It will promote the exchange of experience and know-how between the two regions, in areas such as local resource management, the rehabilitation of marginal or inner-city areas, the provision of social and health services, and operations against drug abuse.

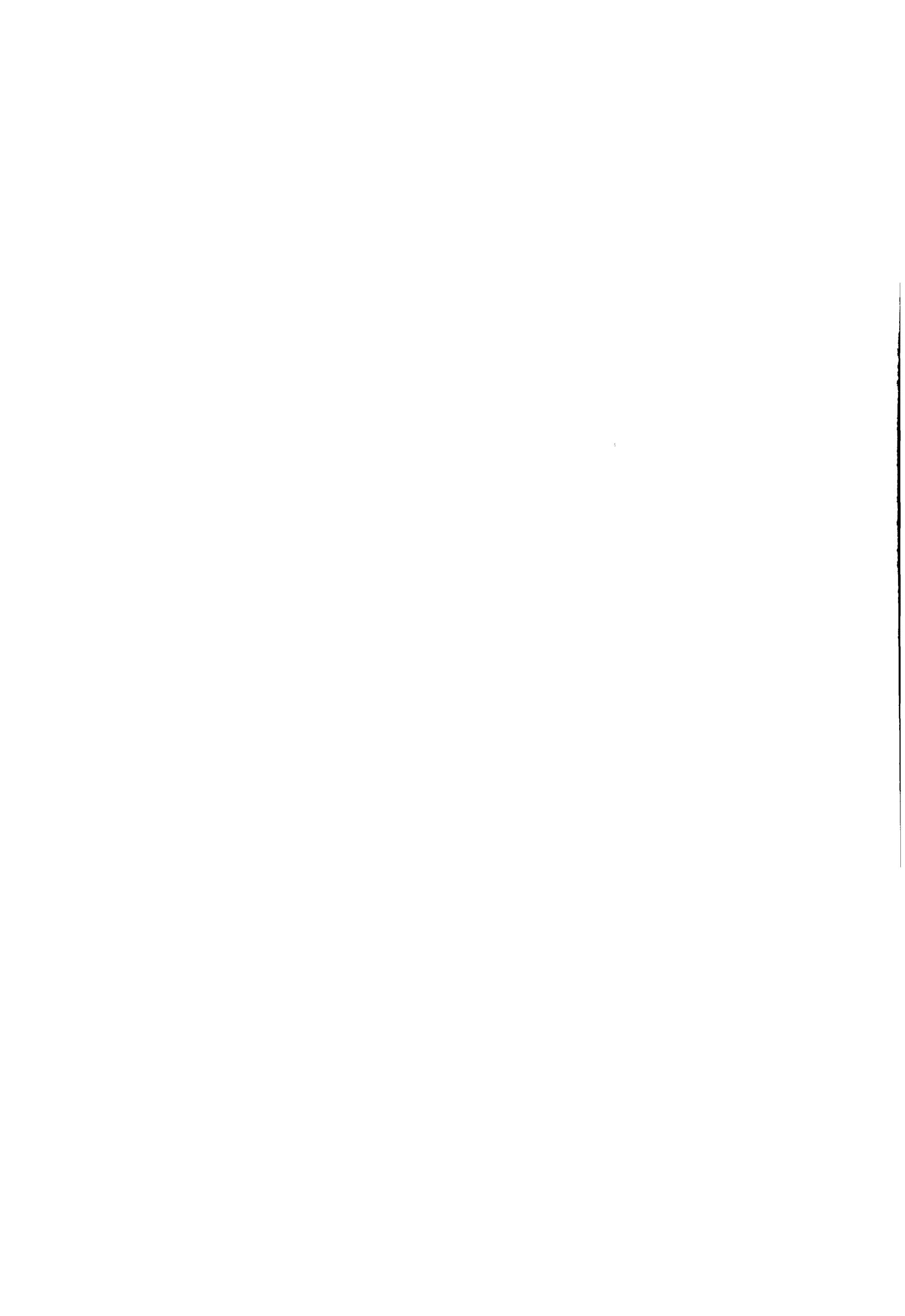
It should be noted that a number of ALA (mainly Asian) countries have benefited from *Stabex-type* flows, an instrument which is otherwise confined to ACP countries. In 1987 the Community agreed to introduce a similar compensation scheme for developing countries which were not signatories to the Lomé Convention. The scheme provided financial resources for projects, programmes and operations, largely in the agricultural sector, where a loss of export revenue occurred between 1986 and 1990. The countries eligible for the scheme were Bangladesh, Bhutan, Yemen, Haiti, Nepal and Burma, though the Burma scheme was later suspended for political reasons.

Box 5.2: Energy aid in Latin America (ALURE)

The main objectives of the ALURE programme are to:

- i) support states in reforming energy policy and the institutional framework;
- ii) promote the distribution of natural gas;
- iii) use environmentally sound technologies;
- iv) support rural electrification initiatives providing energy to excluded groups;
- v) encourage the participation of the private sector.

Finally, as discussed earlier, *regional* assistance forms an important part of EC aid to Latin America, and accounted for over 250 m ecu, or nearly 10% of all aid to the region over the 1986–95 period (see Table 5.1). The regional approach is seen as particularly appropriate in the sectors of transport and communications, intra-regional trade promotion, strengthening regional institutions and the environment. Conferences and studies are also often funded on a regional basis. In Asia considerable emphasis has been placed on *coordinating EC aid with Member State aid* as a means of increasing its impact and profile beyond its 10% share of total EU aid. Similarly, the Commission has recommended that the EC Latin America programme identify during the 1996–2000 period the priority areas for coordination with the EU Member States, and thereby increase the effectiveness and visibility of all EU cooperation.



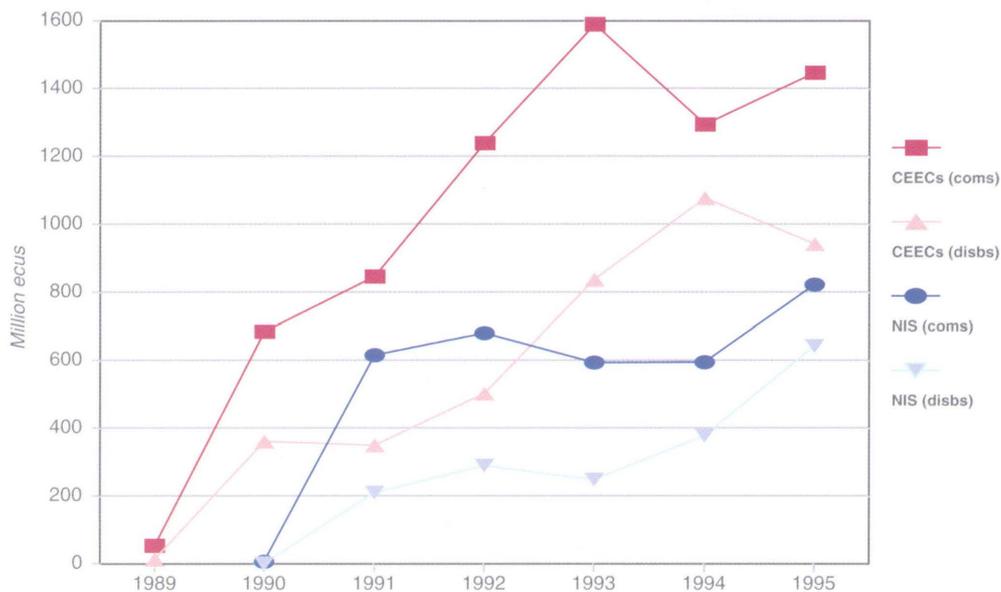
6

EC Aid to Central and Eastern Europe and the New Independent States

Trends in the Distribution of EC Aid to the CEECs and NIS

Although there were occasional and small flows to a number of Central and East European countries (CEECs) in the 1980s, the start of the Phare programme in 1990 marks the beginning of significant EC aid to the region (see Table 6.1). Similarly for the New Independent States, significant EC aid commitments only began with the establishment of the Tacis programme in 1991. In the 1990s the vast bulk of EC aid was provided by these two programmes, with Phare contributing nearly 80% of EC aid to the CEECs, and Tacis nearly 70% to the NIS. Aid flows through Phare and Tacis were augmented from 1990 by food aid funded through the European Agricultural Guidance and Guarantee Fund (EAGGF), and from 1993 by large flows of humanitarian aid managed by ECHO (see Table 6.2). EAGGF aid represented over a fifth of all aid to the NIS and 6% of aid to the CEECs. Humanitarian aid went exclusively to the former republics of Yugoslavia in the case of the Central and East European region, totalling some 900 m ecu over three years. ECHO assistance to the NIS was far less, with Azerbaijan, Georgia, Armenia and the Russian Federation each receiving somewhat over 40 m ecu.

Figure 6.1: EC Aid to CEECs and NIS (commitments and disbursements m ecu)



Source: ODI database 1997

Figure 6.1 makes plain the difference in scale of aid to the CEECs as compared with the NIS, due in part to the huge humanitarian flows to ex-Yugoslavia, but mainly to the fact that the Phare programme was more than twice the size of Tacis (see Table 6.2). Commitments to the CEECs increased very rapidly from nearly 700 m ecu in 1990 to 1.6 bn ecu in 1993 and then levelled off. The fact that EC *disbursements* also grew very rapidly from 1990–95 underlines the responsiveness of the Phare programme to the increasing political and hence financial demands that were made on it over this period. While Tacis commitments increased quite rapidly, it was not until the third year of the programme (1993) that disbursements reached any sizeable level (170 m ecu).¹

Table 6.1 indicates the importance of multi-country or intra-regional aid within both programmes. In the case of Phare, multi-country aid rose sharply in 1995 to 350 m ecu, or a quarter of the total aid committed. Most of this (about 75% in 1994) formed part of Phare's cross-border programme, which seeks to promote regional integration through the development of infrastructure, principally transport, utilities, environment, economic development and human resources. Multi-country programmes have also financed nuclear safety, the fight against the illegal drug trade, and telecommunications. The scope of these programmes reflects the emphasis of the Essen strategy not only on developing closer economic ties but also in safeguarding democratic reform. Phare is in line with the Pact on Stability in Europe, signed in Paris in March 1995, which backed 'bon voisinage' between the countries of eastern and western Europe. Despite variations among the New Independent States, significant common features inherited from the centrally planned economies, with a high degree of industrial interdependence, explain the weight of regional programmes to the region, representing close to one-third of all commitments.

Table 6.1: Regional Distribution of EC Aid to the CEECs and NIS (m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
CEECs commitments	–	2	1	52	683	845	1238	1588	1294	1446	7149
CEECs	–	2	1	44	409	683	1059	1405	1078	1096	5778
Regional	–	–	–	7	274	162	180	183	216	349	1370
Unallocable	–	–	–	–	–	–	–	–	–	1	1
CEECs disbursements	3	0	0	12	360	348	501	836	1076	941	4077
CEECs	3	0	0	4	110	249	435	597	658	800	2857
Regional	–	–	–	7	250	99	66	73	101	141	738
Unallocable	–	–	–	–	–	–	0	165	317	0	482
NIS commitments	0	0	20	0	5	615	679	592	593	821	3326
NIS	0	0	10	0	1	275	274	251	377	410	1598
Regional	–	–	–	–	–	121	153	238	149	335	996
Unallocable	–	–	10	–	5	219	252	103	67	76	731
NIS disbursements	–	0	0	6	0	209	289	248	377	642	1771
NIS	–	0	0	6	0	1	4	23	120	290	446
Regional	–	–	–	–	–	–	44	53	63	254	414
Unallocable	–	–	–	–	–	207	240	171	194	98	911

Source: ODI database 1997

¹ The implementation performance of the Tacis programme, particularly its disbursement rate, has come under heavy criticism. Procedures have recently been simplified and internal coordination improved, resulting in a marked increase in the number of contracts agreed for projects. See EC, *Background Report on Tacis Programme*, B/03/96, 1996.

