

# EC Funding Sources for the Application of the Strategic Approach

## Chapter 14

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This part of the Guidelines describes the EC financing structures for development co-operation, and the various funding instruments through which support can be obtained for water-related activity.





# EC Funding Sources for the Application of the Strategic Approach

## The EC and Development Co-operation


The European Commission operates its programme of development co-operation alongside those of EU member countries and with their support. Co-operation is provided in the form of direct grants based on partnership agreements with recipient countries. EC co-operation has evolved over the 30 years since the Treaty of Rome embodied the principle of co-operation through partnership with Sub-Saharan African, Caribbean and Pacific (ACP) countries. The Treaty also established the European Development Fund (*see below*). The EC is presently the fifth largest DAC donor.

The EC's grouping of recipient countries does not match those established by other international bodies or used by other donors or the OECD; their basis is purely historical, depending on links created by EU members with specific countries in the pre-independence past. The 70 ACP states do not form a geographically contiguous group and are all members of other geographically based regional organisations.

Within the EC, responsibility for managing development co-operation is divided between three regionally defined Directorates-General (DGIA covering Eastern Europe and the former USSR; DGIB covering the Southern Mediterranean, Middle and Near East, Latin America and South and South-east Asia; and DGVIII covering the ACP states). Their mandates also cover foreign relations and trade which gives them a wider remit than other donor agencies. All the Directorates-General are organised slightly differently, and as already noted their regional coverage is unusual. Co-operation, which takes the form of grants, is provided through a wide range of funding instruments (*see below*) and extends beyond project assistance to cover 'programmable aid' which includes structural adjustment, risk capital, commodities support (Stabex and Sysmin)<sup>1</sup>, emergency aid and food aid.

There has been a general lack of public awareness of the value of EC assistance. As an innovative model of North-South co-operation, the Lomé Convention (*see below*) is little understood outside the European donor community. Because of the complexity and fragmentation of the

1 Stabex provides compensation for losses of export earnings from non-metal commodities and Sysmin for mining.



programme, the influence of the EC in development issues may not have been as strong as that of other donors, even though its level of funding is relatively high. This chapter aims to provide an explanation of the EC approach to development co-operation and gives examples of the financial support available.

### **The Lomé Convention**


EC development co-operation started in 1958 with a five-year programme, followed in 1964 by the first Yaounde Convention between the EC and 18 associated states in Africa. A second Yaounde Convention was agreed in 1970, followed in 1975 by the first Lomé Convention which considerably extended EC assistance to cover the ACP countries. The Lomé Convention is an international aid and trade agreement between the ACP group and the EU, designed to support the development efforts of the 70 ACP states. Four such Conventions have been signed to date, at five-year intervals: Lomé I was signed in 1975, Lomé II in 1979, Lomé III in 1985, and Lomé IV in 1990.

The current Convention, Lomé IV, covers the ten-year period 1990-2000 and is the most extensive development co-operation agreement in existence, both in terms of scope (aid and trade), and in the number of signatories. ACP co-operation, according to the Convention, is to be based on partnership, equality, solidarity and mutual interest. The Convention also recognises the principle of sovereignty and the right of each ACP state to define its own development strategies and policies, as well as its situation regarding the respect and promotion of human, social, political and economic rights.

Debate has now opened on future EU-ACP relations for the 21st century as the present Lomé Convention terminates in 2000. The conclusion of the GATT Uruguay Round and the creation of the World Trade Organisation have opened up world trade, making it necessary to review the preferential trade agreements negotiated under Lomé. Other international developments, notably the end of the Cold War and subsequent geo-political shifts have had a profound effect on all international activities including development co-operation. The long-term implications of these upheavals are still not fully assimilated or even understood, but they will have a bearing on the negotiations for any new Lomé Convention. This will ultimately rebound on programme and project funding, in the field of water resources management as in others.

The EU has grown since Lomé IV was signed; three new countries with established commitments to developing countries have joined (Austria, Finland and Sweden). Further countries may join in the next few years; monetary union will also have an as yet unknown impact. Under the Maastricht Treaty, the EC and Member States are required to increase the co-ordination and complementarity of their respective aid programmes.

