

An Analysis of European Commission Administered Country Aid Allocations

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Abstract

Beginning with a review of the general aid allocation literature this paper then focuses upon the European Commission administered aid programmes. Having considered their general trends it turns to a statistical analysis of their possible determinants. It contrasts the outcomes of the EDF, with its close correlation with the UN Human Development Index and 'development orientation', with the non-ACP aid allocations.

1. Introduction

Aid allocation may be regarded as merely the outcome of development and political policies, but it is also worthy of attention in its own right as it may offer the first opportunity to identify the objectives of those policies or to assess their effectiveness. Indeed attention to the issue of aid allocation in the international community has grown as part of the concern to foster aid effectiveness. This paper focuses upon the European Commission (EC) administered aid programmes of recent years, analysing the trends in both the Cotonou Agreement's European Development Funds (EDF) for the African, Caribbean and Pacific (ACP) group of countries, and the External Affairs aid budget lines. It does not address the pattern of the bi-lateral aid of EU Member States.

Beginning with a review of the general literature on the determinants of aid allocation the paper then outlines the structure of EC aid programmes and summarises their trends. The next section addresses the specific issue of the determinants of EU aid allocation with a statistical analysis of the years 2000-2007.

2. The Aid Allocation Literature

Initially the concept of equity, proxied by per capita income, dominated the aid allocation debate (e.g. Mosley 1987). However attention began to turn to the issue of aid effectiveness, with an emphasis upon the recipient countries policies and institutional performance. The work of Collier and Dollar (1999, 2002, 2004) attempted to systematically integrate both equity and effectiveness into their aid allocation model, with poverty reduction as its prime objective. The model prescribes that aid should be greater in those countries with high poverty levels and evidence of appropriate policy framework, as indicated by measures such as the Country Policy and Institutional Assessment (CPIA) of the World Bank.

Other authors have identified additional criteria that might be important in achieving an effective allocation of aid. These have included the extent of democracy (Svensson 1999, Kosack 2003), and structural vulnerability (Guillaumont &

Chauvet 2001). Clemens (2004) argues that it is important to focus upon the types of aid and finds that distinguishing between humanitarian, short and long-run development aid results in only short-term development aid demonstrating the expected positive impact upon growth. Mavrotas (2003) finds that only programmed aid and technical assistance are positively related to public investment, in contrast to project and food aid. Hansen & Tarp (2000) offer a more fundamental challenge to the assumption that aid is more effective in those countries that have adopted appropriate development policies, while operationally there remains the challenge of developing robust indicators of 'good governance' as a basis for allocating aid.

As well as being criticised for its narrow criteria the Collier-Dollar model assumes the objective of minimising global poverty. This would imply that aid should be reallocated such that the yield, in terms of poverty reduction, is the same across all recipient countries for each £ of aid. This contrasts with approaches that attempt to equalise poverty differences or poverty reduction across countries. An example of such an approach is the use of the Millennium Development Goals (MDG), where aid is allocated in such a manner as to minimise the individual countries shortfall with regard to the MDG targets. Here different quantities of aid are likely to be required in order to move each individual country towards the MDG threshold i.e. the marginal efficiency of aid will vary from country to country.

Cogneau and Naudet (2004) attempt to address the aid efficiency focus of Collier-Dollar by allowing for differences in aid effectiveness at the country level. They recognise that countries will differ in their exogenous structural disadvantages and argue that these need to be taken into account. Thus countries demonstrating 'effort', for example in their CPIA score, but facing structural disadvantages, should receive more aid for any given 'effort' than those countries not facing similar structural problems. This approach attempts to minimise projected poverty level differences between countries. Both Collier-Dollar and Cogneau-Naudet recognise the possibility of diminishing returns to aid,

reflecting the limited absorptive capacity of recipient countries (see Clemens and Radelet 2003).

3. The Pattern of Aid Allocation

The most comprehensive recent econometric study of aid allocation is that by Dollar and Levin (2004) who examined 41 donor agencies for the period 1984 to 2002. They examined both 'policy selectivity' (i.e. the importance assigned to 'good' governance in aid allocation), as reflected in the World Bank's Country Policy and Institutional Assessment (CPIA) and the degree of poverty focus (represented by per capita GDP). They found that 'policy selectivity' had increased since the mid-1990s and that those donor agencies that were more 'policy selective' also tended to be more poverty focused. As would be expected the multi-lateral donors were generally more poverty focused; although the EC is an exception to this, ranked only 25th. (-0.5) in 2002 in its poverty elasticity (30th in 1999: 32nd. 2000: 23 rd. 2001). However it was ranked 12th. (2.4) in terms of its policy selectivity (17th. 1999: 21st. 2000: 13th. 2001). These rankings are relatively stable over the four sample years. Roodman (2004) meanwhile has attempted to address the issue of aid quality through the creation of an "Index of Donor Performance", which incorporates such factors as aid tying and project proliferation. His estimates reduce aid to 33% of gross ODA for France, 40% for Germany, 64% for the UK and 46% for the EC.