Table 6.2: Sources of EC Aid to the CEECs and NIS 1990–95^a (m ecu)

	1990	1991	1992	1993	1994	1995	Total
COMMITMENTS							
CEECs Total:	683	845	1238	1588	1294	1446	7094
Phare Programme	495	774	1012	1008	973	1155	5417
Humanitarian Aid through ECHO	–	–	–	396	272	237	905
ex-republics of Yugoslavia	–	–	–	395	269	235	899
EAGGF	183	63	64	94	8	0	412
Regional	183	53	20	–	–	–	256
Albania	–	–	44	75	5	–	124
ex-republics of Yugoslavia	–	–	–	19	3	–	22
EIB ^b	–	–	–	47	–	32	79
NIS Total:	5	615	679	592	593	821	3306
Tacis Programme	–	397	419	472	470	511	2268
Humanitarian Aid through ECHO	–	–	–	53	92	137	282
ex-Soviet Union	–	–	–	51	–	–	51
Azerbaijan	–	–	–	–	19	29	47
Georgia	–	–	–	–	18	27	45
Armenia	–	–	–	–	19	24	43
Russian Federation	–	–	–	–	10	30	39
Tadjikistan	–	–	–	–	10	16	26
EAGGF	–	207	254	64	29	163	717
ex-Soviet Union	–	207	210	19	12	–	448
Regional	–	–	–	–	17	163	180
Baltic States	–	–	44	44	–	–	89
DISBURSEMENTS							
CEECs Total:	360	348	501	836	1076	941	4063
Phare Programme	171	284	436	521	723	762	2897
Humanitarian Aid through ECHO	–	–	–	166	317	168	650
EAGGF	183	53	54	94	8	0	392
EIB ^b	–	–	–	47	–	32	79
NIS Total:	0	209	289	248	377	642	1764
Tacis Programme	–	–	32	180	300	374	886
Humanitarian Aid through ECHO	–	–	–	11	40	102	152
EAGGF	–	207	254	64	29	163	717

^a Commitments to the CEECs totalled 55 m ecu (1986–89); commitments to the NIS amounted to 20 m ecu (1986–89).

^b Slovenia received a residual amount of EIB funding.

Source: ODI database 1997

Recipients of EC Aid to the CEECs and NIS

Table 6.3 reveals aid to both subregions as heavily concentrated in a limited number of countries. This is especially true of the NIS where over one-third of all aid went to the Russian Federation, one-third was regional, and nearly 10% went to the Ukraine; each of the other NIS received less than 3%. However, for over 40% of flows to the NIS to be concentrated in these two countries is not unreasonable given their population size relative to the region as a whole (52% and 19% respectively). Population would therefore appear to weigh heavily among the criteria stated as determining Tacis aid

flows (population, gross domestic product, commitment to the reform process and the success of earlier programmes in the different countries). Aid to the CEECs, like its population, is more widely dispersed. The top five recipients (Yugoslavia 18%; Poland 17%; Romania 9%; Hungary 8%; Bulgaria 7%) jointly received nearly 60% of total aid over the 1990–95 period.

Table 6.3: Top 10 Recipients of EC Aid 1990–95 – CEECs and NIS (commitments m ecu)

Aid to the CEECs	All Aid	Phare only	Aid to the NIS	All Aid	Tacis only
Yugoslavia (ex)	1284	166	Russian Federation	861	795
Poland	1187	1186	Soviet Union (former)	513	–
Romania	607	607	Ukraine	246	243
Hungary	583	583	Baltic States	104	15
Bulgaria	478	477	Kazakhstan	80	71
Albania	459	332	Azerbaijan	73	35
Czechoslovakia (ex)	233	233	Georgia	72	34
Czech Republic	230	230	Armenia	69	35
Slovenia	220	69	Belarus	56	52
Lithuania	126	126	Uzbekistan	46	46
Top 10: total, m ecu	5407	4010	Top 10: total, m ecu	2120	1326
Top 10: total CEEC	76.2		Top 10: total NIS	64.1	
Total CEEC aid, m ecu	7094	5417	Total NIS aid, m ecu	3306	2268

Source: ODI database 1997

Sectoral Distribution of EC Aid to the CEECs and NIS

The Phare and Tacis programmes were created with two overriding objectives in mind: to consolidate the reform process of the economies in transition, and to promote the closer integration of CEECs (especially) and NIS with the European Union. Phare and Tacis assistance, therefore, bears only limited resemblance to what is usually understood by the term development aid. As a result Phare and Tacis activities are not readily classifiable according to 'traditional' development cooperation categories, including the ODI categorisation which is based on DAC codes. To take account of this, the largest programme, Phare, is broken down according to sectors used by the Phare programme itself. However, aid to the CEECs and NIS is also categorised according to the instruments and sectors used elsewhere in this study in order to allow some comparison to be made with flows to other regions.

The Phare programme has given particular emphasis to co-financing infrastructure, in line with the decision of the Essen Council that improving infrastructure is a major element in preparing the CEECs for accession to the European Union (see Table 6.4). The aim is both to improve physical links and to promote economic growth.

Phare sectors which do not readily fit into the ODI classification are those of public administration reform, consumer protection, and harmonisation of legislation. The Essen strategy stresses the importance of preparing countries to join the EU internal market, which involves the adoption and implementation of a body of legislation and practices known as the 'acquis communautaire'. Phare cooperation seeks to facilitate this by supporting the necessary reform in the public administrations of

Central and East European countries by providing know-how to strengthen their administrative capacity, and by funding programmes in all Phare countries to develop and harmonise legislation.

Table 6.4: Sectoral Allocation of Phare Aid Programme (commitments m ecu)

	1990	1991	1992	1993	1994	1995	Total
Infrastructure (Energy, Transport, Telecom)	7	42	97	115	326	457	1045
Private Sector, Restructuring, Privatisation	64	181	192	195	93	139	863
Education, Training & Research	37	90	141	162	170	147	746
Multisector/Other	27	56	135	181	56	88	543
Environment & Nuclear Safety	103	93	90	39	78	82	483
Agricultural Restructuring	136	89	80	79	17	41	441
Humanitarian, Food & Critical Aid	102	71	120	45	30	25	393
Financial Sector	7	40	45	61	56	41	249
Administration & Public Institutions	10	27	25	66	82	25	234
Social Development & Employment	3	36	48	15	29	47	178
Public Health	–	45	15	27	13	2	102
Integrated Regional Measures	–	4	17	10	4	47	82
Civil Society & Democratisation (incl. NGOs)	–	1	9	10	16	10	46
Consumer Protection	–	–	–	5	4	2	11
Harmonisation of Legislation	–	–	–	–	–	2	2
TOTAL	495	774	1012	1008	973	1155	5417

Source: European Commission, DG IA, 1996

Tables 6.5 and 6.6 and Figure 6.2 reflect the ODI/DAC categorisation, and underscore the basic similarity in the sectoral emphasis of both programmes. Each commits the bulk of its aid to *economic infrastructure*, representing 35% of commitments to the NIS (1991–95) and 31% for the CEECs (1990–95), though for the CEECs over half is concentrated in banking and finance, and a third in transport and communications, while for the NIS nearly two-thirds is allocated to energy (including nuclear safety) projects and programmes. The dominance of the energy sub-sector in the Tacis programme is clearly shown in Figure 6.2. In 1995 Tacis allocated nearly 60 m ecu to its nuclear safety programme, to improve the safety of nuclear plants and waste management, to strengthen the regulatory framework, and to promote regional cooperation on nuclear safety among countries operating Soviet-built reactors.

Phare has provided over 300 m ecu for the development of small and medium-sized industries, given their perceived role in job creation, mobilising investment and spreading the enterprise culture. Banking sector reform, the break up of central monopoly banks and the creation of central and commercial banks, has also been supported. The value of EC aid in the economic infrastructure sector cannot be measured by the gross aid volume alone, since although it may finance only a small percentage of a project's final costs it may fill the gap between the amount that international financing institutions can lend and the contribution provided from government.

Humanitarian assistance ranked second for the CEECs, and fourth for the NIS. This was mainly provided through ECHO in the case of the NIS, where Tacis funded only 10%, while for the CEECs 60% was funded by ECHO and 40% by Phare. Humanitarian aid accounted for 22% of allocable aid to the CEECs, though nearly two-thirds of that went to the former republics of Yugoslavia. The remaining one-third was designed to meet basic human needs at a time when enormous economic and social transition also brought deprivation to sections of the CEEC population, most notably in

Table 6.5: Sectoral Allocation of EC Aid to CEECs 1986–95
(commitments, m ecu and share, %)

Vol of commitments, m ecu	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid*	–	–	–	–	–	–	–	–	–	–	–
Food Aid (developmental)	–	–	–	43	183	63	64	94	8	–	456
Humanitarian Aid	–	2	–	8	105	80	282	441	310	272	1499
Humanitarian aid excl rehab	–	2	–	8	105	80	282	441	307	267	1491
Aid to NGOs	–	–	–	–	–	3	9	25	21	32	90
Natural Resources Prod Sectors	–	–	–	–	136	89	80	79	18	45	446
Agriculture	–	–	–	–	136	89	80	79	18	45	446
Other Productive Sectors	–	0	–	–	1	–	5	8	2	9	26
Industry, Mining & Construction	–	–	–	–	1	–	5	–	–	8	15
Trade	–	0	–	–	0	–	0	8	2	1	11
Economic Infrastructure & Services	–	–	–	–	77	278	332	436	439	496	2057
Transport & Communications	–	–	–	–	6	27	48	137	219	233	669
Energy	–	–	–	–	–	30	52	39	67	81	269
Banking, Finance & Bus Servs	–	–	–	–	71	221	232	261	153	182	1119
Social Infrastructure & Services	–	–	–	–	40	170	196	193	216	192	1007
Education	–	–	–	–	37	90	141	162	170	147	746
Health & Population	–	–	–	–	–	45	17	27	13	3	104
Water Supply	–	–	–	–	–	–	–	–	7	26	32
Other Social Infra & Services	–	–	–	–	3	36	39	4	27	16	124
Governance & Civil Society	–	–	–	–	10	27	25	66	82	26	236
Multisector/Crosscutting	–	–	0	–	130	131	197	183	140	172	953
Environment	–	–	0	–	103	78	62	17	89	96	444
Other Multisector	–	–	–	–	27	54	135	166	51	77	509
Unallocable by Sector	–	0	1	1	1	5	49	64	59	202	381
CEECs TOTAL	–	2	1	52	683	845	1238	1588	1294	1446	7149
Share (%)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid*	–	–	–	–	–	–	–	–	–	–	–
Food Aid (developmental)	–	–	–	83.3	26.9	7.5	5.2	5.9	0.6	–	6.4
Humanitarian Aid	–	98.4	–	15.2	15.3	9.4	22.8	27.8	24.0	18.8	21.0
Humanitarian aid excl rehab	–	98.4	–	15.2	15.3	9.4	22.8	27.8	23.7	18.5	20.9
Aid to NGOs	–	–	–	–	–	0.4	0.7	1.6	1.6	2.2	1.3
Natural Resources Prod Sectors	–	–	–	–	19.9	10.5	6.5	4.9	1.4	3.1	6.2
Agriculture	–	–	–	–	19.9	10.5	6.5	4.9	1.4	3.1	6.2
Other Productive Sectors	–	0.2	–	–	0.2	–	0.4	0.5	0.2	0.6	0.4
Industry, Mining & Construction	–	–	–	–	0.2	–	0.4	–	–	0.6	0.2
Trade	–	0.2	–	–	0.0	–	0.0	0.5	0.2	0.1	0.2
Economic Infrastructure & Services	–	–	–	–	11.3	32.8	26.8	27.5	33.9	34.3	28.8
Transport & Communications	–	–	–	–	0.9	3.2	3.9	8.6	16.9	16.1	9.4
Energy	–	–	–	–	–	3.5	4.2	2.5	5.2	5.6	3.8
Banking, Finance & Bus Servs	–	–	–	–	10.4	26.1	18.7	16.4	11.9	12.6	15.6
Social Infrastructure & Services	–	–	–	–	5.8	20.2	15.8	12.1	16.7	13.3	14.1
Education	–	–	–	–	5.4	10.6	11.3	10.2	13.1	10.2	10.4
Health & Population	–	–	–	–	–	5.3	1.3	1.7	1.0	0.2	1.5
Water Supply	–	–	–	–	–	–	–	–	0.5	1.8	0.4
Other Social Infra & Services	–	–	–	–	0.4	4.2	3.2	0.3	2.0	1.1	1.7
Governance & Civil Society	–	–	–	–	1.5	3.2	2.0	4.2	6.3	1.8	3.3
Multisector/Crosscutting	–	–	19.8	–	19.0	15.5	15.9	11.5	10.8	11.9	13.3
Environment	–	–	19.8	–	15.0	9.2	5.0	1.1	6.9	6.6	6.2
Other Multisector	–	–	–	–	4.0	6.3	10.9	10.4	3.9	5.3	7.1
Unallocable by Sector	–	1.4	80.2	1.4	0.1	0.6	4.0	4.0	4.5	14.0	5.3
CEECs TOTAL	–	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* CEECs do not receive programme aid.