Priorities for the new programme are set out in the EC Communication to the Council and European Parliament (October 1997), which identifies three priority areas for support: growth, competitiveness and employment; social policies and cultural co-operation; and regional integration. In all areas of co-operation there are three principles to be applied: strengthening institutional support and helping build local



capacities; adopting a gender-sensitive approach; and integrating the principles of conserving natural resources and protecting the environment. These Guidelines have included all these aspects as related to water resources.

### **Development co-operation with other regions**

Although the ACP group is by far the largest recipient of EC co-operation, the EC also provides assistance to Asia, Latin America, the Mediterranean and Middle East (including parts of Southern Europe) and the Central and Eastern Europe and the Newly Independent States of the former Soviet Union (CEES/NIS).


In the 1990s EC co-operation with the southern Mediterranean countries and the Middle East increased significantly. A new regional Mediterranean Policy was adopted and the level of co-operation increased from ECU 1.8 bn (1986-90) to ECU 4.1 bn (1991-95, just over 12% of the total for this period). Co-operation in municipal water and wastewater treatment is important in this region.

The EC provided no development co-operation to Asia and Latin America (ALA) until the late 1970s. The European Council Regulation of 1981, revised and strengthened in 1992, is the official basis for budgetary allocations to ALA. Development co-operation with ALA is thus relatively recent. The level of commitments has grown from ECU 2.4bn (1986-90) to ECU 4.4 billion (1991-95, just over 13% of the total for this period). This is modest for the size of the region and amounts to only one third of resources allocated to the ACP countries. The main focus of water-related development activity in Asia has been irrigated agriculture and flood control. In Latin America, water-related activity includes water supply and sanitation, wastewater treatment, and irrigation. Framework Agreements are negotiated on an annual basis with ALA countries and these form the basis for action.

In the late 1980s, as the Cold War came to an end, the EC became a major donor to the Central and Eastern Europe and the Newly Independent States of the former Soviet Union (CEES/NIS) through the PHARE and TACIS programmes respectively and several budget lines. This region is of significant strategic importance to Europe and the volume of co-operation grew rapidly to ECU 9.7 billion during 1991-95 (29% of the total EC co-operation in that period). The EC contribution together with bilateral assistance from member countries accounts for 70% of all co-operation in this region.

### **The EC Financing Framework for Development Co-operation**

These Guidelines apply in particular to EC development co-operation as administered by Directorates-General IB and VIII but most aspects are also relevant to DGIA and other EU institutions such as the European Investment Bank. The funding mechanisms relevant to programmes and projects can be divided into three categories: European Development



Fund (EDF) grants administered by the Commission; Budget Lines; and EDF subsidised loans through the European Investment Bank. The box provides a breakdown of EC development co-operation according to funding instrument and region for the period 1991–1995.

### **European Development Fund**

The European Development Fund is the principal EC funding instrument for the 70 ACP states, many of which are among the poorest in the world. The EDF has been in operation for 40 years and is a unique partnership between the EU member states and the ACP countries and a major mechanism of North-South co-operation. The Lomé Convention forms its basis.

Finance for the EDF is provided directly by the EU member countries and not from the EC Budget. The EDF is mainly administered by DGVIII with a small sum allocated to the EIB (*see below*). The Fund is replenished every five years following EU-ACP negotiations. In 1995, agreement was reached on EDF8 with a slight increase in the total contribution from EU member countries from ECU12,000 million (1991–95) to ECU 14,625 million (1996–2000). The EDF accounts for approximately 41% of the total EC development co-operation budget. Half of this is for project assistance; the remainder covers programme co-operation as shown in the box opposite.

EDF resources are committed to meeting priority needs relating to human development including food security, infrastructure development and industrial development. The fourth Lomé Convention refers to water in several Articles (14, 44 and 54 to 57)<sup>2</sup> although there is no specific water policy. Water management and the use of water for human and economic needs is relevant to most priority areas outlined in the Convention.

The level and utilisation of allocations to each recipient country is based on individual agreements called National Indicative Programmes (NIP) between the EC and the country concerned. In the present NIPs, water-related investments are considered important to a majority of ACP states. A significant portion of the EDF funds, 9% of EDF8, are allocated to regional co-operation and this is given special coverage in Title XII of the Lomé Convention; support is given to recipient countries in this context under Regional Indicative Programmes (RIP). Natural resources management through regional co-operation is specifically mentioned and this is particularly pertinent for transboundary river problems.