While 'selectivity' encompasses such development criteria as good governance and effective programme implementation, other statistical studies have identified other significant non-developmental factors in determining aid allocation (e.g. Alesina and Weder 2002, Neumayer 2003). Although all these studies have confirmed a significant inverse relationship between aid allocations and a country's income per capita, some also find a population bias, with more highly populated developing countries receiving a lower than expected per capita allocation (Arvin and Drewes 2001). Baulch (2003) examined aid allocation in 2001 using aid concentration curves and the Suits Index (SI). The latter ranges from -1, where a donor allocates all aid to the poorest country, to +1, where all aid is received by the richest, with zero indicating a distribution of aid proportional to the country's GDP per capita. Amongst the three multinational donors he analysed he finds both UN (-0.01) and World Bank/IDA (-0.42) aid is targeted towards the poor, by contrast the EC (0.32) has less of a poverty focus, funding relatively well off middle income countries. A similar bias is found with bi-lateral donors such as the US (0.32), Japan (0.21), Germany (0.27) and France (0.29).

Changing aid allocation criteria has been found by Berthelemy and Tichit (2002) in their econometric analysis of 22 bilateral donors for the period 1980-1999. While traditional colonial links have been of declining significance, aid was found to be increasingly associated with the donors' commercial interests as reflected in their volume of trade with these aid recipients.

While overall the volume of aid remains inversely related to the recipient country's per capita income, the authors found that this relationship was weakening over time. For Australia, Canada, Germany, the United Kingdom and the US, aid volumes were unrelated to GDP per capita, although, with the exception of the US, these donors' aid allocations demonstrated an above average statistical relationship with the recipient countries infant mortality rates. Indeed measures of social performance appear to have been given increasing weight by all donors in the post cold-war period, although statistical variables such as infant mortality remain ambiguous, being interpreted both as a measure of social need as well as government performance. Similarly the OECD (2005) concluded that an increasing poverty focus had been reinforced by international support for the MDGs. However geo-strategic and security considerations, particularly as reflected in the wars in Iraq and Afghanistan, has resulted in a significant increase in aid to these countries, including by the EU. Whilst there has yet to be any widespread diversion of aid from MDG 'poverty focused' programmes, there remains the potential for such a reallocation of aid.

Particular attention has recently been paid to the possible bias against the allocation of aid to fragile States (LICUS: Low Income Countries Under Stress). The OECD study found that increasing emphasis upon selectivity criteria had been offset by humanitarian aid flows and the recognition of their importance for regional and global security. Nunnenkamp (2004) finds that the share of aid received by the bottom two CPIA ranked quintile groups remained constant between 1993/98 and 1999/2002. However the shares to the poorest quintile of developing countries had fallen between 1981/86 and 1999/2002. Levin and Dollar (2005), examining aid distribution between 1992 and 2002, found that 'difficult partner countries' (DPC) on average received 58% less bilateral aid, and 34% less multilateral aid, than would have been anticipated by development criteria. However aid to these countries varied substantially around this average figure, with some receiving significantly more ODA than would have been anticipated. A further aspect of aid flows that has been subject to analysis is their volatility. Levin and Dollar (2005) found that aid to their DPC group was twice as volatile, on average, as that of other low income countries.

4. The European Commission

Development assistance is funded by the EU from two sources, the general budget and the European Development Fund (EDF). The general budget, determined by the current Financial Perspective, is subdivided into headings and budget lines related to policy areas or instruments. This overall allocation between policy areas is determined by negotiations between the EC, the Council of Ministers and the European Parliament. With regard to the development component of the External Actions budget funds are committed on both a regional and thematic basis.

The regional allocation to the Mediterranean was funded under MEDA, that for Eastern Europe and Central Asia under TACIS and that for Asia and Latin America under the ALA budget lines. In addition there were more than 30 thematic budget lines funding projects ranging from the sustainable management of tropical forests to the eradication of HIV/AIDS. These thematic funds could be drawn on by any partner country in addition to their regional allocation. The creation of budget lines by the European Parliament was originally aimed at ensuring effective budgetary control but resulted in inflexibility and administrative complexity. As a result the number of policy instruments has been reduced under the 2007-2013 Financial Perspective.

In addition development aid to the African, Caribbean and Pacific (ACP) group of developing countries is provided under the Cotonou agreement through the European Development Funds (EDF). Although administered by the EC the basis of Member State contributions to this inter-governmental Fund differs from that of the general budget of the EU and the European Parliament has no formal involvement.

As in all areas of EU policy the EC has significant powers of initiative in determining aid allocation. While the Council of Ministers has ultimate political authority its level of involvement and influence through its 'Comitology' Committees (such as the EDF Management Committee) is greater when dealing with the aggregate levels of development funding. Thus the overall allocation to the External Relations budget lines and the EDF are likely to significantly engage the attention of Member State governments. By contrast the detail of the distribution of individual country allocations between projects or sectoral assistance is unlikely to involve the Member States in Brussels, although formally the EDF Committee must approve any project involving expenditure greater than €8 m. The Comitology Committees "input into the programming process is at quite a late stage and in the period in question they had not had a major role in shaping the strategy" (Holden 2008). Member State influence on the detailed shape of individual country aid programmes is more likely to be exercised at the country level through negotiations between local delegations in the preparation of Country Strategy Papers (CSP) (see below).

