

## Financial Perspectives

In this chapter a number of issues will be addressed related to the financial situation of EC development activities.<sup>97</sup> The financial conditions of the aid programmes implemented by the European Commission are determined by two processes. Firstly the budgetary process, which applies to all the programmes within the Community budget. Secondly the financial envelopes within the European Development Fund (EDF) which provide the financial basis for aid under the Lomé Convention.

The resources for programmes implemented by the European Commission come from the EC's own resources as well as from resources made available directly by the member states. This mixture of resources results in a complex relationship between the finances made available for aid from the member states and the European Community. This chapter will study the nature of the financial underpinning of the Community programme as a tool for further in-depth examination of the relationship between the EC and the member states.

EC ODA, excluding the member states, consists of two separate financial resources: the budget lines in the EC budget and the financial envelope in the EDF outside the budget, to finance the implementation of EU-ACP co-operation. The latter is an intergovernmental agreement that is executed by the European Commission. The two parts that make up ODA resources are run by completely different sets of rules.

### 6.1 The budget

The budgetary process is determined on an annual basis. It is determined under a co-decision procedure between the European Council and the European Parliament. The budget is agreed on within a general framework, called the financial perspective, adopted on a multi-annual basis by the Council and Parliament. The general perspective establishes ceilings for the main budget headings, which determines the room for manoeuvrability in the annual budget negotiations.

The previous financial perspective was negotiated for the period 1993-1999. The budget process for the calendar year 1993 demonstrated, not for the first time, great differences of opinion between the European Council and the Parliament. The

Council could not agree on the provision of further funding for the former Soviet Union, Central and Eastern Europe, humanitarian aid and Structural Funds. Following decisions adopted by the Edinburgh Summit in December 1992, a compromise allowed an increase of funding to Latin America, Asia and the Mediterranean countries.<sup>98</sup> Additionally at the Summit in Cannes in 1995 the European Council agreed specific appropriations for financial co-operation with the Mediterranean as well as Central and Eastern Europe for the period 1995-1999. As part of the negotiations on Agenda 2000 a new financial perspective has been agreed on for the period 2000-2006.

The financial perspective is established for a period of seven years, and it only determines the ceilings for headings that are then decided upon in each annual budget. These ceilings determine the maximum allocations that can be agreed in the budget. The resources for the EC budget come from what are known as 'the own resources' of the Community. Originally the Community's budget was based on national contributions. In 1970 it was changed into a system of own resources, made up of custom duties, agricultural levies on imports from outside the EC and a proportion of national receipts from VAT. In 1988 a proportional sum of the member states' Gross National Product (GNP) was added. This is a residual part to complement the budget that is determined.

The key for the member states' contributions is the member states GNP divided by the EC GNP. Germany's share of EC GNP is 25% while the combined GNP of Germany, France, the UK and Italy is 75% of total EC GNP (see annex 3). Each year the call-down rate is determined as a percentage of GNP, the ceiling of which is set as 1.27% of GNP. Ten percent of the member states' own contributions are kept as collection costs in the member states and these are only used when appropriations are exhausted. The budget authority is with the European Council and the European Parliament, and, therefore, member states cannot earmark their contribution: the contributions are non-specific. In principle, therefore, it is not possible to determine the allocations of member states to specific budget lines or headings.

If the allocations and/or payments are less than the appropriations, the amounts that have not been spent cannot be carried over to a subsequent year by the EC. The annual nature of the budget is a key rule, and determines that appropriations that have not been used are returned to, or remain in, the member states, who are free to use them according to their own priorities.

The actual commitments and payments can differ quite considerably from the budgeted commitment or payment appropriations, and are naturally always lower since the budget provides a ceiling for the commitments and disbursements in a particular year.

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**Box 2 – European financial management rests upon the following aspects:**

*Financial perspective (adopted by the Council with approval of the Parliament):*

This is an agreement for a certain number of years between the European institutions on ceilings concerning the main headings in the budget. The financial perspective is normally agreed on in a summit of the Council and is to a large extent the result of political negotiations in which the member states play a dominant role.

*Annual budget (adopted by the Council in co-decision with the European Parliament and the European Commission):*

- Commitment appropriations  
These set out the maximum allocations that the Commission can make in a specific year for a particular budget line.
- Payment appropriations  
These provide the ceiling of payments that are allowed in the budget for the same year.  
Commitment appropriations and payment appropriations do not have to be the same amount, as in year X more contracts can be signed, while in a following year Y the payments of these contracts are budgeted.