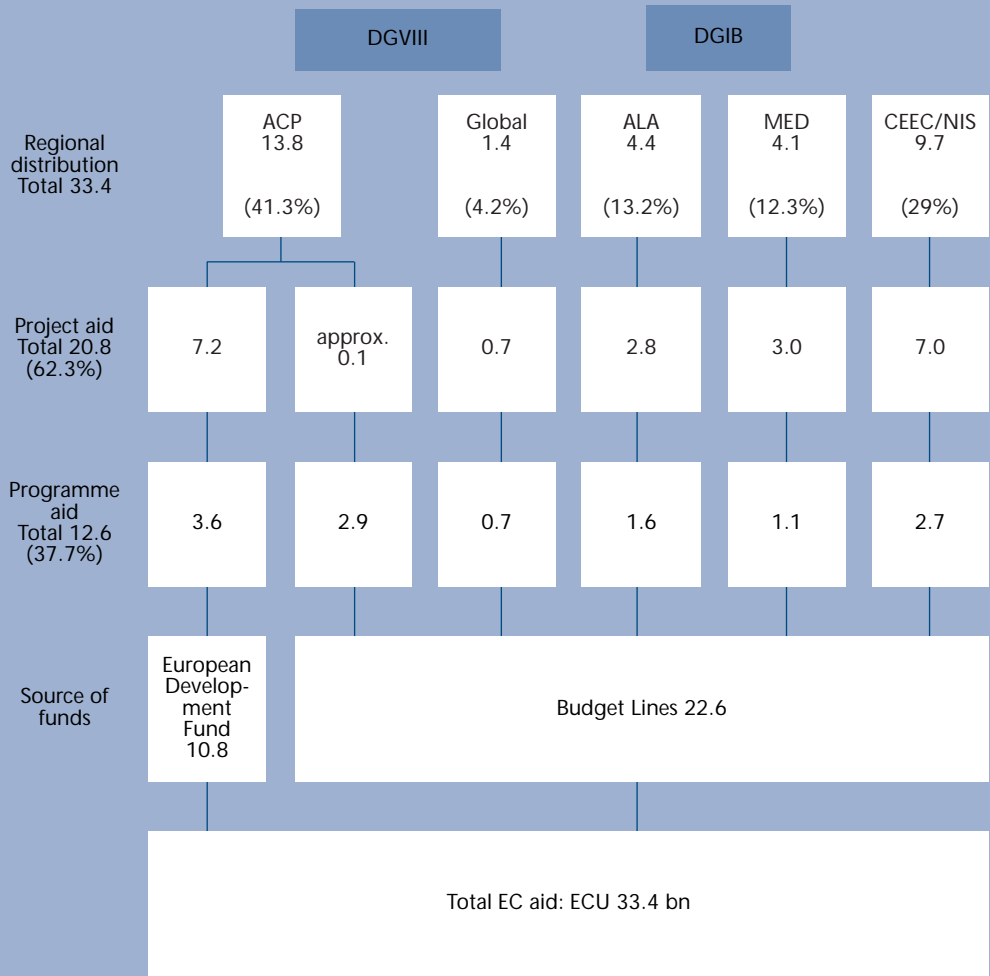
### **Budget Lines**

These are allocations of funds written into the EU budget targeted at specific types of activities or locations and covered by a legal framework such as a Council Regulation, a decision of the European Council, General Conditions or Community budget allocations. Each budget line is allocated a sum for disbursement, in the form of grants over a specific time frame. There are no Budget Lines specific to water resources but several

2 Lomé Convention Art. 14: objectives and guidelines of the Convention in the main areas of co-operation, Art. 44, agricultural co-operation and food security, Art. 54–57, drought and desertification control. *ACP-EU Courier*, No 155, January-February 1996.




Diagrammatic summary of EC aid (period 1991–95 inclusive)



- 1 All figures are in ECU billion and rounded.
- 2 EIB, which also manage funds from the EDF are excluded from this summary.
- 3 Project aid: mainly grants for projects under NIP and RIP
- 4 Programme aid includes: Structural adjustment (inc. Stabex and Sysmin for ACP region), food aid, support to NGOs, humanitarian aid, risk capital.