Source: ODI database 1997

Table 6.6: Sectoral Allocation of EC Aid to NIS 1986–95
(commitments, m ecu and share, %)

Vol of commitments, m ecu	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid*	–	–	–	–	–	–	–	–	–	–	–
Food Aid (developmental)	–	–	–	–	–	207	254	64	29	167	722
Humanitarian Aid	–	–	19	–	5	11	4	75	92	137	344
Humanitarian aid excl rehab	–	–	19	–	5	11	4	75	92	137	344
Aid to NGOs	–	–	0	0	0	–	–	0	0	1	2
Natural Resources Prod Sectors	–	–	–	–	–	80	63	32	42	51	267
Agriculture	–	–	–	–	–	80	63	32	42	51	267
Other Productive Sectors	–	–	–	–	–	–	18	15	16	8	57
Industry, Mining & Construction	–	–	–	–	–	–	18	15	16	8	57
Economic Infrastructure & Services	–	–	–	–	–	205	206	248	220	218	1097
Transport & Communications	–	–	–	–	–	50	40	39	27	29	185
Energy	–	–	–	–	–	118	119	138	141	152	668
Banking, Finance & Bus Servs	–	–	–	–	–	38	47	71	52	37	244
Social Infrastructure & Services	–	–	–	–	–	103	42	80	60	99	385
Education	–	–	–	–	–	103	42	80	60	99	384
Governance & Civil Society	–	–	–	–	–	–	38	8	51	10	107
Multisector/Crosscutting	–	–	–	–	–	6	24	30	42	40	142
Other Multisector	–	–	–	–	–	6	24	30	42	40	142
Unallocable by Sector	0	0	–	–	0	2	30	40	42	90	204
NIS TOTAL	0	0	20	0	5	615	679	592	593	821	3326
Share (%)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Programme Aid*	–	–	–	–	–	–	–	–	–	–	–
Food Aid (developmental)	–	–	–	–	–	33.7	37.4	10.9	5.0	20.4	21.7
Humanitarian Aid	–	–	98.7	–	96.0	1.8	0.6	12.7	15.5	16.7	10.3
Humanitarian aid excl rehab	–	–	98.7	–	96.0	1.8	0.6	12.7	15.5	16.7	10.3
Aid to NGOs	–	–	1.3	100.0	1.6	–	–	0.0	0.0	0.1	0.1
Natural Resources Prod Sectors	–	–	–	–	–	13.0	9.3	5.4	7.0	6.2	8.0
Agriculture	–	–	–	–	–	13.0	9.3	5.4	7.0	6.2	8.0
Other Productive Sectors	–	–	–	–	–	–	2.7	2.5	2.7	0.9	1.7
Industry, Mining & Construction	–	–	–	–	–	–	2.7	2.5	2.7	0.9	1.7
Economic Infrastructure & Services	–	–	–	–	–	33.4	30.4	41.8	37.0	26.5	33.0
Transport & Communications	–	–	–	–	–	8.1	5.9	6.6	4.5	3.5	5.5
Energy	–	–	–	–	–	19.2	17.5	23.3	23.7	18.5	20.1
Banking, Finance & Bus Servs	–	–	–	–	–	6.1	7.0	12.0	8.8	4.5	7.4
Social Infrastructure & Services	–	–	–	–	–	16.8	6.2	13.5	10.1	12.1	11.6
Education	–	–	–	–	–	16.8	6.2	13.5	10.1	12.1	11.6
Governance & Civil Society	–	–	–	–	–	–	5.6	1.4	8.6	1.2	3.2
Multisector/Crosscutting	–	–	–	–	–	1.0	3.5	5.1	7.0	4.9	4.3
Other Multisector	–	–	–	–	–	1.0	3.5	5.1	7.0	4.9	4.3
Unallocable by Sector	100.0	100.0	–	–	2.4	0.4	4.4	6.8	7.1	10.9	6.1
NIS TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

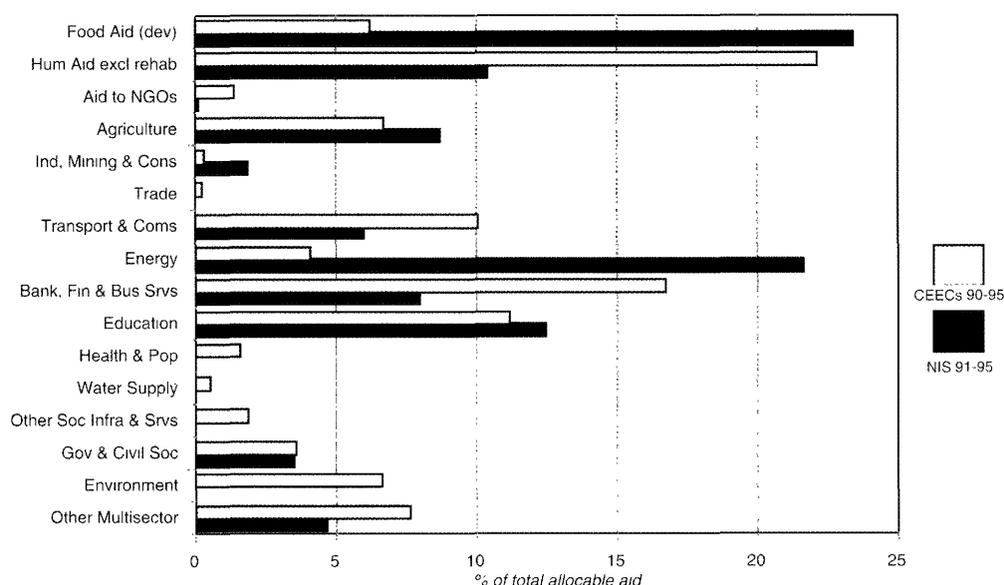
* NIS do not receive programme aid.

Source: ODI database 1997

Romania. In the case of the New Independent States, humanitarian operations amounted to 320 m ecu between 1991 and 1995, or 10% of allocable aid.

Social infrastructure and services (principally education) also emerges as a major sector within both programmes, as is clearly shown in Figure 6.2. The social infrastructure and governance sectors are probably best considered as a whole, since much of the assistance in these two sectors does not concern traditional support to primary or secondary schooling or even tertiary education,² but covers technical assistance designed to strengthen public administration, harmonise standards or reform legal systems, for example, though there has been some support for primary health and preventative care. To this end both Phare and Tacis contain 'democracy programmes', based on an initiative of the European Parliament which became operational in 1994. The Phare Democracy programme, worth 11 m ecu in 1996, seeks to strengthen civil society and democracy, mainly through supporting non-governmental organisations. The Tacis Democracy programme has operated in the NIS since 1992, concentrating on the transfer of parliamentary mechanisms and know-how to multi-party groups of politicians, and on the strengthening of NGOs and the transfer of skills to professional groups on democratic practices.

Figure 6.2: Sectoral Allocation of EC aid to CEECs & NIS 1986-95
(% of total allocable aid)



Source: ODI database 1997

Phare social programmes also include significant support for the fight against *drugs* (budget of 12 m ecu in 1994), which seeks to control illegal trafficking and money-laundering, and demand-reduction. Phare has worked with central and local governments to seek to provide adequate social protection

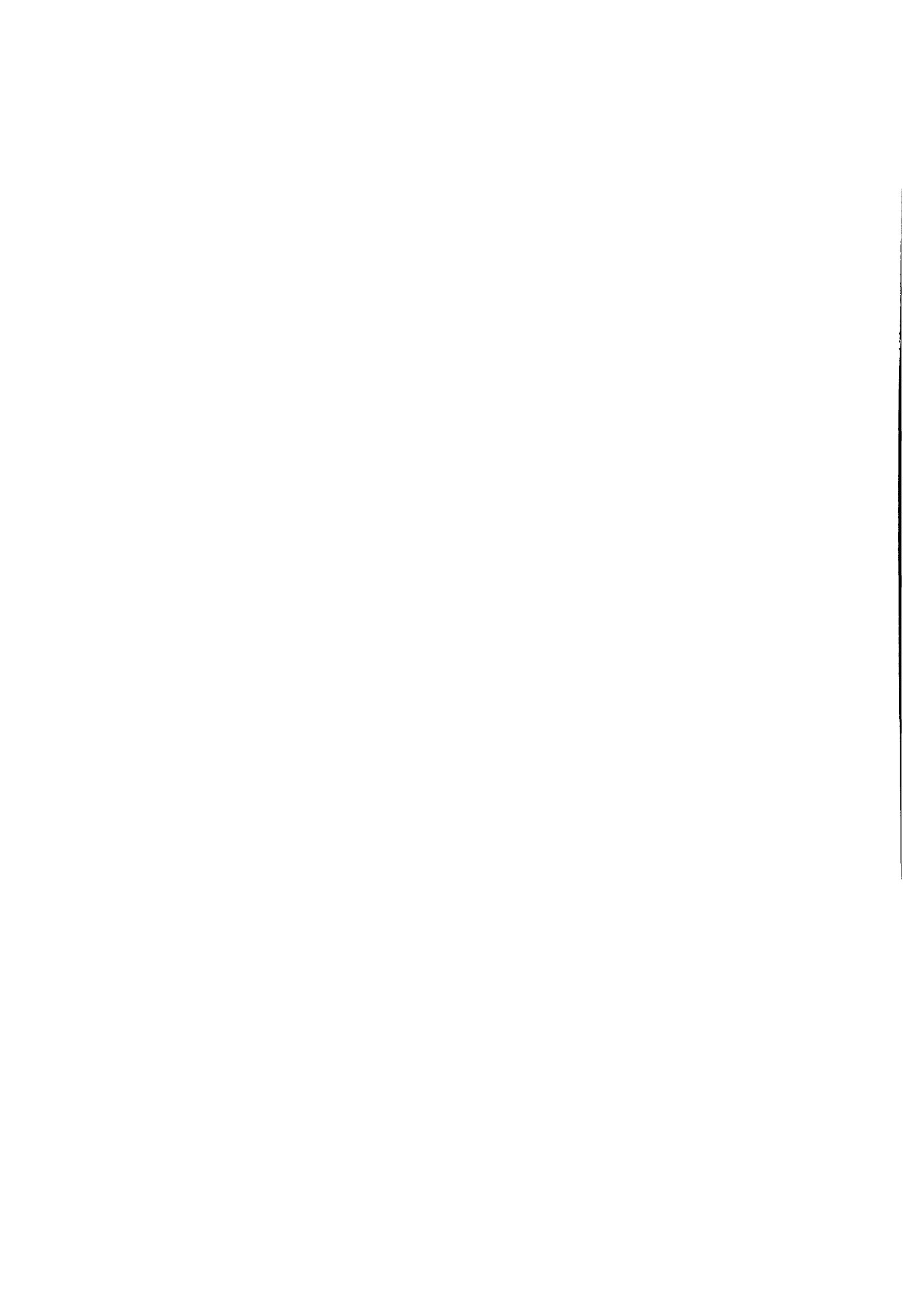
² Tacis countries do, however, benefit from the Tempus programme, which committed nearly 50 m ecu over the 1993-95 period to develop and restructure higher education institutions in the NIS. This is approached through Joint European Projects, whereby higher education institutions from two or three EU Member States cooperate with similar institutions from the NIS to adapt teaching methods and degrees to the needs of the market.

during the period of economic reform. Technical assistance has been provided in the areas of employment policy, pension reform and retraining schemes for the unemployed, among others.