In explaining the factors influencing country allocations it is this distinction between the development assistance provided from the External Actions budget lines of the EU's general budget and the EDF that is the most significant. Funding from the general budget, especially that targeted towards the 'near abroad' of the Balkans, Central and Eastern Europe and the Mediterranean, is much more heavily influenced by geopolitical and security considerations than that allocated under the EDFs (see Holden 2008) which have a more explicit poverty-focus. It is also programmed by the DG for External Relations (DG Relex) with its broader 'foreign policy' agenda; in contrast the EDFs are programmed by DG Development. Tensions arise from the differing

perspectives of DG Relex and DG Dev and this organisational division remains subject to continuing criticism. All funds are however disbursed and monitored by EuropeAid, an Office of the EU.

4.1 The European Development Funds

The Cotonou Agreement provides for the locally managed (i.e. at Delegation level) assessment of five programme elements (Annex IV, Article 5) – the results achieved in terms of identified targets in the focal and non-focal sectors, use of resources by non-state actors, effectiveness of implementation of the current operations and the extension of the programming perspective for the following seven years. It also specifies the conditions under which aid may be suspended (Article 96 and 97). In addition a succession of Development Policy Statements (EC 2000, EC 2005) have identified the EU's sector priorities and reinforced its commitment to good governance, the rule of law and human rights.

The initial Statement on Development Policy (EC 2000) affirmed that poverty reduction was the main objective of Community development policy, with qualified priority in assistance to be given to low-income developing countries. It also specified seven areas where the EC would concentrate its assistance – trade and development, regional integration, macro-economic support, transport, rural development, health and education, and institutional capacity building. The 2005 'Development Consensus' (EC 2005) reaffirmed the original pledge to low-income developing countries, but qualified it with a continuing commitment to middle-income developing countries where they have large low-income populations, inequalities or weak government, or where they are important as regional anchors. The sectors in which the EC would engage were expanded to include water and energy provision, rural development and agriculture and 'social cohesion and employment'. In some ways it is difficult to regard this as the genuine expression of policy focus.

Aid allocation was to be based upon "the use of standard, objective and transparent resource allocation criteria based on needs and performance." Unfortunately the "needs and performance criteria" were based upon those of the Cotonou Agreement, which remain rather imprecise. 'Needs' were defined in terms of per capita income, population, social indicators, indebtedness and export dependence. Special treatment was to be accorded to the least-developed, land-locked or island ACP states. 'Performance' was to be assessed with regard to the implementation of institutional reforms, poverty alleviation, the efficient use of resources, sustainable development and macroeconomic and sectoral performance. The criteria for the allocation of aid between regions and countries remained far more obscure than was implied by these policy statements.

While, as has already been observed, the allocation of aid from the External Action budget lines was recognised as a

product of the broader political, security and commercial priorities of the Community, the poverty-focus of the EDF has sometimes been exaggerated. This can be seen in the continual criticism of the EC's excessive relative support for middle-income developing countries. For example, in 2000 EC ODA to low income LDCs had fallen to 39% of the total EC aid budget (House of Commons 2002). However, as we will see, a more systematic system of aid allocation was to be adopted for EDF 9.

Each EDF runs for five years, and is allocated through individual country National Indicative Programmes (NIP) and Regional Indicative Programmes under two headings, 'Envelope A' and 'Envelope B'. 'Envelope A' represents a relatively firm commitment of funds, subject only to the mid-term reviews, while 'Envelope B' is available to meet the need for flexibility in addressing unanticipated country requirements, such as instability in export earnings (previously funded under Sysmin and Stabex), contributions to international debt relief initiatives and to support exceptional country performance. Despite the emphasis upon performance evaluation, after the EDF9 mid-term review few countries experienced any significant reduction in their overall level of aid. An important component of EC aid administration is the central role of the Country Strategy Papers (CSP) prepared by the local Delegations in dialogue with the recipient country government and local non-state actors (see Dearden 2007). However these CSP's have been subject to critical appraisal (EC 2002). In particular their use of performance indicators was often found to be inconsistent, too numerous and non-quantitative. A set of robust and relevant performance indicators for application across the CSP's is yet to be developed. The high degree of continuity in aid funding levels under the NIPs suggests there is relatively limited use of performance indicators in determining aid allocation between countries. Nor is it clear how far CSPs and their associated NIPs are prepared within the context of a Brussels determined aid allocation or how far their appraisal influences that allocation.