Source: ODI Inventory of EC aid, 1996

In the light of the importance of BWSS projects, a 'Global evaluation of rural water supply projects in West Africa' was carried out in 1996–97. It examined in particular the role of different actors in water points management and financing aspects. Recommendations from this study have been taken into account in the preparation of the Guidelines.



budget lines provide funding for water. These Guidelines provide a strategic basis for support to water resources within the budget lines.

All DGIB funding is through budget lines; there is no equivalent to the EDF for non-ACP countries. There have been many budget lines for the Mediterranean region. The most important are B7-4051 for the Maghreb and Mashreq countries and B7-4080 for horizontal co-operation between non-state actors and the EU. The latter provides a mechanism, under the new Mediterranean policy to provide support to local authorities and water agencies other than central government. For example, the MED-URB programme covers support for co-operation between local authorities in the EU and Mediterranean countries to improve urban management including water-related issues. The two most important budget lines for the ALA region are B7-300 (Financial and Technical Assistance to Developing Countries of Asia – previously B7-3000), and B7-310 (Financial & Technical Assistance to Developing Countries of Latin America – previously B7-3010).

DGVIII also provides funds via budget lines. One of these is B7-6000 which is designed for the provision of grants to NGOs working at the community level to build up community capacities for managing and financing their own development schemes. The EC partnership with NGOs is reviewed below.


Another budget line – which also indicates the importance attached in DGVIII to the need to reach out into grassroots communities and improve participatory frameworks – is budget line B7-5077: Decentralised Co-operation with Developing Countries. Although the level of funding for this budget line is modest, it is innovative and has interesting potential in relation to the international consensus related to water, given its stress on user participation in service delivery. For this reason it is described more fully below.

Another budget line pertinent to water resources is B7-6200 whose designated purpose is for environmental activity in developing countries. This budget line is jointly managed by DGIB and DGVIII and is used to promote policy development and the implementation of pilot projects. The funds available are relatively small as the activities it supports are intended to complement or help facilitate projects funded under the much larger EDF or other budget lines.

Apart from DGIA, DGIB and DGVIII, other Directorates-General have budget lines that include funding for water-related activities. The most important is DGXII (Science Research and Development) where a proportion of the funds is allocated for collaborative research between European and developing country researchers. There are budget lines in other Directorates-General such as DGXI (Environment) and DGIII (Industry) that have direct relevance to water but not necessarily to development co-operation.

#### *Decentralised Co-operation*

Decentralised Co-operation (DC) is a funding instrument designed to enable the EC to contribute to the development process outside the conventional development co-operation frameworks. DC emerged in the 1980s as a result of several interconnected phenomena. Increased



enthusiasm for democracy and human rights had brought fresh insights into the role of civil society and its representatives in the development process. More attention was therefore being paid to the role of non-governmental and community groups as organised expressions of civil society, and to their potential role in participatory development designed to achieve lasting social and economic benefits among low-income groups. At the same time, ways were being sought to reduce the role of formal state institutions in the management of services and increase the emphasis on good governance and subsidiarity.


In DC activities, the central government facilitates but does not have a direct involvement in the programme or project. DC funds are channelled directly to NGOs and organisations outside the formal governmental apparatus, and to local public authorities. However, DC cannot work effectively unless central government is fully committed and supportive. Local government institutions, co-operatives, NGOs, companies and business interests, both in the North and South, which are capable of contributing to the social and economic growth of developing countries can all be involved.

There are four strategic principles on which DC should be based:

- A wide range of players should be included in the development activities in such a way that they participate in the decision making and management process at each stage of the activity;
- A programmatic approach should be adopted aiming at implementing a coherent set of complementary actions;
- A support process should be established for capacity building and control of local development initiatives by decentralised actors;
- A redefinition of the roles is needed of the different actors to permit the transition in the role of the state towards the facilitation of a process and an enabling environment.