Table 6.5 indicates that Phare provides significant resources in support of *environmental* objectives (some 7% of all aid to the CEECs between 1990 and 1995). Tacis established an Environmental Support Facility in 1994, which aims to fund short-term, high-profile and replicable environmental projects. The fact that environmental assistance does not feature in Tacis data results from the statistical categorisation employed by Tacis, since in 1995 Tacis committed 12 m ecu to environmental interventions, notably assisting the development of national environmental strategies and developing an inter-state capacity to tackle the environmental problems in the Caspian Sea. Initially, Phare funded interventions in a somewhat *ad hoc* manner, supplying equipment to monitor air and water pollution, and funding studies of specific problems. More recently a more strategic approach has been developed, including policies for specific sectors such as waste treatment.

Both Phare and Tacis have financed *NGO* activities, though much of this has been for Commission-directed activities counting as aid *through* rather than *to* NGOs, and is therefore not identified separately in this analysis. Commission estimates indicate that EC aid to NGOs reached some 500 NGOs in the CEECs and NIS or European NGOs operating in these regions. Table 6.5 indicates that some 90 m ecu of Phare aid was committed *to* NGOs, mainly in the areas of civil society and democratisation. Emphasis has been placed on promoting NGOs working in the social sector with disadvantaged groups, as well as on developing exchanges and cooperation between sister organisations from different Phare or Tacis countries, or with NGOs based in EU countries. The main source of funding for NGO activities in Phare and Tacis countries is through the so-called 'Lien Programme'.

The Phare and Tacis programmes have developed a programme to facilitate productive *investment* in the CEECs and NIS, particularly through the creation and development of joint ventures. A network of financial intermediaries provides the link between the European Commission and the beneficiaries. In the case of Phare over 120 m ecu were allocated to its programme between 1991 and 1995. With respect to small and medium-sized businesses, Phare assistance is designed to reduce investment risks, thereby obtaining a multiplier effect which unlocks funds from other sources.



7

A Decade of EC Aid in a Global Context

This book has attempted to describe the nature of European Community aid, its institutional development, and the main trends in its geographical and sectoral allocation. To understand the particular character and role of Community aid, however, it is important to place EC aid in its wider European and global setting. This chapter assesses the scale of EC aid relative to aid provided by the other major donors.¹

The totals cited for aid from EU Member States exclude their contributions to the EC aid programme, unless otherwise specified, to avoid counting this aid twice (under both heads). This does mean, however, that when EU Member States' aid is set against that of donors outside (eg Japan and the United States), the deduction of the EC-contributions element makes their totals appear less than is usually the case in donor tables. Only aid from those countries that were formally in membership of the Union in a particular year is included.² To allow comparisons with other donors, *disbursements* of aid are compared, except in the section examining the sectoral spread of aid which uses commitments data (see also Appendix 2).

Global Trends

The overall growth in EC aid described in Chapter 1 must be seen in the context of a generally upward trend in total OECD assistance to developing countries (see Figure 7.1). Total aid increased at an average of 9% per year (4% per year in real terms³) during the period 1984–95, reaching \$68bn in 1995. Years when the rate of increase was lower are largely the result of reductions in aid from the US (as in 1989) or of cutbacks in EU Member State aid (as in 1993). However, while US aid remained almost unchanged over the years up to 1994 and declined in 1995 to \$8.6bn, the EU Member States more than tripled their assistance from \$9.9bn (\$11.3bn)⁴ in 1984 to \$33.3bn (\$38.6bn) in 1995. Japanese aid has also risen consistently, increasing from a level only half that of the US in 1984, to the status of the world's largest donor by 1993, and in 1995 total disbursements reached \$14.7bn.

A very large portion of the increase in total OECD aid is attributable to the rapid growth in EC and Member State aid. Of the \$17.8bn increase in real terms, \$12.3bn or nearly 70% was EC and Member State aid. The remaining third was provided by Japan, while US aid remained unchanged (see Figure 7.2). The share of OECD aid contributed by the Member States and the EC combined rose consistently every year apart from 1988 and 1994, increasing from 39% of all aid in 1984 to 50% in 1993. In 1995 the proportion had risen still further to 59.5%, mainly due to Austria, Finland and Sweden joining the European Union that year.⁵

¹ Unless otherwise indicated, aid is defined as Official Development Assistance (ODA), plus Official Assistance (OA) to Part II countries in transition.

² Since Austria, Finland and Sweden acceded to the EU only in 1995, these countries are not included in the years 1984–94.

³ Real terms refers to current prices deflated by indices of export unit values for industrial countries (at 1990 base). Source: IMF, *International Financial Statistics Yearbook*, 1995.

⁴ The first figure excludes Member State contributions to the EC aid programme, while the second (in parenthesis) includes these amounts.

⁵ They jointly contributed 4.5% of the OECD total.

In particular, the European Community's aid programme has steadily gained in importance as a channel for development assistance. Its share of total OECD aid increased from 5% in 1984 to over 10% by 1995, and of total European aid from 13% to nearly 18%. This contrasts sharply with the US aid programme, which declined dramatically, particularly between 1985 and 1989 and more recently in 1995 (see Figure 7.3). Japan's share, however, steadily increased from 1985, equalling that of the US in the three years to 1993, and reaching almost double the US level in 1995. Japan contributed 22% of all aid in 1995, 9% more than the US.⁶

Figure 7.1: Total Aid by Donor 1984–95 (net disbursements at current prices, \$m)



^a Excluding EU Member States' contributions to EC

Source: Development Cooperation, OECD, DAC, 1985–97; ODI database 1997 for EC Aid 1986–95

EC Aid Relative to Other Major Donors

When the largest aid donors are ranked by aid volume over the period 1984–95, the EC programme is seen to advance from sixth to fifth place, after Japan, the US, Germany and France (see Table 7.1). Over the 1990–95 EC aid increased its average share of total OECD aid disbursements to 9%, over 3% more than in 1984–89, making its contribution larger than that of all but two Member States (excluding their contribution to the EC). Over the decade the EU Member States channelled a growing portion of their total aid programme through the European Community, which accounted for 17.6% of total Member State aid for 1990–95 as against 12.9% for 1984–89. Nonetheless, Member State aid, excluding contributions to the EC, represented a larger share of total OECD aid in the 1990s (42%) than it did in the 1980s (38%).

⁶ Between 1990 and 1992, US Official Development Assistance excludes debt forgiveness of non-ODA claims, amounting to \$3.9bn.

Figure 7.2: Average Aid (net disbursements, \$m at 1990 prices)

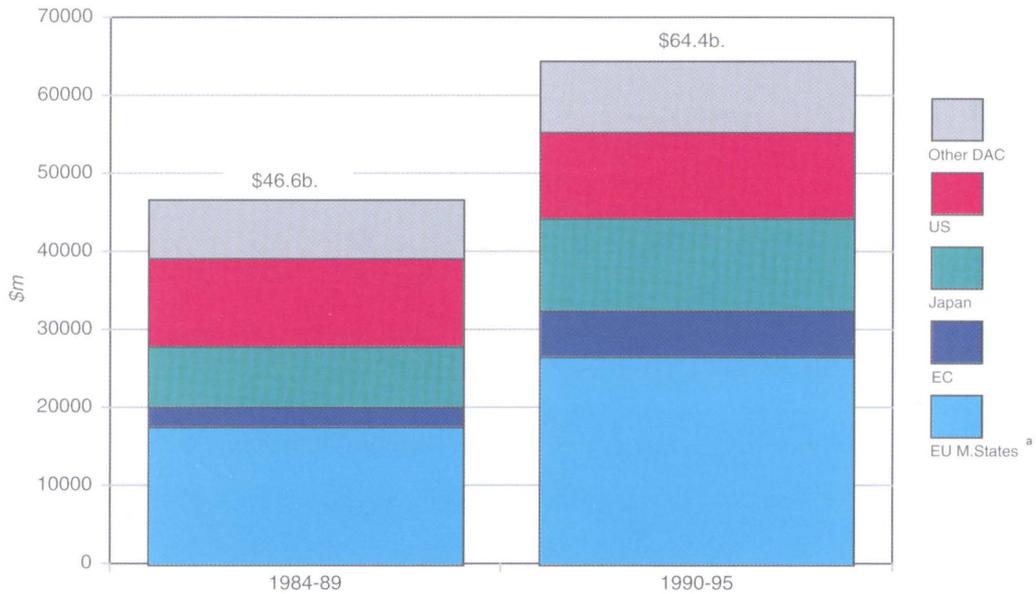
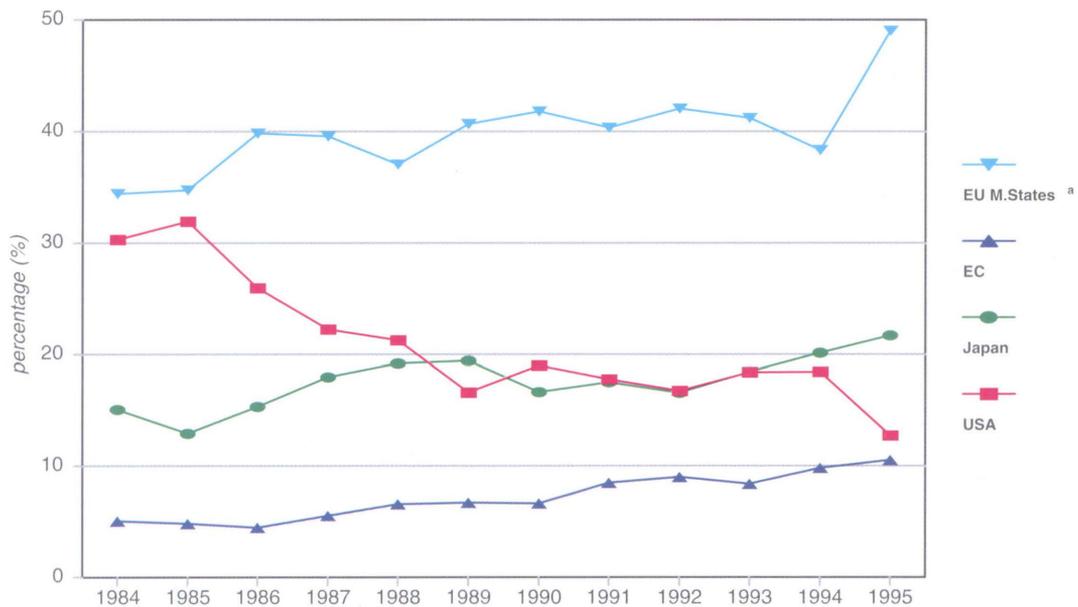


Figure 7.3: Share of Total Aid



^a Excluding EU Member States' contributions to EC

Sources for 7.2 and 7.3: Development Cooperation, OECD, DAC, 1985-97; ODI database 1997 for EC Aid 1986-95