4.2 Aid Trends

Table 1 illustrates the trends in aid commitments funded from the general budget of the EU. The system of budget headings and instruments has changed over the period and the table identifies, as far as possible, how the allocation has evolved. The overall level of commitments remained relative constant until 2007 when it fell to €7 bn. from a peak of €8.7 bn. in 2006, which represented a 7.5% increase over 2000. Geographically the budget has been dominated by the funding of pre-accession programmes, while Mediterranean aid accounted for approximately 12%-13% of the budget, Asia doubling to 10% and Latin America 4%. However individual countries will also have benefited from the non-geographical budget lines (e.g. 2006: Fishing 2%, Democracy 1.5% Social Infrastructure 1.5%).

Table 2 (EC 2007b) summarises aid commitments un-

der both EDF9 and from the general budget. Total EuropeAid Commitments increased by 31% over the period 2001/2007, with Latin American aid increasing by 18%, Mediterranean by 66% and Asian aid by 109%. For the ACPs aid commitments increased by 76%, but with considerable annual variation, thus emphasising the importance of focusing upon longer term trends. The 'thematic' budget lines, which benefit all developing countries, increased by 31%. Finally, in terms of the 'poverty orientation' of EC aid, the share of EC Official Development Assistance received by the least developed countries, having increased from approximately 32% in 2000 to 45% by 2003, has since remained constant.

Table 1. External Aid from EU General Budget

	Policy Area		Commitments million €							
			2000	2001	2002	2003	2004	2005	2006	2007
B7 01	05 AGR	Pre Adhesion Sapard	529	540	555	560	229	252	300	6
B7 02	13 REGIO	Pre Adhesion ISPA	1016	1121	1109	1129	453	525	583	222
B7 03	22 ELARG	Pre Adhesion Phare	1569	1651	1683	1703	980	970	864	
B7 04	22 ELARG	Pre Adh. Malta/Cyprus	8	26	148	37	3	2	1	
B7 05	22 ELARG	Pre Adh. Turkey				149	242	286	458	
B7 20	21 DEV	Food Aid	458	462	506	438	420	405	423	201
B7 21	23 ECHO	Humanitarian Aid	490	523	520	586	521	633	645	731
B7 30	19 RELEX	Asia	481	408	575	557	611	634	853	836
B7 31	19 RELEX	Latin America	278	300	333	342	312	329	356	340
B7 32	21 DEV	South Africa	124	122	124	127	135	155	125	
B7 4	19 RELEX	Mediterranean (MEDA)	986	809	633	640	1003	1075	1178	
B7 42		Near & MiddleEast	60	100	151	142				
B7 51	01 ECFIN	EBRD & Macro		7	0	0	91	17	92	58
B7 52	19 RELEX	NIS & Mongolia (Tacis)	449	408	445	447	504	515	528	
B7 53		NIS & Mongolia (other)	112	40	0	0				
B7 54	22 ELARG	Balkans	860	825	821	703	663	519	523	
B7 60	21 DEV	NGOs	200	197	203	207	209	207	212	211
B7 6002		Decentralised Cooperation	3	5						
B7 61		Training	8	3.7	4	4				
B7 620	21 DEV	Environmental/tropical forest	32	42	49	41	50	59	58	85
B7 622	21 DEV	Gender				2	3	3	4	
B7 623	21 DEV	ICT				2	0	0	0	
B7 6211	08 RTD	Global Health Fund	28	60	0			81	71	
B7 63	21 DEV	Social Infrastructure		27	13	99	104	131	129	95
B7 6510	19 RELEX	Coordination/ evaluation	12	10	23	23	24	30	32	17
B7 6610	19 RELEX	Anti personnel Mines	8	12	12	18	19	15	18	
B7 66	21 DEV	Other	36	56	101	52	14	21	22	29
B7 6710	19 RELEX	Rapid Intervention		20	24	24	26	29	30	212
B7 70	19 RELEX	Democracy/Human Rights	94	105	110	106	135	135	145	133
B7 80	11 FISH	Fishing Agreements	124	194	190	186		176	192	128
B7 8710	21 DEV	Bananas	45	43	44	40	37	34	31	
B7 8		Other	32	33	30	36			39	48
B8	19 RELEX	Common Security	42	33	33	54	131	166	203	159
	19 RELEX	European Neighbourhood/ Russia								1629
	21 DEV	ACP								347
	22 ELARG	Per Accession								868
		Total	8102	8175	8438	8454	7240	7852	8716	6989

Source : Annual Reports on the European Community's Development and External; Assistance Policies.

Table 2. EuropeAid Commitments

in € million	Balkans	MS	Latin America	Asia	Mediterranean	South Africa	ACP ⁽¹⁾	Thematic	Total
2001	705	426	301	407	709	121	1971	928	5568
2002	658	452	333	575	762	124	2169	949	6002
2003	620	504	342	558	782	127	3811	945	7687
2004	663	504	312	611	1003	135	2685	1001	6916
2005	519	515	329	834	1075	155	3546	1055	8027
2006	524	528	356	853	1178	125	3477	1097	8137

Commitments 2016 made by EuropeAid + Enlargement (Balkan).
 Excluding administrative costs managed by EuropeAid.
 Regional breakdown following geographic and thematic budget lines.
 (1) ACP Region includes EDF + Bahamas & Sugar budget line 2001-2006.