*Implementation by the Commission:*

- Actual commitments  
These are the resources covering the contracts that have been signed.
  - Actual payments  
These are the payments that have been made.
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## 6.2 The EDF

The EDF represents approximately one third of the total EC ODA resources equivalent to around half of the actual disbursements. The EDF operates separately and differently from the budget, most importantly because the principle of annuality does not apply to the fund. The five-year fund is a total amount of resources designated for the implementation of a particular Convention, no matter how long it takes. Most EDFs take about 12-13 years to be fully implemented. The resources for the EDF consist of contributions from the member states. The implementation of the fund is also managed by the European Commission. It follows the same budgetary categories as the ordinary budget: commitment appropriations, payment

appropriations, actual commitments and payments. Since each EDF is agreed upon as part of a particular Convention, its use has to be in conformity with the Lomé Convention to which it relates. This means that one has parallel operations relating to the implementation of several EDFs with different rules at any one time.

The EDF for the Lomé Convention is determined every five years. Unlike the budget, where contributions can not be assigned to particular programmes, the EDF depends entirely on voluntary contributions. These are made outside the financial perspective. During the negotiations for the current 8th EDF, the UK reduced its share from 16 to 12%, officially because it did not agree with the compromise on the 1992-1999 financial perspective. The outcome on the 8th EDF was disappointing, prompting Commission President Jacques Santer to comment publicly and bitterly that:

“What has been achieved is the realisation of the seventh EDF with the 15, which is the equivalent of what we used to do before with 12 [member states, MVR].”<sup>99</sup>

The following table shows the proportional contribution of each member state to the EDF. While on average a quarter has been contributed by Germany, and France, the UK's contribution is much less, despite its GNP being relatively close to that of Germany and France.

TABLE II *Comparison of EU member states' contributions to the 7th & 8th EDF in percentages*<sup>100</sup>

	EDF 6	EDF 7	EDF 8
Germany	26.06	25.96	23.36
Belgium	3.96	3.96	3.92
Denmark	2.08	2.07	2.14
Spain	6.66	5.90	5.84
France	23.59	24.37	24.30
Greece	1.24	1.27	1.25
Ireland	0.55	0.55	0.62
Italy	12.58	12.96	12.54
Luxembourg	0.19	0.19	0.29
Netherlands	5.64	5.57	5.22
Portugal	0.88	0.88	0.97
UK	16.58	16.37	12.69
Austria	-	-	2.65
Finland	-	-	1.48
Sweden	-	-	2.73

The successor to the Lomé IV Convention will be negotiated by February 2000, which is, therefore, also the deadline for negotiations on the EDF. The EDF is a financial envelope designed for the implementation of the Convention – even if it is not allocated within the five years for which it is designated. While the fourth Lomé Convention is expiring, previous EDFs will still be implemented because the funds are not exhausted. Meanwhile a new EDF or a similar financial envelope to accompany any successor treaty needs to be negotiated.

The negotiations in the run up to the year 2000 are, therefore, extremely important to determining the financial scope of EC development co-operation in the next century. In the following sections some key specific financial features relating to the budget and the EDF will be discussed and arguments will be developed as to how EC co-operation can be oriented towards a more consistent approach to the eradication of poverty.

#### *6.2.1 Rolling over of EDF 8*

Lomé III (and previous Lomé Conventions) was based on the principle that EDF allocations were destined to ACP countries or regions as agreed; if funding was not used, or funds were suspended, the allocations could not be transferred to other destinations. However in Lomé IV and IV *bis* these rules were relaxed. The largest change was made in the Mid-term Review (Lomé IV *bis*) in 1995. This Mid-term Review stipulated that funding for national programmes would be approved in two tranches. The second tranche would only be approved if the implementation of the national programme during the first tranche had been successful. The second 30% tranche for these programmes is therefore not earmarked in the same way as used to be the case in previous Conventions. This provides a possibility of transferring funding from the 8th EDF to following EDFs, which means that the actual contributions of the member states could be further decreased.

The European Commission has also proposed to change the nature of the EDF into a 'rolling programming' that will be based on greater overall budgetary support to the ACP countries, greater flexibility and adaptation of programming and more intensive monitoring. It is proposed that funding will be dispensed differently to guarantee continuity in the budget support. Every two years new tranches would be released, on the basis of the implementation of five-year programmes. Funds that have not yet been spent can be 'rolled over' into the new tranche. It would mean that the resources of different EDFs would be managed within one single budgetary process. This provides, in principle, continuity and reliability, but whether this will be successful in practice will depend entirely on the conditions for releasing the tranches, and the logistical capacity and competence in supervising the progress of the programmes both in the EU and in the ACP countries.