Table 7.1: Ranking of Major Aid Donors (share of total aid %)

Rank		Average (%) 1984–89		Rank	Average (%) 1990–95		
1	USA	24.4		1	Japan	18.5	
2	Japan	16.8		2	USA	17.1	
3	France ^a	11.7	(12.9)	3	Germany ^a	12.6	(15.0)
4	Germany ^a	8.8	(10.4)	4	France ^a	11.3	(13.0)
5	Italy ^a	5.3	(6.2)	5	EC	8.9	
6	EC	5.6		6	Italy ^a	4.0	(5.1)
7	Canada	5.0		7	Canada	3.9	
8	UK ^a	4.2	(5.2)	8	UK ^a	3.8	(5.2)
8	Netherlands ^a	4.2	(4.6)	8	Netherlands ^a	3.8	(4.4)

^a Excluding contributions to the EC; figures which include contributions are in parenthesis

Source: *Development Cooperation*, OECD, DAC, 1985–97; ODI database 1997 for EC Aid 1986–95

The European Community as a Multilateral Donor⁷

On average nearly 30% of official development assistance (ODA) was administered by multilateral aid agencies during 1984–95, totalling \$18bn in 1995.⁸ A quarter of all multilateral ODA was managed by the European Commission and the EIB in 1990–95, making the Community the second largest multilateral donor after the International Development Association (IDA) of the World Bank. The EC increased its share of total multilateral aid by 7% (from 18% to 25%), while most other multilateral organisations saw their share fall (see Table 7.2). In terms of aid volume, however, all multilaterals increased their aid flows in real terms. Figure 7.4 illustrates a general drift downwards in IDA's share of total OECD aid in the 1990s, as against a steady rise in the EC's share, while aid through the UN agencies remained roughly constant. IDA's share was nonetheless higher than the other two major multilaterals in every year, apart from 1994 when EC aid exceeded it by 1%.

The Main Recipients of OECD Aid

Figure 7.5 shows the regional distribution of total aid and the contribution of EC aid relative to that of other donors. Sub-Saharan Africa was by far the largest recipient region, receiving disbursements averaging \$16.5bn per annum during the 1986–94 period. More than half (53%) of this was contributed by the EU Member States, while the EC provided 12%, more than any other single donor including Japan (9%) and the USA (10%).

⁷ The European Community is classed as multilateral organisation in DAC reports, though this remains a subject of debate within the Commission.

⁸ These figures refer to ODA from DAC countries to multilateral organisations at real prices (year base 1990), and excludes official aid to the CEECs and NIS.

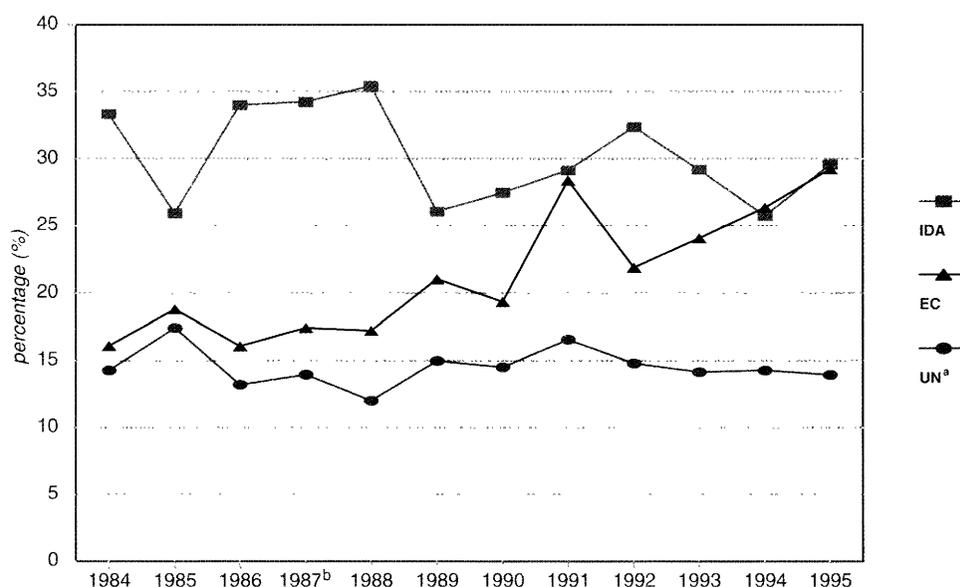
Table 7.2: Proportion of Total Multilateral ODA (%)

<i>Multilateral Organizations</i>	<i>Average 1984–89</i>	<i>Average 1990–95</i>
IDA	31.8	29.0
EC	17.7	24.9
Other UN agencies ^a	14.1	14.7
Asian Development Bank	8.5	5.9
UNDP	6.9	5.7
WFP	5.3	4.4
African Development Fund ^b	5.2	3.6
IBRD	3.6	2.8
IDB	1.1	1.3
Other	5.8	7.6
<i>Total</i>	<i>100.0</i>	<i>100.0</i>
Total (\$bn current prices)	10.9	17.2
Total (\$bn 1990 prices)	13.2	17.2

^a Excluding UNDP and WFP

^b Including capital subscriptions to the African Development Bank

Source: *Development Cooperation*, OECD, DAC, 1985–97

Figure 7.4: Share of Total Multilateral ODA

^a Excludes UNDP and WFP.

^b Figures of Austria and France not available for this year.

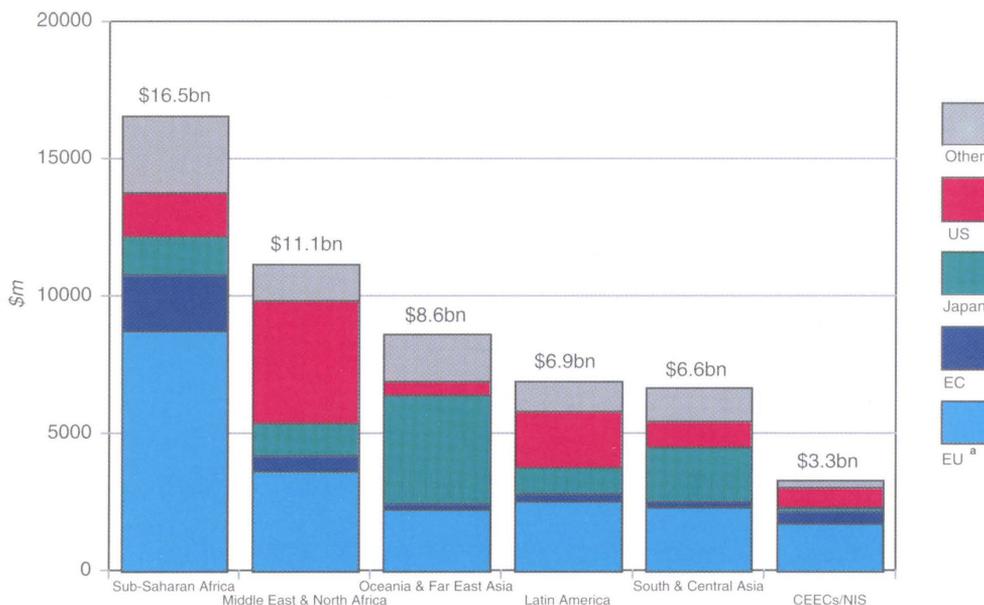
Source: *Development Cooperation*, OECD, DAC, 1985–97

In the case of the four next largest recipient regions, EC aid constituted the smallest share among the major donors indicated, with only 2%–5% of the total. Japan was the largest donor of aid to Oceania and Far East Asia by a large margin, providing close to half the aid, while the US predominated in the Middle East, North Africa and Southern Europe, contributing 40% of total aid; this is a direct result of the dominance of Israel and Egypt in the US aid programme. The EU Member States, on the other hand, occupied first place as donors to Latin America/Caribbean (42% of total regional aid) and to South and Central Asia (39%).

The Central and East European countries and the New Independent States of the former Soviet Union received an average of \$3.3bn per year during the 1986–94 period. As a result of major political changes in these countries and the desire to assist economic reform, aid to the CEECs and NIS increased substantially from 1990 onwards. Table 7.3 shows that, during 1990–94, the CEECs and NIS received \$6.5bn a year (double the annual average for 1986–94), 68% of which was provided by the EU Member States and the Community together. EC aid alone contributed 14% of total aid to the region, more than Japan (4%) but less than the US (21%). All regions, except Oceania and Far East Asia, received more aid in the period 1990–94 than in the previous period.

A closer look at the evolution of aid flows reveals that, although all donors increased their total aid between 1986–89 and 1990–94, some reduced their assistance to particular regions. Table 7.3 indicates that US aid to Oceania and Asia as a whole decreased by \$544m, falling from 19% to 10% of total US aid. Overall EU Member States reduced their assistance to Oceania and Far East Asia by \$250m, a reduction from 16% to 8%, though EC aid to the region increased from \$166m in 1986–89 to \$207m for 1990–94.

**Figure 7.5: Regional Distribution of Aid
(annual average 1986–94 gross disbursements \$m)**



^a Excluding EU Member States' contributions to EC

Source: *Development Cooperation*, OECD, DAC, 1984–97; ODI database 1997 for EC Aid 1986–95

**Table 7.3: Regional Distribution of Aid by Major Donors
(gross disbursements, \$m and %)**

Disbursements \$m	EU ^a		EC		Japan		USA		Total OECD ^b	
	1986-9	1990-4	1986-9	1990-4	1986-9	1990-9	1986-9	1990-4	1986-9	1990-4
Sub-Saharan Africa	7335	10369	1395	2477	1162	1711	1353	1815	14048	19022
South & Central Asia	1990	2457	451	222	1663	2313	1023	819	6212	7078
Latin America & Caribbean	1757	3418	177	417	598	1266	1840	2168	5355	8393
Mid East, Nth Africa, Sth Eur	2095	5305	289	854	582	1775	3866	4931	7591	14647
Oceania & Far East Asia	2419	2163	166	207	3794	4127	708	368	8836	8349
Part II CEECs/NIS	–	3550	4	892	–	270	–	1385	4	6536
TOTAL^c	15598	27262	2530	5430	7972	11462	9208	11487	43743	64024
Share of total donor's aid (%)	EU ^a		EC		Japan		USA		Total OECD ^b	
	1986-9	1990-4	1986-9	1990-4	1986-9	1990-4	1986-9	1990-4	1986-9	1990-4
Sub-Saharan Africa	47.0	38.0	55.1	45.6	14.6	14.9	14.7	15.8	32.1	29.7
South & Central Asia	12.8	9.0	17.8	4.1	20.9	20.2	11.1	7.1	14.2	11.1
Latin America & Caribbean	11.3	12.5	7.0	7.7	7.5	11.0	20.0	18.9	12.2	13.1
Mid East, Nth Africa, Sth Eur	13.4	19.5	11.4	15.7	7.3	15.5	42.0	42.9	17.4	22.9
Oceania & Far East Asia	15.5	7.9	6.6	3.8	47.6	36.0	7.7	3.2	20.2	13.0
Part II CEECs/NIS	–	13.0	0.2	16.4	–	2.4	–	12.1	0.0	10.2

^a Excluding contributions to EC

^b Including regional aid from other DAC countries

^c Includes unallocable aid

Source: *Development Cooperation*, OECD, DAC, 1987–97; ODI database 1997 for EC Aid 1986–95

Recipients of Aid by Level of Income

Table 7.4 shows the proportion of EC and OECD aid disbursed to countries classified by level of income. In 1980–81 nearly 80% of EC aid went to the poorest countries (LLDCs and LICs), compared with an average of 60% for other OECD bilateral donors. In both cases this represented an increase on the share a decade earlier. However, in the 1990s the share of EC aid to the poorest fell considerably to 53%, while average bilateral aid exceeded EC aid, falling only slightly to 57%.