4.3 Aid Data Analysis

I now wish to turn to a statistical analysis of EC aid data. I would not necessarily have anticipated strong statistical relationships between EC aid allocations and various measures of individual country development. Many objectives other than poverty reduction are likely to have dominated decisions as to the allocation of external assistance. However we might expect any relationship to be stronger for those funds allocated under the EDF's than through other external assistance budget lines. Thus in the analysis of the pattern of EU external assistance for the period 2000-2007 I will be addressing the following questions :-

- Is there any association between measures of development, poverty, economic situation or institutional performance associated with EU aid?
- Has there been any change in the orientation of aid towards lower per capita income countries. Is there still a small country/small population bias?
- Are there any differences in such associations between aid allocated to the ACP states and other EU external assistance?

4.4 The 9th European Development Fund

The 9th EDF, to cover the period 2000-07, totalled €13.5 bn., with €7,083 m. allocated to the A envelope, €2,640 m. to the B envelope and €1,313 m. held in reserve. Compared with EDF 8 the share of total funds allocated to the A Envelope under EDF 9 increases slightly to 64%. The EC emphasised the flexibility of funding allocation between the A and B Envelopes to reward performance and to address changing needs over the programming period, supported by the system of rolling programming with its mid term and end of term reviews.

The EC applied a systematic model to reflect the published criteria for aid allocation to the ACP states for EDF9 (Table 3). The starting point for the A Envelope allocation model is the size of each country's population. To avoid an excessive bias of aid towards the more highly populated countries the relationship is linear up to a population of 1.5 million and logarithmic for countries with a larger population size. Adjustments are then applied to reflect the needs, performance and vulnerability of each country.

The Needs Country Index (NCI) is composed of two

elements. The first involves an adjustment to reflect the level of poverty in each ACP. This is measured in terms of GNP per capita at purchasing power parity. For all countries with a GNP per capita of less than \$760 an increase in aid determined by the following formula is applied :-

$$2/(10*\ln(1/\text{GNP PPP})).$$

As a result of this adjustment Burkino Faso, with a GNP per capita of \$240 sees its aid allocation increased by 23% and Ethiopian, with GDP per capita of \$100, increased by 40%. A further adjustment is made to reflect the social component of poverty (Indicator of Social Development) by applying the same formula to the life expectancy and educational level measures of the UNDP Human Development Index.

Table 3. EDF Aid Allocation Model

A Envelope	
Population	log <1.5m.
Needs Country Index: GNP per capita	$2/10*\ln(1/\text{GNP})$
Indicator of Social Development: HDI	$2/10*\ln(1/\text{GNP})$
Performance Country Index	
EDF8 Commitments	0 to 20%
Involvement in Armed Conflict	-10%
Political Performance	-5% to + 5%
Institutional Accountability	-10% to + 10%
Macroeconomic Performance	-20% to + 35%
Vulnerability Country Index	
LDC/ high middle income	-20% to + 20%
Land Locked	+ 5%
Island State	+ 10%
Post conflict	+ 5%
B Envelope	
Economic Vulnerability Index	5% to 20%
Predictability Index	5% to 500%
HIPC	+ 10%
Vulnerability to Natural Disaster/ Conflict	0 to 5%

The aid allocation model employs a large number of indicators to reflect country performance. The first weights the ACPs absorption of EDF 8 funds. Those countries that absorbed between 65% and 100% of EDF 8 allocations receive a 20% uplift, from 15% to 30% no change, and from 0% to 15% a 20% reduction. A further 10% reduction is applied to countries involved in armed conflicts to reflect their limited absorptive capacity. A further adjustment of between -5 to +5% is made to reflect political performance (as reflected in the independence of the judiciary

and civil liberties) and between -10% and +10% to reflect the EC's assessment of the effectiveness of public administration and accountability and public financial management. A further -15% to +15% allowance is made to reflect performance in the social sectors. A comparison of GNP per capita and the UNDP Indicator of Social Development is employed; progress in this area being reflected in a high correlation between these two measures. The current relative social development rankings, progress in these rankings between 1992 and 1997 and an assessment by the EC of the ACPs sectoral policies, each receive a +/- 5% weighting.

Finally the model includes an allowance for economic vulnerability. Low income ACPs receive an adjustment of +20%, land locked States +5%, island states +10% and countries involved in post-conflict reconstruction +5%.

The B Envelope allocation model is composed of three components - economic vulnerability, HIPC and vulnerability to natural disasters - which weight the A Envelope allocation, the starting point for the calculation. Economic vulnerability employs the OECD's DAC Economic Vulnerability Index (EVI), a composite index reflecting population size, share of manufacturing and services in GDP, export concentration, agricultural production and export earnings instability. The EVI ranges from 26.75 for Madagascar to 74.32 for Kiribati. The A envelope is increased by between 20% for those countries with an EVI greater than 55, down to 5% for those with an EVI less than 40.