### 6.3 Financial trends

The rules of the budget and those of the EDF differ, particularly with regards to the time frame of the resource allocations. While the budget has an annual framework, the cycle of the EDF takes between five to thirteen years, and this causes severe fluctuations in allocations and payments in any one-year. However, over a longer period some trends can be seen, as is shown in the following table.

TABLE 12 *Commitment Appropriations by Geographic Area, including ACP (1992-1998) in million ECU*<sup>101</sup>

	ALA	MED	CEEC/NIS	South Africa	Other <sup>102</sup>	ACP
1992	566	412	1 465	-	1 302	2 062
1993	634	399	1 514	90	1 468	1 631
1994	524	436	1 466	102	1 835	2 480
1995	808	491	1 678	123	1 895	1 520
1996	670	654	1 855	129	2 197	965
1997	655	1 078	1 774	123	1 811	616
1998	657	1 101	1 729	145	1 919	2219

The table shows that the increase in the aid programme has predominantly been achieved by the increase in programmes to Eastern Europe and the Mediterranean countries. The table shows that commitments to the Mediterranean doubled between 1992 and 1997, while commitments under the ALA programme showed only a slight increase. The highest proportion of commitments was made to the CEEC and NIS, together taking 42% of the largest regionally allocated resources in 1997 and 29% in 1998.<sup>103</sup> However, the real commitments are not necessarily matched with real payments. In the period 1992 to 1998 the real payments under the Med programme were constantly at least less than half the real commitments. So the real spending to the mediterranean is much less than one would expect based on the budget or the real commitments.

The table also shows the large fluctuations in EDF, due to the cycle of five-year planning for EDF funding. Commitment appropriations to the ACP decreased in 1996/1997 to about one third of commitments in 1992. According to the European Commission, these fluctuations were caused by the slow ratification of Lomé IV *bis* by the member states. The eighth EDF, therefore, only entered into force on 1 June 1998, even though it covers the period 1995-2000. However, at the end of 1997, 6 billion ECU still needed to be drawn down from the member states for payments under the seventh EDF. From the sixth and seventh EDF 4.5 billion ECU still remained to be

disbursed, while an additional balance of 1.6 billion ECU was unallocated and available for re-use. The Commission believes that no funds will be drawn under EDF8 from the member states before 2002, seven years after it was agreed upon.

While the EDF is a fixed fund available for the implementation of a specific Lomé Convention, it is important to note that the financial resources remain in the member states until they are needed. The EDF payments are only drawn down from the member states in the years that payments are made.

The contributions of the member states are divided according to a certain formula. Each year an estimate is made predicting how much the Commission will need to disburse for the EDF for that year. Four times a year the member states are requested to pay their share of the contribution to the EDF.

The slow spending rate of the EDF has a number of consequences. The EDF is normally only pictured in terms of the amount agreed on for five years. Clearly, as the actual disbursements are much slower, and much smaller amounts of resources are annually contributed from the member states than suggested on the basis of the agreement, the actual size is an illusion.

#### 6.4 Under-utilisation

There is a prevalent argument that EC aid has increased rapidly and that this growth has been at the expense of member states' programmes. Indeed, the financial perspective 1993-1999 indicated an increase in the heading for external action from 4 billion to almost 7 billion ECU. The table below shows increases in commitment appropriations for EC aid. However, the actual spending in these years has not increased.

The conclusions from table 13 are striking. Firstly, the utilisation of the EDF is relatively positive, compared to the utilisation of EC budget lines. Secondly, the highest under-utilisation took place in 1996, with an unspent total of almost 4.6 billion ECU. This is partly the result of programming for National Indicative Programmes (NIPs) which took place in 1996 (and, naturally, spending is low during the planning phase) and is also explained by the slow ratification of Lomé IV *bis* by the member states. Finally, assuming that the trends of the first half of the nineties continue, total unspent ODA in the period 1993 to 1999 would be 25 billion ECU.