Lower middle-income countries, on the other hand, received a smaller share of EC aid in 1980–81 compared with 1970–71 but a larger share in 1993–94 (43% as against 18%). In 1993–94, therefore, lower middle-income countries received 4% more EC aid than least developed countries. The share of OECD aid to lower middle-income countries also increased in 1993–94 compared with earlier periods. Although these countries received proportionately more OECD aid than least developed countries in 1993–94, the latter doubled their share of total OECD aid from 12% in 1970–71 to 24% in 1993–94. The group of countries that has consistently received the highest proportion of bilateral OECD aid over the three periods is the low-income (other LICs) group.

Table 7.4: Share of Bilateral OECD and EC aid to Recipients by Level of Income (% and gross disbursements, current prices \$m)

	Bilateral OECD Aid (%)				European Community Aid (%)		
	1970-71	1980-81	1993-94		1970-71	1980-81	1993-94
<i>LLDCs</i>	12.7	30.0	24.2	<i>LLDCs</i>	46.6	53.0	38.2
<i>Other LICs</i>	46.2	30.2	33.3	<i>Other LICs</i>	10.0	26.2	14.9
<i>LMICs</i>	26.2	24.5	31.0	<i>LMICs</i>	34.3	17.6	42.6
<i>UMICs</i>	12.0	8.6	6.9	<i>UMICs</i>	9.1	3.2	3.6
<i>HICs</i>	3.0	6.6	4.7	<i>HICs</i>	0.1	0.0	0.6
<i>Total (%)</i>	100.0	100.0	100.0	<i>Total (%)</i>	100.0	100.0	100.0
Total: \$m	5581	16791	40204	Total (\$m)	196	1116	3576

Key: LLDCs: least developed countries; LICs: low-income countries; LMICs: lower middle-income countries; UMICs: upper middle-income countries; HICs: high-income countries.

Source: *Development Cooperation*, OECD, DAC, 1984-97

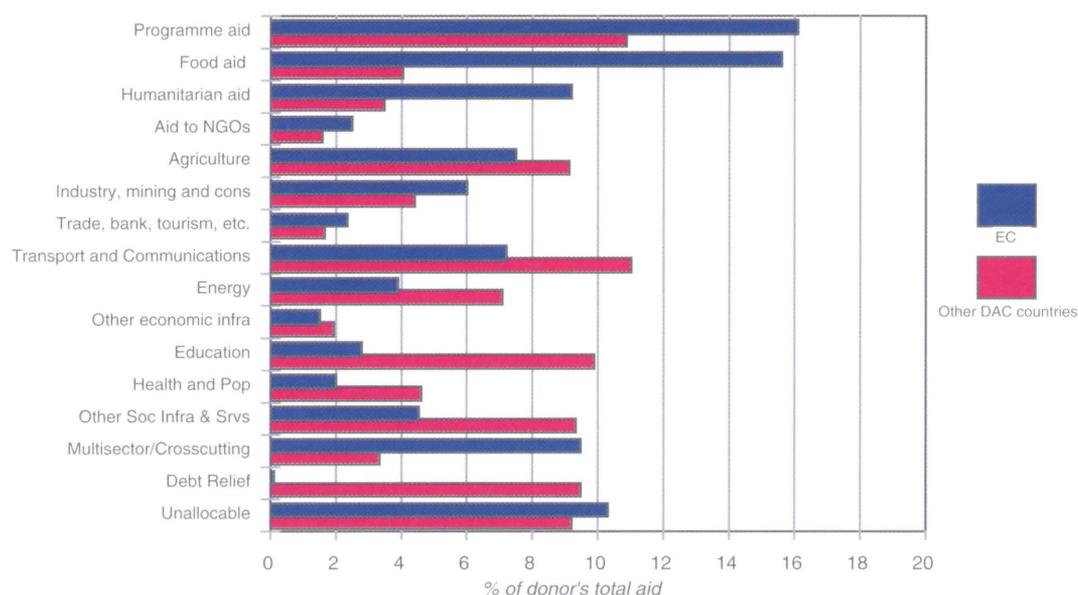
Sectoral Distribution of EC and other OECD Aid⁹

A comparative analysis of the sectoral breakdown of EC and bilateral DAC assistance suggests differences in the priority attached to particular sectors. Figure 7.6 shows that the share of EC aid through three instruments, programme aid, food aid and humanitarian aid, was more than double that for DAC donors in general, standing at 41%. The greatest difference was in food aid, where the EC committed 16% of total ODA as against 4% for DAC donors. In fact, 29% of food aid commitments in the period 1986-94 was channelled through the EC programme (see Table 7.5). EC aid to multisectoral support was also significantly higher than that committed by the rest of DAC members (9% versus 3%). Nearly 70% of EC assistance to this sector was committed to rural development, a particular feature of the Community programme, especially in the 1980s.

As a result of high commitments to these three instruments and multisectoral aid, EC aid allocations to the other sectors tended to be lower than the DAC average. With respect to social infrastructure and services, DAC countries committed 10% to education and 5% to health and population, while the EC programme accorded these areas 3% and 2% each.¹⁰ Similarly the transport and communications and energy sectors received some 18% of DAC aid, but little more than 11% of EC aid. Finally, three areas received broadly comparable amounts of assistance: NGOs (2%), agriculture (about 9%), and industry, mining and construction (5%).

⁹ Data refer to Official Development Assistance (ODA) rather than total aid, as DAC data refer only to ODA.

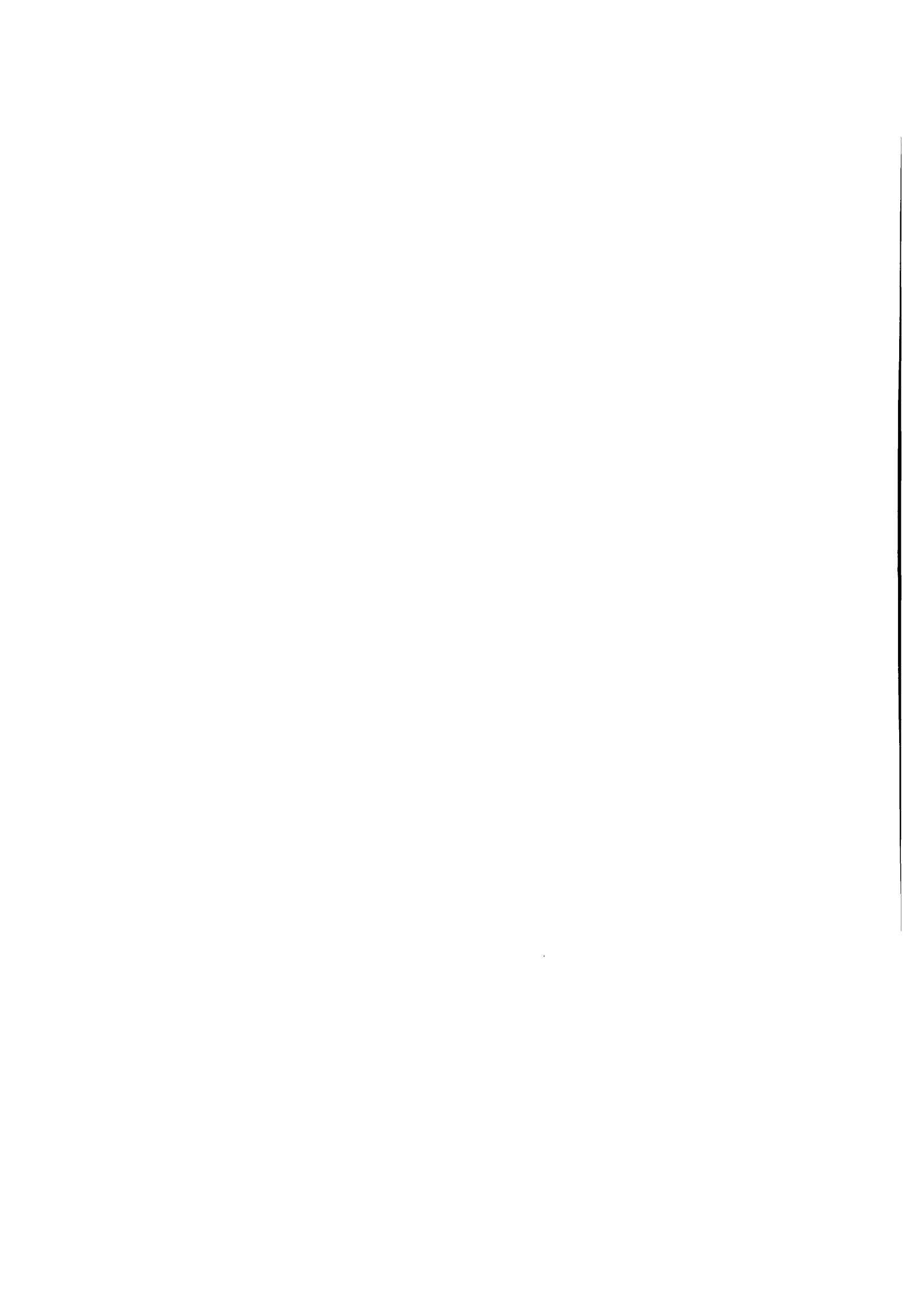
¹⁰ The proportion of EC aid going to the education sector increased in the 1990s to over 5%. The 1986-94 average was depressed by lower figures in the mid-1980s.

Figure 7.6: ODA by Major Purposes (commitments, annual average 1986–94)**Table 7.5: EC Sectoral ODA as a share of Total OECD Sectoral ODA (annual average 1986–94, commitments \$m and %)**

	EC ODA	Bilateral DAC ODA	Total	EC Aid as % of total
Programme Aid	786	5001	5787	13.6
Food Aid	763	1841	2604	29.3
Humanitarian Aid	449	1586	2035	22.1
Aid to NGOs	120	707	827	14.5
Agriculture	365	4183	4548	8.0
Industry, Mining & Construction	291	2007	2298	12.7
Trade, Banking, Tourism, etc.	113	742	855	13.2
Transport and Communications	350	5065	5415	6.5
Energy	190	3248	3438	5.5
Other Economic Infrastructure	70	850	920	7.6
Education	133	4523	4656	2.9
Health & Population	97	2089	2186	4.4
Other Social Infrastructure & Services	219	4288	4507	4.9
Multisector/Crosscutting	461	1506	1967	23.4
Debt Relief	–	4335	4335	–
Unallocable	504	4213	4717	10.7
TOTAL	4911	46184	51095	9.6