The B Envelope is also intended to replace the previous Sysmin and Stabex funds which compensated for instability in export earnings from mining and agricultural products. Utilising the ratio of Stabex and Sysmin commitments to Structural Assistance and NIP, those ACPs with a ratio greater than 5 receive an allocation three times that of their A Envelope, while at the other end of the range those countries with a ratio between 0.1 and 0.25 receive only a 5% enhancement.

Secondly, those ACPs eligible for the HIPC initiative and who are preparing Poverty Reduction Strategy Papers, receive an additional 10 percent enhancement to their B Envelope allocation.

Finally a Global Vulnerability Index is utilised, which identifies the percentage of the population directly affected by disaster or conflict between 1980 and 1999. For the 23 countries with a global vulnerability ranking of more than 5 their B Envelope is enhanced by 5%, for the 22 countries with a ranking between 1 and 5 by 2.5%.

4.5 EDF Analysis

I have undertaken two pieces of statistical analysis which are reviewed in this section. Firstly I have correlated the country allocations proposed by this model with the commitments realised over the period of EDF 9. Secondly I have attempted to identify statistically the determinants of the aid payments to the ACP states to assess whether the actual aid allocations have realised

the objectives embodied in the EU's Development Statement and intended to be realised in the aid allocation model.

In practice the ACP aid both committed and paid over the period 2000-2007 exceeded that indicated in the original proposals (Table 4). This may have reflected the allocation of funds unexpended under previous EDFs. Table 5 presents the overall regional correlation results for EDF9 projected commitments and actual commitments and payments over the period 2000-2007. The correlations are high (approximately 0.8 for Africa, 0.9 for the Caribbean and the Pacific), suggesting the model adopted to determine the initial allocation of EDF9 aid was a major influence upon the final outcomes, both in terms of commitments throughout the period, as well as actual payments. The latter were likely to be more susceptible to capacity utilisation problems and therefore would have been expected to be less highly correlated with the original allocations.

Table 4. ACP Aid 2000-2007

	Total Commitments	Total Payments	EDF9 Proposed Allocations
ACP Total	21,160	17,781	9,719
Africa	19,108	16,281	8,712
Caribbean	1609	1105	719
Pacific	442	396	287

Table 5. EDF9 Correlations 2000-2007

	Actual Commitments	Payments	n
Africa	0.83	0.81	47
Caribbean	0.94	0.91	14
Pacific	0.95	0.59	14
ACP Total	0.88	0.86	75

I have also carried out a comprehensive statistical analysis to establish the determinants of EC aid commitments (€m) to the ACP countries over the period 2000-2007. The variables include measures of 'need' (e.g. Human Development Index, GDP per capita, population, % population undernourished), economic situation (e.g. GNP growth, budget balance, import and export dependence, trade balance, ODA) and policy 'performance' (e.g. % GDP expended upon health and education, Gender Development Index, World Bank Country Performance and Resource Allocation Index). I have focused upon commitments rather than payments in view of the considerable lags that can still take place in the disbursement of funds. The following equation emerged as the 'best fit' from this analysis for 46 ACP states for which data was available :-

$$ACP\ Com. = 456.7 - 656.4\ HDI + 43.13\ lnpop + 20.25\ GNP\ growth + 0.00003\ PUn$$

$$(5.04^*) \quad (-4.24^*) \quad (1.91^{**}) \quad (2.87^*) \quad (6.4^*)$$

$$R^2 = 83.4$$

(t statistics in brackets): *significant at 5% level: **signifi-

cant at 10% level.

As would be expected from adoption of the model for aid allocation for EDF9 as reviewed above, the results are extremely powerful; 83% of the aid allocation can be accounted for by this equation. Aid commitments are strongly inversely related to the country's Human Development Index (HDI) in 1998, confirming a strong development focus for aid allocation. They are also related to the country's population, but in a log relationship as specified in the allocation model so as to avoid a bias towards those ACPs with largest populations. I also found a positive relationship to GNP growth over the period 1990-98, suggesting that the EC is rewarding those countries that were showing the greatest potential during the policy formation period. Finally aid allocation is positively related to the size of the population (per thousand) that is regarded as undernourished (PUn).

4.6 The Non-ACP Aid Allocation

By contrast the aid allocation results for the 42 non-ACP countries, funded from the general budget of the EU, are weak. The 'best fit' overall equation for non-ACP commitments for the years 2000-2007 is as follows:-

$$\text{Com} = 1015.7 + 111.7\ln\text{pop} + 9.97\text{GNP grth} - 0.000013\text{PUn} - 17.2\text{Emp} - 0.02 \text{ GDP}$$

$$(2.17) \quad (2.0^*) \quad (0.64) \quad (-0.61) \quad (-2.35^*) \quad (-0.94)$$

$$R^2 = 23.3$$

Only 23% of the variation in aid to the non-ACPs is explained in this equation with only population and employment being significant explanatory variables. These comparative results are consistent with the view that aid funded from the General Budget of the EU and programmed by DG Relex, is subject to a far greater emphasis upon wider political considerations than the more development-orientated aid funded from the EDF. To investigate this further the data were disaggregated by region.