Even though the appropriations to the EC budget and to the EDF are allocated from the member states budgets for development co-operation, in most countries they do not return to the Development Aid Ministries. This is particularly the case for the under spending in the budget, because the contributions to the EC budget are non-specified contributions, managed by the Ministries of Finance which can

reallocate the unspent funds. This means that under spending of the budget diminishes the payments from the EC and the member states (see Annex 7). The European Commission has recognised this problem.<sup>104</sup>

TABLE 13 *Financial perspective until 1999 of external action (EC budget) and estimates of appropriations for the European Development Fund (in million ECU)*<sup>105</sup>

Year	1993	1994	1995	1996	1997	1998	1999
Revised financial perspectives for external action in budget lines	4 120	4 311	4 895	5 264	5 622	6 201	6 703
Actual disbursements, budget lines and projections (96-99)	2 118	2 182	2 352	2 632	2 811	3 101	3 351
Difference between commitment appropriations and actual disbursements	2 002	2 129	2 543	2 632	2 811	3 101	3 351
Official EDF allocation (7 and 8) for the respective periods	2 300	2 300	2 300	2 900	2 900	2 900	2 900
Annual contribution to the EDF, actual until 1997, forecasted until 1999	1 610	1 800	1 650	950	1 560	2 150	2 150
Difference between official EDF allocations and annual contributions	690	500	650	1 950	1 340	750	750
<b>Total unspent ODA</b>	<b>2 692</b>	<b>2 629</b>	<b>3 193</b>	<b>4 582</b>	<b>4 151</b>	<b>3 851</b>	<b>3 101 25 199</b>

#### 6.4.1 Under-utilisation in the EDF

The member states allocate their contributions in their annual development budgets. Since the predictions of member states' contributions by the Commission are constantly higher than the actual calls, the allocations made by the member states for these contributions are continually not used, or under-used. Given the annual nature of most of the member states budgets the resources allocated in the budget that are not used in any one year do not remain available as additional allocations in the following year's budget. In most member states these resources disappear in to the Treasury. The result is that every year resources allocated for the EDF are not spent for development aid and disappear. In other words, the commitments to the financial protocols of the EDF represent paper transactions. This is illustrated in annex 9 with the balance on 31st of December 1998 of the remaining in EDF 7 (1990-1994) in each Member State.

If the money pledged were actually transferred to an interest bearing account locked for the use of the ACP countries, not only would the money allocated reach the countries for which the funding is designated, but the interest accruing could then be used according to some properly supervised mutually agreed mechanisms, such as emergency aid, assistance to refugees, and debt relief. Moreover, the EDF should be limited to a defined period, provided that the resources were fully disbursed within that period.

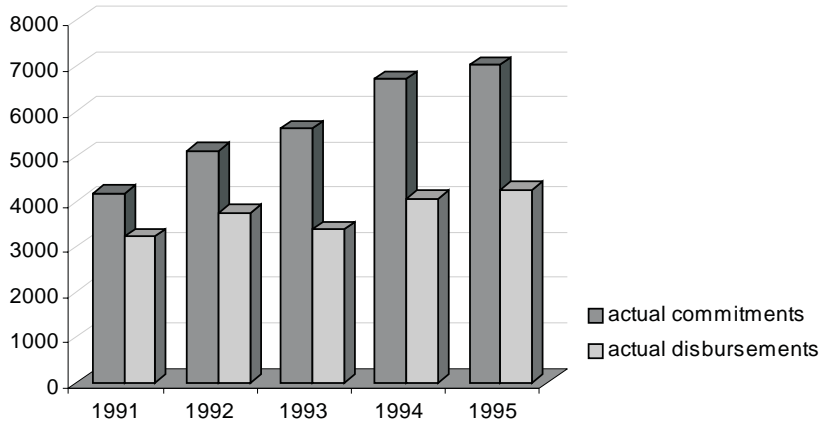
#### *6.4.2 Under-utilisation in the budget*

By definition, the rate of actual commitments and payments are less than the appropriations authorised by the budget – because actual commitments and payments can never be higher than the appropriations. Moreover, for external action as a whole, the expenditure is normally spread over several years. For any given commitment, some 25% is paid in the same year, 25% in the next year, 15% in the following year, etc. This means that, as long as commitment appropriations are growing over a period, the amount of commitments will always be higher than payment needs. The higher the rate of growth of commitments, the larger the gap will be. This should clearly be taken into account in the current period where the budgeted commitment appropriations grew rapidly. It can, therefore, be expected that the actual disbursements will be much less than actual commitments.<sup>106</sup> Graphs 8, 9 and 10 support this argument.