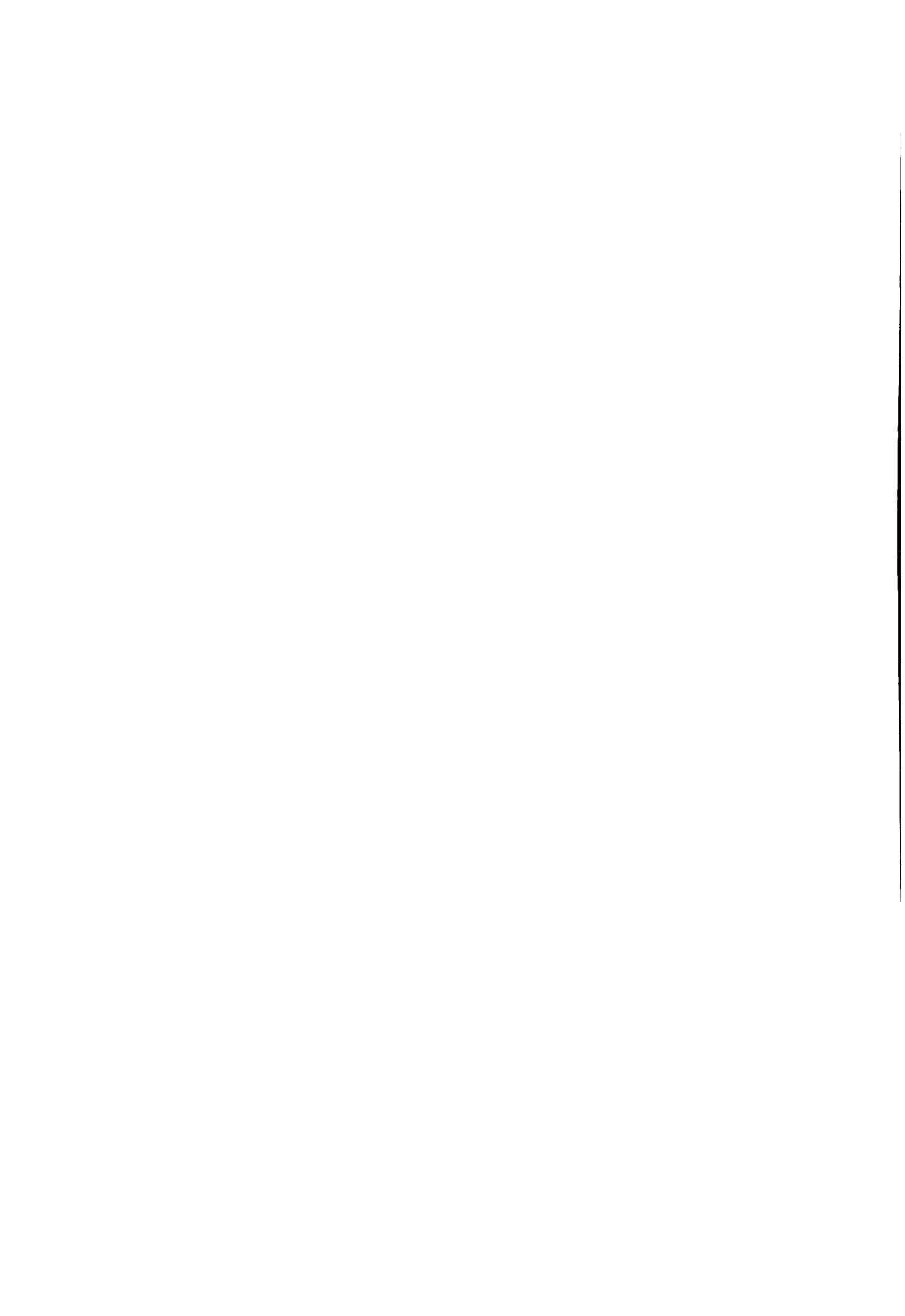
NB: Prior to 1997, when 25 m ecu were put aside for debt relief measures for 1997–2000, debt relief has not fallen within the mandate of the EC programme.

Source: *Development Cooperation*, OECD, DAC, 1987–97; ODI database 1997 for EC Aid 1986–95



Appendices¹

¹ A dash ('-') in a table or appendix indicates a zero value.
A zero ('0') indicates a number less than 0.5 but greater than zero.



Appendix 1

The Major Recipients of EC Aid (commitments, m ecu)

1986–90 Period						1991–95 Period							
	Total	86	87	88	89	90	Total	91	92	93	94	95	
1 Ethiopia	573	6	140	214	116	96	1 Yugoslavia (ex)	1253	20	210	439	314	269
2 Côte d'Ivoire	554	28	56	168	130	172	2 Poland	1005	197	200	225	209	174
3 India	471	70	179	37	114	70	3 Egypt	970	285	167	114	216	189
4 Egypt	469	71	45	66	185	101	4 Regional Tacis	892	106	109	194	149	335
5 Nigeria	415	0	35	218	100	61	5 Russian Federation	860	218	111	161	170	201
6 Sudan	344	66	49	107	60	62	6 Ethiopia	841	183	190	149	201	117
7 Tunisia	342	115	1	93	56	76	7 Romania	594	135	152	140	100	67
8 Cameroon	321	21	38	112	79	70	8 Rwanda ^a	564	44	62	55	289	115
9 Kenya	315	0	77	151	65	22	9 Mozambique	547	80	136	121	123	88
10 Senegal	310	56	176	37	3	39	10 Palestinian Adm Area	533	144	53	94	113	129
11 Mozambique	301	10	92	75	66	57	11 Soviet Union (former)	508	213	213	71	12	–
12 Guinea	259	–	108	130	21	0	12 Côte d'Ivoire	499	95	112	76	141	76
13 Tanzania	252	10	130	46	28	38	13 Hungary	493	115	102	100	85	92
14 Zaire	240	67	96	28	42	7	14 Cameroon	468	115	120	55	109	69
15 Bangladesh	227	1	20	41	89	77	15 India	462	98	41	176	43	103
16 Mali	211	1	39	91	75	5	16 Albania	459	10	154	150	56	89
17 Malawi	207	41	58	47	29	31	17 Bangladesh	459	145	74	67	75	98
18 Niger	203	19	66	104	6	7	18 South Africa	457	58	81	91	103	125
19 Uganda	192	2	65	32	34	59	19 Bulgaria	453	107	88	90	86	83
20 Papua New Guinea	187	17	56	75	7	31	20 Zambia	442	36	194	77	71	64
21 Poland	186	–	2	–	3	182	21 Uganda	430	83	95	73	112	68
22 Morocco	186	0	0	13	130	43	22 Jordan	428	175	57	74	62	60
23 Palestinian Adm Area	182	57	27	28	35	36	23 Tanzania	414	30	128	97	119	40
24 Chad	165	7	66	27	59	7	24 Tunisia	383	50	86	130	39	78
25 Madagascar	163	15	75	48	14	11	25 Zimbabwe	375	29	78	86	150	32
26 Zimbabwe	163	5	47	33	65	13	26 Angola	369	34	55	48	95	138
27 Burundi	161	6	38	56	53	7	27 Sudan	363	156	69	42	63	33
28 Mauritania	153	0	74	62	10	6	28 Nigeria	362	137	178	33	30	-16
29 Burkina Faso	148	1	3	66	51	28	29 Burkina Faso	347	58	29	82	49	127
30 Rwanda	147	1	55	26	43	22	30 Kenya	330	67	56	42	102	63
31 Somalia	146	1	30	22	78	14	31 Guinea	326	29	115	57	35	91
32 Togo	145	12	2	34	86	11	32 Mauritania	322	68	50	48	16	139
33 Algeria	144	61	25	4	34	20	33 Papua New Guinea	321	71	21	45	74	109
34 Ghana	132	18	43	47	18	6	34 Malawi	315	48	42	68	60	96
35 Benin	132	4	42	55	15	16	35 Ghana	299	78	25	90	71	35
36 Angola	126	0	48	26	19	33	36 Mali	298	47	36	65	101	49
37 Zambia	122	4	58	27	5	28	37 Morocco	287	10	58	13	158	47
38 Centrafrique	120	1	37	38	37	7	38 Senegal	280	4	114	71	52	38
39 China	118	5	12	29	49	23	39 Madagascar	250	33	48	10	136	24
40 South Africa	111	7	19	30	25	31	40 Algeria	241	82	76	58	13	13
41 Botswana	108	3	27	25	52	1	41 Turkey	233	180	1	3	2	47
42 Bolivia	107	13	24	12	31	26	42 Peru	232	37	32	45	60	58
43 Jordan	99	14	4	45	10	27	43 Czech Republic	230	–	–	60	60	110
44 Peru	95	17	6	29	14	29	44 Slovenia	220	–	9	105	37	69
45 Congo	95	20	0	68	1	5	45 Burundi	210	39	61	19	76	15
46 Hungary	90	–	–	–	–	90	46 Ukraine	209	29	48	43	54	36
47 Philippines	87	19	2	14	22	30	47 Haiti	200	21	14	12	60	92
48 Thailand	85	7	1	13	55	10	48 Czechoslovakia (ex)	199	99	100	–	–	–
49 Pakistan	85	0	27	1	34	22	49 Namibia	195	12	12	100	31	39
50 Jamaica	81	19	14	26	21	1	50 Iraq	193	116	3	22	23	30
51 Mauritius	76	23	34	16	1	3	51 Nicaragua	192	23	27	25	56	61
52 GDR (ex)	71	–	–	–	36	35	52 Dominican Republic	188	4	51	76	19	38

1986-90 Period	Total	86	87	88	89	90	1991-95 Period	Total	91	92	93	94	95
53 Lesotho	67	17	12	21	14	2	53 Philippines	184	6	51	49	27	52
54 Nicaragua	66	3	9	12	17	25	54 Niger	182	21	16	46	89	9
55 Haiti	54	7	1	7	25	14	55 Pakistan	175	34	78	29	26	7
56 Swaziland	50	4	13	22	11	1	56 Jamaica	172	18	29	78	14	33
57 Lebannon	49	1	7	6	27	9	57 Sierra Leone	166	23	65	34	30	14
58 Solomon Islands	48	1	26	13	0	8	58 El Salvador	152	14	55	44	17	22
59 Guinea Bissau	48	1	28	9	4	5	59 Benin	152	27	14	65	29	17
60 Fiji	46	6	1	5	27	8	60 Guatemala	151	18	15	29	55	34
61 Sierra Leone	46	7	20	7	2	10	61 China	146	21	8	19	38	61
62 Liberia	44	-	28	0	3	13	62 Cambodia	146	3	23	15	68	37
63 Namibia	44	0	1	4	8	31	63 Zaire	144	43	-8	49	7	53
64 Portugal	44	44	-	-	-	-	64 Somalia	140	25	13	50	49	3
65 Indonesia	43	10	3	3	0	27	65 Bolivia	139	21	42	34	7	35
66 Chile	40	5	5	5	13	12	66 Vietnam	138	15	27	50	27	18
67 Cap Verde	40	-	1	24	12	3	67 Indonesia	128	13	33	6	10	66
68 Trinidad & Tobago	39	-	0	1	29	9	68 Botswana	127	9	14	29	19	56
69 Guatemala	37	0	20	11	3	4	69 Lithuania	126	-	20	25	39	42
70 El Salvador	36	4	18	1	8	4	70 Lesotho	125	39	12	21	36	16
71 Czechoslovakia (ex)	34	-	-	-	-	34	71 Slovak Republic	125	-	-	40	40	45
72 Yugoslavia (ex)	33	-	0	1	1	31	72 Afghanistan	122	4	19	24	37	38
73 Turkey	33	-	12	21	0	0	73 Centrafrique	121	10	8	21	20	62
74 Guyana	32	-	2	17	10	4	74 Chad	119	7	49	22	29	12
75 Comores	32	2	7	10	11	2	75 Liberia	115	20	10	39	44	3
76 Malta	31	-	3	11	0	18	76 Eritrea	114	-	-	32	48	34
77 Columbia	29	5	1	5	3	16	77 Brazil	111	13	24	18	30	27
78 Ecuador	29	0	12	4	5	7	78 Baltic States	104	15	44	44	0	-
79 Sri Lanka	28	0	1	1	10	15	79 Trinidad & Tobago	99	40	10	17	27	6
80 Western Samoa	28	0	8	10	2	8	80 Latvia	95	-	15	18	30	33
81 Djibouti	28	1	1	15	4	7	81 Chile	94	19	25	20	13	18
82 Netherlands Antilles	27	-	0	6	6	15	82 Lebannon	87	9	12	42	8	15
83 Honduras	26	3	15	0	5	4	83 Guyana	87	1	5	50	4	26
84 French Polynesia	25	-	6	13	3	3	84 Mauritius	80	3	14	20	34	9
85 Brazil	25	1	1	5	13	6	85 Kazakhstan	80	8	21	14	20	17
86 Equatorial Guinea	25	8	1	4	7	5	86 Cuba	79	5	7	14	22	31
87 Bahamas	25	10	9	4	-	1	87 Cyprus	78	37	7	1	21	12
88 Bulgaria	25	-	-	-	-	25	88 Columbia	77	10	23	17	11	15
89 Vanuatu	24	2	12	7	3	0	89 Syria	74	1	22	21	16	14
90 Gabon	24	0	17	2	3	1	90 Azerbaijan	73	0	13	0	27	33
91 Syria	22	18	0	-	3	1	91 Georgia	72	5	9	-	26	32
92 Suriname	19	-	0	1	12	5	92 Ecuador	71	13	3	13	21	21
93 Mexico	19	6	0	1	9	3	93 Gabon	70	0	6	13	42	9
94 Laos	19	6	0	7	5	1	94 Armenia	69	2	10	9	20	28
95 Romania	18	-	0	0	5	13	95 Estonia	69	-	10	12	23	24
96 St Lucia	17	8	1	7	1	-	96 Guinea Bissau	64	2	26	22	10	4
97 St Vincent-Grenadine	16	0	4	9	4	-0	97 Honduras	63	3	11	2	16	31
98 New Caledonia	15	0	-	3	7	5	98 Cap Verde	62	3	14	14	20	10
99 Belize	15	1	4	6	2	1	99 Belarus	56	9	15	9	11	12
100 Tonga	15	1	3	1	4	7	100 Swaziland	55	0	19	15	7	13
101 Soviet Union (former)	15	-	-	10	-	5	101 Nepal	54	1	3	3	18	30
102 Sao Tome	14	4	6	2	1	2	102 Thailand	54	8	13	9	12	11
103 Grenada	14	4	4	1	3	2	103 Laos	52	1	4	16	17	15
104 Afghanistan	14	1	0	7	2	5	104 Togo	51	17	36	4	8	-15
105 Barbados	13	-	1	2	6	4	105 St Vincent-Grenadine	50	0	0	3	15	31
106 Cuba	12	-	-	-	4	8	106 Mexico	44	8	9	7	13	7
107 Dominica	12	4	4	0	2	1	107 Comores	44	9	7	11	10	6