For the South American region of fifteen countries a strong development orientation again emerges, as can be seen in the following equation for aid commitments over the same period 2000-2007 :-

$$\text{Com} = 1313.3 - 1359\text{HDI} + 37.2 \ln\text{pop} + 3.46\text{GNP growth} - 0.000007\text{PUn} - 4.3 \text{ Emp}$$

$$(2.34) \quad (-3.83^*) \quad (1.77) \quad (0.22) \quad (-1.15) \quad (-0.71)$$

$$R^2 = 65.5$$

Almost 65% of the variation in aid allocations is explained by this equation, but with the HDI being the only significant vari-

able. Indeed an equation only employing the HDI explains 49.5% of the variation in Commitments.

To determine the importance of the GDP per capita component of the HDI the following equation was calculated :-

$$\text{Com} = 323.1 + 55.67 \ln\text{pop} + 9.62\text{GNP growth} - 0.00001\text{PUn} - 2.7\text{Emp} - 0.033 \text{ GDP}$$

$$(0.68) \quad (2.0^*) \quad (0.53) \quad (-1.3) \quad (-0.38) \quad (-2.88)$$

$$R^2 = 52.8$$

Only population emerges as the significant explanatory variable.

By contrast the results for the 18 Asian recipients of EC aid for which data is available are far more impressive with an R² of 73.3 % :-

$$\text{Com} = 424.2 - 877.7\text{HDI} + 109.7 \ln\text{pop} - 12.4 \text{ GNP grth} - 0.0000006 \text{ PUn} - 0.07\text{Emp}$$

$$(1.38) \quad (-3.2^*) \quad (3.78^*) \quad (-1.82^*) \quad (-0.78) \quad (-0.02)$$

Commitments are inversely related to the HDI and GNP growth and positively to population size.

4.7 Recent Developments

Dissatisfaction with the plethora of external assistance instruments led to major reforms in 2006 to cover the period of the next Financial Perspective, 2007 – 2013. Six instruments were adopted to replace those supporting policies with a geographic or thematic focus. These six instruments fall under the following headings:-

- Instrument for Pre-accession Assistance (IPA)
- European Neighbourhood and Partnership Instrument (ENPI)
- Instrument for Development Cooperation (DCI)
- Instrument for Co-operation with Industrialised Countries (ICI)
- European Instrument for Democracy and Human Rights (EIDHR)
- Instrument for Nuclear Safety Co-operation (INSC)

In addition three instruments are available to address crisis situations:-

- Instrument for Stability (IfS)
- Humanitarian aid (including food aid)
- Macro financial assistance instruments.

The thematic regulations covering areas such as gender equality and the environment are now covered by thematic programmes within the Development Cooperation Instrument.

However the EDF continues to operate independent-

ly from the EU's external assistance funded from the general budget; 'budgetisation' having been rejected. As we have seen the statistical analysis demonstrated a strong 'development' orientation for ACP aid allocations over the years 2000 – 2007 as reflected in the individual country HDI, as would be expected from the original application of the quantitative allocation model. This model was to provide the basis for the proposed allocation of €22.7 bn. of aid under EDF 10 to cover the period 2008-2013 (DEV D(2006)/2947). The starting point was to be 50% of EDF9 funds extrapolated over 6 years plus 50% of EDF10 funds determined by the population and income criteria. A substantial number of adjustments were then made under three headings – 'needs' (ranging from -29% to + 15%), 'performance' (-30% to +29%) and Medium Term Review (-14% to 33%). The allocations were also constrained to a minimum equal to EDF9 and, for African ACPs, to a maximum of a 50% increase (except if ODA per capita was less than €1.25) or, for Caribbean and Pacific ACPs, to a 20% increase (except ODA per capita <€3.75).

It is also clear that the funds to be allocated under the DCI from the general budget will adopt a similar approach to that developed by the EDF. In 2003 the UK had called for a common country aid resource allocation criteria and in 2004 the EC made its initial recommendations (RELEX D(2004)526240) for adoption from 2007. Starting from an initial regional allocation individual country provision will be determined by three 'needs' and four 'performance' criteria. 'Needs' will be established through reference to population, poverty levels (based upon GNP per capita) and the level of social development (HDI or Millennium Development Goal indicators). 'Performance' will be assessed in terms of aid performance (absorptive capacity as reflected in the previous record of EC commitments and payments); economic performance as reflected in outcomes such as changes in the standard of living and the distribution of income; social performance as measured by changes in MDG indicators, especially with relation to health and education and political performance. The assessment mechanism of Country and Regional Strategy Papers was to be adopted across all countries. However this allocation mechanism will not apply to the IPA and ENPI instruments where other 'political' considerations may be pre-eminent. Thus a clear distinction is emerging between development policy objectives as embodied in the DCI and instruments for the achievement of the EUs other external policy objectives.