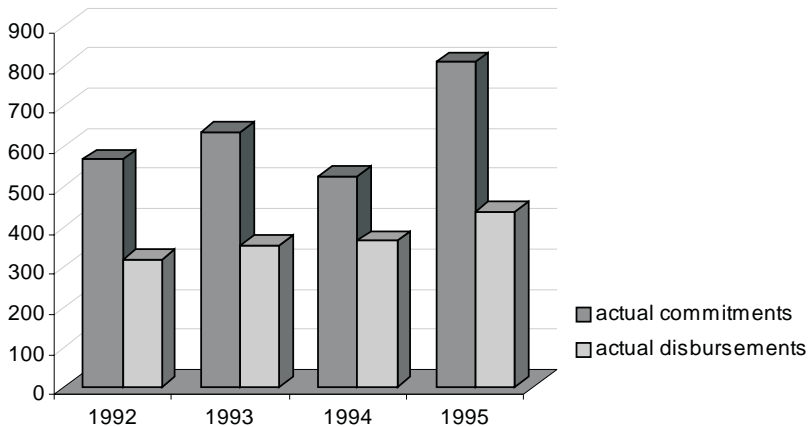
The total commitment appropriations for budget lines on external actions was ECU 5012 million in 1995, the actual commitments were ECU 3677 million and the actual disbursements only ECU 2352. The tables show that, over a large number of years, the actual payments only total some one third of commitments. The implementation rate of payment appropriations decreased to 80% in 1995 and 84% in 1996, creating a gap of 786 million ECU and 745 million ECU respectively. Moreover, from 1997 onwards the appropriations in the budget have decreased vis-à-vis the ceiling set by the financial perspective.

These are all indications of the illusory growth of the financial resources for external actions made available to and by the EC (see table 14). They show that increasingly large percentages of unspent payments return to the member states. These payments will eventually be made, as the commitments have been made. However, every year resources from the EC budgeted for development co-operation return to the Ministries of Finance of the member states and do not re-enter the development budgets. This decreases the annual ODA spending of the member states.

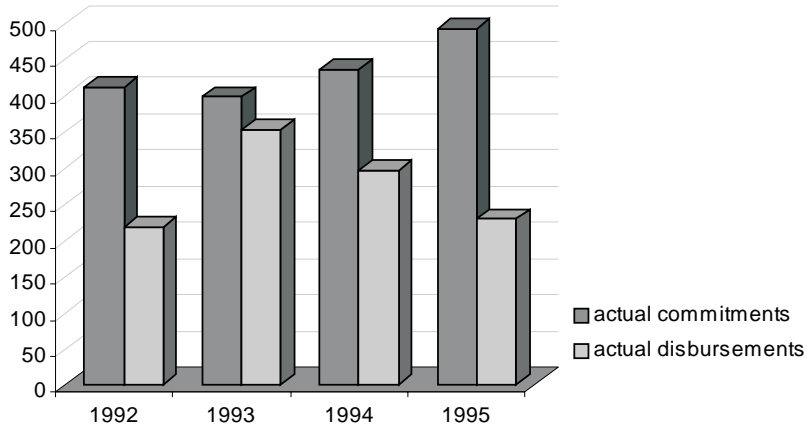
GRAPH 8 *Financial profiles from 1991 to 1995 in million ECU, for EC budget, EDF and European Investment Bank (EIB) – ODA and Other Public Sector Contributions in million ECU*<sup>107</sup>



GRAPH 9 *Financial profiles from 1992 to 1995 for Cooperation with Asian and Latin American Countries in million ECU*<sup>108</sup>



GRAPH 10 *Financial profiles from 1992 to 1995 for cooperation with countries of the Mediterranean basin (MED) in million ECU<sup>109</sup>*



TABEL I4 *General Budget: Expenditure under the title of external actions in million ECU, current prices (except 1999, prices 1998)*

	Ceilings financial perspectives (CA)		Budget (CA)		Implemen- tation (CA)	Budget Implemen- (PA)	Implemen- tation (PA)
		Reserve		Reserve	Total	Total	Total
1993	4 120	209	4 115	209	4 276	2 998	2 580
1994	4 311	212	4 297	212	4 483	3 399	3 061
1995	4 895	323	4 873	323	5 061	4 198	3 412
1996	5 264	326	5 261	326	5 524	4 618	3 873
1997	5 622	329	5 601	329	5 551	4 827	4 676
1998	6 201	338	5 624	338	5 542	4 886	4 515
1999	6 703	338	-	-	-	-	-