1986-90 Period	Total	86	87	88	89	90	1991-95 Period	Total	91	92	93	94	95
108 Russian Federation	10	-	-	9	-	1	108 Uzbekistan	44	2	19	-	15	8
109 Seychelles	10	0	1	0	6	2	109 Paraguay	42	14	1	5	17	5
110 Cyprus	10	4	2	-	4	0	110 Venezuela	41	1	2	13	3	22
111 Yemen	9	0	-	-	6	3	111 Suriname	41	1	2	8	19	10
112 Vietnam	9	1	0	0	3	5	112 Congo	40	2	16	5	10	7
113 Argentina	9	1	3	3	1	2	113 Tadjikistan	38	-	-	-	14	24
114 Costa Rica	8	0	0	-	1	7	114 St Lucia	36	0	-	1	11	24
115 Nepal	8	0	3	0	4	1	115 Argentina	34	3	4	3	6	18
116 Bhutan	8	-	-	4	0	4	116 Sri Lanka	32	7	9	2	4	10
117 Hong Kong	8	-	-	-	5	3	117 Solomon Islands	32	11	4	4	12	2
118 Virgin Islands	8	-	-	1	6	1	118 New Caledonia	31	1	0	20	9	1
119 Dominican Republic	7	0	1	0	2	3	119 Moldova	30	1	9	-	13	8
120 Gambia	7	-	-	6	1	0	120 Yemen	30	7	2	15	2	4
121 Cambodia	6	0	0	3	0	3	121 Panama	29	0	1	7	1	21
122 Aruba	6	-	-	2	0	4	122 Kyrgyz Rep.	28	1	9	10	-	8
123 St Kitts-Nevis	6	-	3	0	3	-	123 Uruguay	26	3	3	2	4	14
124 Cayman Islands	5	-	-	2	-	4	124 Belize	25	2	9	5	10	-1
125 Greece	5	-	-	4	1	-	125 Sao Tome	24	1	7	3	1	12
126 Iran	5	-	-	-	-	5	126 Fiji	24	5	2	3	10	4
127 Anguilla	5	-	-	3	0	2	127 Dominica	24	1	2	3	6	12
128 Panama	5	-	0	1	-	4	128 Djibouti	23	2	13	2	6	0
129 Mayotte	4	-	0	-	4	-	129 Malta	23	9	-1	14	-2	3
130 Dominique	4	-	4	0	-	-	130 Grenada	22	4	6	2	7	4
131 Paraguay	4	-	1	0	3	0	131 French Polynesia	22	0	0	15	6	1
132 Uruguay	4	1	0	1	1	1	132 Netherlands Antilles	22	-0	8	6	6	1
133 Antigua & Barbuda	4	-	-	0	3	0	133 Barbados	21	3	0	13	12	-8
134 Kiribati	3	1	2	1	0	0	134 Turkmenistan	21	1	9	-	8	3
135 Wallis & Futuna	3	-	-	-	1	2	135 Costa Rica	20	1	2	11	2	5
136 Venezuela	2	-	1	0	1	0	136 Equatorial Guinea	20	8	7	1	2	2
137 Turks & Caicos	2	-	-	-	2	-	137 Aruba	17	4	0	6	6	1
138 Malaysia	1	-	-	-	1	-	138 Montserrat	14	6	0	0	8	-0
139 St Helena	1	-	-	-	-	1	139 Western Samoa	14	4	3	1	4	3
140 Maldives	1	-	0	-	1	-	140 Bhutan	13	6	6	1	0	-
141 Falkland Islands	1	-	-	0	-	1	141 Vanuatu	12	5	1	0	7	-0
142 Tuvalu	1	-	1	0	0	-	142 Kiribati	12	6	1	1	1	3
143 Belarus	1	0	0	0	0	0	143 Mayotte	11	2	1	0	0	7
							144 Seychelles	11	2	0	1	3	4
							145 Iran	11	2	2	5	3	-
							146 Antigua & Barbuda	10	0	3	0	2	4
							147 Mongolia	9	-	2	4	1	1
							148 Bahamas	8	-	-	4	-0	3
							149 St Kitts-Nevis	7	-	0	0	1	6
							150 Hong Kong	7	-	3	2	2	1
							151 Gambia	7	5	0	0	0	1
							152 Tonga	7	1	1	2	2	0
							153 Portugal	6	-	-	6	-	-
							154 Falkland Islands	6	-	1	3	-0	3
							155 Virgin Islands	6	-	1	1	2	2
							156 Turks & Caicos	5	-	-	0	1	4
							157 Dominique	5	0	3	0	0	1
							158 Burma	3	0	0	-	3	-
							159 Tuvalu	3	0	2	1	0	0
							160 Wallis & Futuna	3	-	0	-	3	-

^a Includes 259 m ecu for humanitarian action in Rwanda and Burundi for 1994 and 1995.

Appendix 2

Distribution of EC Aid by DAC Region 1970–1995

(average annual disbursements, \$m and share of total EC aid, %)

	Average annual disbursements \$m			Share of total EC aid, %		
	1970–71	1980–81	1994–95	1970–71	1980–81	1994–95
sub-Saharan Africa	148	751	2598	73.1	60.4	37.9
Asia	18	256	497	9.1	20.6	7.2
Latin America & Caribbean	12	67	615	5.9	5.4	9.0
Middle East & Southern Europe	12	65	616	5.9	5.2	9.0
North of Sahara	10	85	316	5.0	6.8	4.6
Oceania	2	20	117	1.0	1.6	1.7
Part II CEECs & NIS	–	–	1571	–	–	22.9
Unallocable	n.a	n.a	533	n.a	n.a	7.8
Total	203	1244	6863	100.0	100.0	100.0
OECD average, \$m	7602	27617	73256			
EC share of OECD total, %	2.7	4.5	9.3			

Note:

This appendix has used the OECD DAC regional classification, and permits a comparison between ODI data for 1994–95 period with that of DAC 1997 for earlier years.

Source: Data for 1994–95, ODI database 1997; other data, *Development Cooperation*, OECD, DAC, 1997

Appendix 3

EC Aid by DAC Region 1986–95 (disbursements in m ecu and \$m)

1.1 Disbursements (m ecu)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
sub-Saharan Africa	925	1050	1398	1639	1586	1880	2475	1774	2281	1909	16917
South & Central Asia	92	91	89	187	165	153	191	191	198	347	1705
Other Asia & Oceania	110	187	166	130	147	164	213	158	151	279	1704
Middle East, North Africa, Southern Europe	311	164	249	335	286	1034	616	863	677	814	5349
Latin America and the Caribbean	126	117	137	260	265	321	310	386	415	567	2904
Part II CEECs/NIS	3	0	0	13	359	535	642	802	1310	1219	4884
Unallocable	103	356	604	238	77	240	273	403	488	373	3155
TOTAL	1669	1964	2644	2801	2886	4326	4720	4576	5520	5510	36616

1.2 Disbursements (\$m)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Sub-Saharan Africa	907	1212	1655	1806	2020	2331	3240	2075	2719	2477	20441
South & Central Asia	90	105	106	206	210	190	251	223	237	451	2067
Other Asia & Oceania	108	216	196	143	187	203	278	185	180	362	2058
Middle East, North Africa, Southern Europe	305	189	295	369	364	1283	806	1009	807	1056	6483
Latin America and the Caribbean	123	135	163	286	337	397	406	451	494	736	3531
Part II CEECs/NIS	2	0	0	15	458	663	841	939	1561	1581	6060
Unallocable	101	410	715	263	98	298	357	471	582	484	3779
TOTAL	1637	2267	3130	3087	3674	5364	6179	5354	6579	7146	44418

Notes:

i) This appendix uses the OECD DAC regional categorisation and therefore allows for the direct comparison of EC aid flows with those of other OECD members; see DAC 1997.

ii) The ecu:\$ exchange rates used are taken from the National Institute of Economic and Social Research, No. 156, May 1996. The ecu:\$ rates were: 0.981 (1986); 1.154 (1987); 1.184 (1988); 1.102 (1989); 1.273 (1990); 1.240 (1991); 1.309 (1992); 1.170 (1993); 1.192 (1994); 1.297 (1995).

iii) In converting the European Community regional categorisation to one that is consistent with DAC usage, the portion recorded as ACP unallocable within the EC programme has been added to the totals for sub-Saharan Africa, Other Asia & Oceania, and Latin America & the Caribbean in proportion to allocable aid to the EC regional categories of sub-Saharan Africa, the Caribbean and the Pacific.

Source: ODI database 1997

Understanding European Community Aid

**Aid Policies, Management and
Distribution Explained**

Aidan Cox and Antonique Koning

with Adrian Hewitt, John Howell, Ana Marr

What is European Community aid? Who benefits? And what is it spent on? For the first time the institutions, policies and legal basis of the EC aid programme are described, together with a sectoral and geographical analysis of EC aid flows.

The term 'European Community aid' refers to that portion of European Union aid that is managed by the European Commission and the European Investment Bank, rather than Member State bilateral aid. All of the Community's development cooperation programmes are included, covering the African, Caribbean and Pacific states, the Mediterranean and Middle East, Asia and Latin America, the Central and East European countries and the New Independent States.

The book provides an overview of the evolution of EC aid and examines:

- the legal and political basis for current assistance programmes;
- how EC aid programmes are managed;
- the sources of EC aid;
- the main aid instruments.

It provides a framework for comparing – across regions and countries – different categories of aid delivery and different sectors receiving aid. EC aid to each of the main recipient regions is examined in detail, through both statistical and institutional analysis. The final chapter places Community aid in a global context, comparing the regional spread and sectoral emphasis of EC aid with those of the major OECD donors.

If EC aid remains controversial, it is partly because debates about its quality are often singularly ill-informed and are diminished by a generally inadequate empirical base of information. This book should at least address the latter. We hope it does rather more.

ISBN 0 85003 396 9



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