With increasing emphasis upon aid coordination and complementarity, country allocations will also be subject to negotiation with other donors. The EC has proposed, amongst other measures, the preparation of 'roadmaps' for each developing country - identifying the potential for further harmonisation - the adoption of a common framework amongst EU donors for their CSP's and the development of joint multi-annual programming (EC 2006). A major step forward in aid coordination in the EU was taken in 2007 with the adoption of a Code of Conduct on

Complementarity and Division of Labour (EC 2007). This addresses the division of labour amongst the Member States (MS) and the EC between developing countries and across sectors within each country. Although voluntary it committed the MS to confining their bilateral programmes to no more than two sectors within a developing country; although additional resources can be made available for budget support and for civil society, education and research. In each priority sector a lead donor was to be selected from amongst those MS with bilateral programmes or the EC. In addition the number of active donors in each sector was to be reduced to a maximum of five, but at least one donor must operate in every sector relevant to poverty eradication. The MS also undertook to increase the geographical focus of their national aid programmes in consultation with the EU, but also to address the problem of 'aid orphans'. Again how far this will influence country and regional allocations, and whether it will do so through negotiations in Brussels or at the country level, remains to be seen. It is more likely to have an impact upon sectoral allocations, negotiated at country level. The general movement towards general budget support is also likely to reduce its impact upon inter-country aid allocations.

5. Conclusion

This paper's analysis confirms that the EC realised its 'development orientation' in the allocation of funds in the period 2000 to 2007 to the ACP states through the application of its allocation model. Although the allocation of aid to non-ACP countries exhibited little 'development orientation' overall, these results were not representative of all the aid allocations programmed by DG RELEX. In the case of the Latin America and Asia groups there was still a strong inverse relationship to their countries HDI.

Despite the complexity of the allocation model that has been, and will be, employed, the UN's HDI predicts much of a country's individual aid allocation, together with population size. Whether such complexity is therefore really necessary, or whether it is employed to achieve specific country outcomes, remains an interesting question. The HDI represents a clear measure of 'need', by contrast the interpretation of the other significant variable, GNP growth, is ambiguous. It was positively signed for the ACP group, suggesting its use as a 'performance' indicator and evidence of the contribution of EC aid to sustained growth. However, for Asia GNP growth was negatively signed, suggesting its use as a 'needs' indicator.

The extension of the aid allocation 'model' to non-ACP aid, and the further modifications of the EDF model, might suggest that future EC country allocations will be more transparent and consistent. But at the same time any allocation may be modified by the increasing emphasis upon the local Delegations CSP assessments under 'deconcentration' and through the moves towards greater donor coordination and harmonisation, both internally under the EU's own commitment to the 'Division of

Labour' and internationally. By contrast the increasing emphasis upon general budget support might reinforce the influence of Brussels-based aid allocation. How these various organisational influences interact, together with the economic, political and security considerations of the EU and its Member States, remains at the core of the debate.

6. Acknowledgment

A considerable contribution to the statistical analysis of this article was made by Susan Evans, Research Fellow, Herefordshire Economic and Social Research Institute.

7. Appendix1

7.1 Regression Source Data

Annual Reports on EC Development Policy and the Implementation of External Assistance, European Commission

Commitments and Payments

- UN Human Development Report 2000 and 2007

Budget Balance (1998)

Education expenditure (% GDP 1995-97)

External Trade Balance (1998)

Exports % GNP (1998)

GDP per capita (1998/2005)

Gender Development Index (2005)

Gini coefficient (1996-2000)

GNP growth (1990-98)

Gross educational enrolment (2004)

Health Expenditure (% GDP 1996-98)

Human Development Index (1998/2005)

Human Poverty Index (1998)

Imports % GDP (1998)

Official Development Assistance (\$m. 1998)

Official Development Assistance per capita (\$ 1998)

Population (1998)

Unemployment (1996-2005)

UN Statistics Division

Population Undernourished (% 2000-2007)

- World Bank 2007

Country Performance Index

International Development Assistance Resource Allocation Index

Gross National Income per capita (2000-2007)

8. Appendix 2

8.1 Country Groupings

- Asia: B7- 30

ASEAN – Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam China,

SAARC - India, Bhutan, Ceylon, Nepal, Bangladesh, Pakistani, Maldives

North Korea

- Latin America B7- 31

Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Paraguay, El Salvador, Uruguay, Venezuela

- Mediterranean B7 – 4

MEDA - Algeria, Palestinian territories, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey (Yemen)

- Balkans B7 - 54

Albania, Bosnia and Herzegovina, Croatia, Macedonia

- Eastern Europe TACIS B7 – 52

Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russia, Tadjikistan, Turkmenistan, Ukraine, Uzbekistan

- Near and Middle East B7 - 42

- South Africa B7 – 32

- ACP

Caribbean – Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guiana, Haiti, Jamaica, St. Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago Pacific – Cook Islands, Fiji, curate by the, Marshall Islands, Micronesia, Nauro, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu West Africa – Benin, Burkina Faso, Cape Verde, Ghana, Guinea, Ivory Coast, Liberia, the Gambia, Guinea-Bissau, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo Central African- Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, Sao Tome Eastern and Southern Africa – Angola, Botswana, Burundi, Comoros, Congo, Congo (DRC), Djibouti, Eritrea, Ethiopian, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

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