CA: Commitment Appropriations

PA: Payment Appropriations

Implementation: effective utilisation

The above shows that it is very important that the Community budget is closely related to the implementation capacity of the Commission. Particularly in 1995 and 1996 the implementation of payments was much lower than the provision in the budget. In its proposals to the budgetary authority (the Council and the Parliament) for each annual budget the Commission takes the following elements into consideration:

- the amount of resources laid down in regulations for certain budget lines agreed by the Council;
- the possibilities for effective implementation in view of past results and the absorption capacity of the recipients;
- an assessment of payments required to fulfil commitments.<sup>110</sup>

The Commission clearly acknowledges that budget decisions need to be translated into the availability of human and administrative resources to implement the budget.<sup>111</sup>

#### *6.4.3 The illusory growth of the EC development programme*

Contrary to what is often suggested, the growth of the EC development programme in terms of actual spending has not increased dramatically over the last decades. The bilateral programmes have remained more or less the same size as a proportion of the overall national development co-operation budget over the last ten years. With little fluctuation in the ratios between the programmes, differences are large between the different member states, highlighting important differences in priorities among member states (see annex 8). Even though the differences in ratios between the proportions of the bilateral and European Community components of the aid overall budget are considerable among various member states, the overall pattern for each member state seems to have hardly changed over time.

Table 15 shows that Denmark, Sweden, and to some extent, the Netherlands and France have a relatively low contribution to the European Community programme as a proportion of their bilateral programmes. Interestingly, these countries are among the top four in the EU in terms of their ODA as a percentage of GNP. Italy, on the contrary, slashed its bilateral programme in the 1990s. It contributed \$614 to the aid programme of the CEC, while its bilateral programme was only \$454. The UK also makes a large contribution to the EC taken as a proportion of its bilateral programme. This began in the eighties when its bilateral programme was gradually decreased. Germany's share to the EC has also increased as a proportion of the bilateral programme as this was cut quite dramatically in 1997.

TABLE 15 *Percentage of member states' EC contributions\* vis-à-vis the proportion of the bilateral share of the member state's budget*

	1983/4	Average 91-94	1997
Austria			31
Belgium	28	37	43
Denmark	12	11	9
Finland			24
France	14	14	18
Germany	21	28	36
Greece**			
Ireland	100	83	33
Italy	35	30	135
Luxembourg		33	21
Netherlands	12	15	12
Portugal		25	37
Spain		36	42
Sweden			8
United Kingdom	35	43	36
Total EU MS	20	24	27

\* EDF and budget to external aid (ODA) based on OECD figures.

\*\* The figures available to the author concerning Greece were not sufficiently detailed to include them in the calculation. Greece is therefore not included in the total of EU MS.

Note: 1983/4 is not calculated by the averages. Figures do not yet include Austria, Finland and Sweden which entered the Union in 1995.

## 6.5 Budgetisation of the EDF

The unresolved problem of the lack of control of the European Parliament over the EDF has a long history. In 1973 the Parliament agreed that the EDF should be incorporated into the European Community budget.<sup>112</sup> Following this request, the Commission proposed some form of budgetisation, which was rejected by the Council. Since then the Commission has included the EDF in its pre-budget proposals, and since 1977 the European Parliament has also included the EDF in the annual budget. By doing so, it can maintain an overview of all the external actions of the Community, although it still does not have any control over the EDF. Budgetisation, as proposed, would imply that the contributions from the member states to the EDF would have to be replaced by own resources of the Community.<sup>113</sup>

For the member states the present arrangement with the EDF outside the budget authority of the European Parliament is advantageous, since this gives them much greater control over both EDF funding levels and EDF allocations. In the Maastricht Treaty (Final Act) it was agreed that the EDF would continue to be financed by national contributions in accordance with existing provisions.<sup>114</sup>

#### *6.5.1 Integrating the EDF within the financial perspective and the budget*

While the Maastricht Treaty provided a legal base for EC development policy, it can be concluded that the consistency of the programme has been greatly undermined in the years since 1992, due to various decisions of a budgetary and managerial nature. The European Community is now charged with implementing a development policy that has combating poverty as its objective. This needs to be reflected in the way in which external aid is distributed to third countries, with a clear bias towards the poorest and most vulnerable countries among them.

Forty-one out of fifty LDCs are members of the ACP Group, with the remaining nine LDCs falling within the programme for Asia and Latin America. The financial envelopes of the EDF supporting the Lomé Conventions provide the largest share of financial means available for the implementation of EC development policy towards the poorest and most vulnerable countries. The EDF should, therefore, be integrated as part of the financial perspective and the annual budget considerations as a logical step to implementing a comprehensive aid programme in accordance with the Maastricht Treaty objectives.

## **6.6 Financial Perspective 2000-2006**

The financial perspective 2000-2006 is based on the assumption that enlargement will not require a change in the EC's own resources ceiling of 1.27 % of GNP between the years 2000 and 2006.<sup>115</sup>

Table 16 shows that the heading for agriculture continues to absorb half of the EU budget and is not decreasing. The heading on external actions has decreased by one third compared to the previous perspective. This is because pre-accession aid has been moved to a separate heading 7. This includes the PHARE programme.

The negotiations on the financial perspective were linked to the differences between contributions of member states to the EC budget and their net returns. While some countries are net payers, others are net receivers. The principal issue is that between the largest countries, Germany, France and UK, the differences in net payments are considerable, with Germany as a very large net contributor. In 1995, Germany was a net contributor of 12 billion ECU while France was a net contribu-

tor of only 0.6 billion ECU. The UK was a net payer of 3.8 billion ECU and Italy a mere 200 million ECU. Resolving this inequality requires changes in the CAP that will be hard to negotiate. The negotiation on ways to diminish differences between net contributions and net receipts is central to the negotiation on CAP reforms which allows more returns to certain countries depending on the set of measures that are agreed. Likewise to the use and size of the structural and the social funds, which give subsidies to poorer countries and regions in the EU.

TABLE I6 *Financial Perspective 2000-2006, Appropriations for commitments, 1999 prices, in billion Euro*<sup>116</sup>

	2000	2001	2002	2003	2004	2005	2006
1. agriculture	41.0	43.0	44.0	44.0	43.0	42.0	42.0
2. structural operations	32.0	32.0	31.0	31.0	30.0	30.0	30.0
3. internal policies	5.9	6.0	6.0	6.0	6.0	6.0	6.0
4. external action	4.5	4.6	4.6	4.6	4.6	4.6	4.6
5. administration	4.5	4.6	4.7	4.8	4.9	5.0	5.1
7. pre-accession aid	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Total appropriations for commitments	92.0	93.0	93.8	93.0	91.5	90.8	90.3
Ceiling on appropriations for payments	89.6	91.0	98.3	101.5	100.6	101.3	103.5

### 6.6.1 *Monitoring EC ODA output*

In 1990 the international community emphasised the importance of Least Developed Countries (LDCs) as primary recipients of development aid. A UN Programme of Action for LDCs was adopted, including a target that 0.15% of GNP should be provided as ODA to LDCs. All the EU member states agreed to implement the Programme of Action. This programme also set out that donor countries already providing more than 0.20 per cent of their GNP as ODA to LDCs should continue to do so and indeed to increase their efforts.

In 1993 the Development Assistance Committee (DAC) of the OECD distinguished between developing countries (category I) and other aid recipient countries (category II). All donors, including the European Community, agreed that the international target to provide 0.7% of GNP as ODA would apply to the category of developing countries only, whereas assistance to other countries grouped in category II would be provided for by additional budgets. These additional

resources were called Official Assistance (OA).<sup>117</sup> As the financial perspective 1993-1999 was already agreed, it did not make the distinction between the two categories of aid recipients. However, the implementation of the new financial perspective should recognise the different categories of aid recipients and make the distinction between allocations for DAC I and DAC II countries (see annex II).

As the EU is not a sovereign state, but an intergovernmental body, the implementation in the European Union of the target to provide 0.7% of GNP is monitored at the level of member states, who are all individual members of the DAC. The 0.7% target does not apply directly to the CEC programme, which is regarded rather as one of the channels for ODA from member states, alongside bilateral aid and contributions to other multilateral bodies. Hence, member states' contributions to the EC feature as multilateral contributions in ODA financial analyses.

In order to ensure the adequate monitoring of the contributions by the member states to DAC category I and II countries, and to observe whether the member states achieve the 0.7% objective, a division should be provided for in the financial perspective and in the EC budget. This will ensure that the real contribution of EU member states to the developing countries through the EC programme can be monitored more adequately than is currently the case. To ensure that a poverty focus in the EC development programme is enhanced, the budget should also distinguish between LDCs and other developing countries. The heading on external action in the financial perspectives should provide the basic framework for this.

TABLE 17 *Categorisation of financial envelopes*

<i>Financial envelopes</i>	<i>DAC Category I countries</i>		<i>DAC category II countries</i>
	<i>LDCs</i>	<i>non LDCs</i>	
EDF			
ALA			
MEDA			
PHARE			
TACIS			
ECHO			
Budget lines			
Other			

### *6.6.2 Financial issues related to humanitarian assistance*

Within the budget and the EDF clear distinction needs to be made between development co-operation and humanitarian assistance since they operate according to different principles and relate to different situations. At present the budget for hu-

humanitarian assistance and emergency draws on a large number of budget lines designated for specific regions. This makes the budget unnecessarily complex and lacking in transparency, particularly since criteria for humanitarian assistance should not include geographical ones. Moreover food aid and rehabilitation aid to refugees are humanitarian activities should be brought into one framework with humanitarian assistance. There is a need for the budget and the EDF to clearly identify separately funding for humanitarian assistance which is not related to a further geographical designation but is allocated on a crisis-by-crisis basis. Some flexibility should be built in to ensure that humanitarian assistance could properly be linked to rehabilitation and development.

#### THE HUMANITARIAN AID RESERVE

When the European office for humanitarian assistance was created in 1992 a large reserve for humanitarian aid was created in the budget. This reserve has been used every year and has essentially been used as part of the general budget. The budget authority has allowed this, and by so doing, implicitly agreed that the humanitarian aid reserve is needed on a structural basis for humanitarian aid. In the interests of efficiency and transparency, it would be an improvement if the reserve were integrated into the general budget allocated to humanitarian aid. This should be reflected in the general perspective. A reserve should be established for exceptional circumstances, but this should be excluded from the annual budgeting process of ECHO and should not be used on a structural basis.

## 6.7 Conclusions

Competition over resources for the EC budget and the EDF does not contribute to establishing a coherent EC development approach directed towards the eradication of poverty. The ACP countries include 41 out of 50 LDCs. The EDF should be included in the financial perspective and annual budget negotiations in order to ensure a coherent poverty focused development approach. This would increase transparency and democratic accountability, and it would be in accordance with the intention and the objectives of the Maastricht Treaty. Integrating the EDF into the financial perspective and the annual budget negotiations will diminish competition over resources between the EDF and the EC budget.

In the last seven years finances for the LDCs have gradually decreased, mainly because of a lack of capacity in the Commission to implement increased programmes to Eastern Europe and the Mediterranean countries without increases in staff. Meanwhile, the capacity of DG8 dealing with the LDCs has diminished dra-

matically. This has resulted in increased under-allocation and under-spending. Because of the enormous imbalance between appropriations and actual payments, the often-proclaimed growth of the EC aid programme is illusory. This also means that, in reality, the EC programme has not grown as a proportion of member states' bilateral programmes.

The illusory growth of the EC programme leads also to large under-spending in the EU as a whole. Resources for the EC budget and the EDF are allocated in member states' annual budgets. When the Commission does not draw on them, they return to the Ministries of Finance, which as we have seen, can allocate them to purposes other than development co-operation. In this way approximately € 3 billion annually leaves the EU budget for development co-operation and never reaches developing countries, – a figure which is a staggering 50% of total CEC aid. This constitutes approximately 10% of ODA from the EU as a whole.

Spending under the next EDF (or its successor arrangement) should be limited to a defined period of time to avoid unnecessary delays in spending. The money pledged should be transferred to an interest bearing account locked for the use of the ACP countries, and the interest accruing should be used according to some properly supervised, mutually agreed mechanisms, such as emergency aid, assistance to refugees, and debt relief.

The humanitarian aid reserve should be incorporated as part of the general budget since it has in reality been treated as such in previous years. Budget lines related to humanitarian assistance, such as food aid, rehabilitation and refugees should be brought into the framework of humanitarian assistance. As the principles of development co-operation and humanitarian assistance are clearly different, the Lomé Convention should make a clear distinction between the two and allocate adequate resources to each.

Accountability and transparency of EC aid should be increased by harmonising the budget in accordance with standards set by the DAC. This will ensure that member states can be properly monitored for their progress in achieving agreed targets of allocating 0.7% of GNP to ODA and 0.15% to LDCs.