DC is therefore primarily designed to enhance the role of civil society in the development process. It also enables resources to be spent in such a way as to help popular institutions in partner countries become more autonomous. The use of DC aims to achieve the following: (1) Ensure collaboration at different levels of the various economic and social players and agents; (2) Encourage the active participation of direct beneficiaries in decision-making and at all stages of programmes which concern them; (3) Foster equitable and sustainable social and economic development through participation; (4) Involve a wide range of both Northern and Southern NGOs in co-operation programmes and thus spread the impact of EU activities; and (5) Incorporate the local dimension in development activity, with increasing attention to decentralisation and regionalisation. The EC has had considerable success with this innovative funding source but it is important that unrealistic demands are not be placed upon the agents, and that DC itself not be regarded as a panacea.

DC uses flexible forms of administrative and financial management. It is thus adaptable to the existing capacities of partner organisations and their financial or technical limitations. At its core is a strong commitment




to participation, not as a peripheral activity whereby communities contribute to programmes in the form of free labour or one-off levies, but as a built-in programme design and management feature. Full participation, which the partner group or agent is expected to engender, applies to the whole 'project cycle' from the initial idea through identification, planning, preparation, implementation and evaluation. The quality and degree of participation at each level will determine how 'decentralised' the management of the project actually is in practice.

The formal concept of DC was first introduced in articles 20 to 22 of the fourth Lomé Convention. These articles concern the objectives and principles of co-operation, the objectives and orientations of the Convention in the main co-operation fields, the agents of co-operation and their eligibility for funding. Likewise, DC is included in Council Regulation 443/92 relative to economic co-operation with Asia and Latin America. A specific DC budget line has been introduced, and a special unit established within the EC to provide a clear incentive for DC and to draw in local authorities, universities and NGOs. The budget is small; it supports micro-projects and preparatory projects to strengthen appropriate organisations in developing countries and in Europe, and to create North-South and South-South partnerships and networks.

DC is applicable in all EC's target regions for development co-operation. Regional and country differences mean that there are different DC priorities and emphases in different settings, reflecting the level of development, the range and effectiveness of existing social and economic structures, the relative importance of the public and private sector, and their social and political systems. DC can be applied in numerous situations, either as a component of a larger programme, as support to nascent local authorities to reinforce capability and promote local governance or simply as a mode of implementation of targeted actions such as basic water supply and sanitation services.

In the preparation phase of a DC activity, the central issue is not the actions to be undertaken but the identity of the agents involved, their roles and their responsibilities. Identifying the key institutions (institution mapping) is therefore very important. Partnership should not be limited to recognised organisations, which means that partner organisations will be at varying levels of competence, experience, capacity and structuring. Care is needed to ensure adequate technical support is available, as often the enthusiasm of local agents is not matched by professionalism, leading to inappropriate or poorly designed technical solutions.

DC relies less on regulations and specific procedures and more on a process which entails dialogue, consultation with and participation of the agents. Because of the variety of partnership organisations and their own varying capacities and agendas, DC requires flexibility and cannot be applied within a rigid formula. For this reason, a rigid application of PCM procedures is difficult to achieve in DC. An approach is needed which



allows for readjustments during the different phases of the cycle and more delegation of power to the operator during implementation.

An EC manual on Decentralised Co-operation is presently under preparation.

#### *Review of EC partnerships with NGOs*


Apart from the specific interventions under the Decentralised Co-operation budget lines, the EC attach importance to their work with NGOs. Co-operation with development NGOs started in 1976 and applies to the co-financing of development actions in developing countries and to public awareness actions in Europe. The corresponding Budget Line (B7-6000) has increased from ECU 2.5m in 1976 to ECU 200m in 1997, excluding NGO activities in food and humanitarian aid and special programmes.

NGO activities are particularly important in the provision of basic water supply and sanitation services (BWSS). Between 1990 and 1997, the EC funded 655 BWSS projects in 42 ACP countries through NGOs. In West Africa, NGO projects represent about 40% of the total EC investment in BWSS projects. A wide diversity of NGO projects are supported either directly for infrastructure or equipment (wells, boreholes, water supply networks and sanitation facilities) or for other activities such as education, health or awareness raising.

As NGOs tend to work at the grassroots level with the local populations, their involvement in water-related projects have many advantages over projects carried out without NGO involvement. In particular, participation by the local population in infrastructure construction is increased, resulting in more motivation for equipment maintenance and sustainability. An NGO can also create a more stable environment leading to further projects and continuity in development and monitoring.

NGOs often rely on beneficiaries and local community organisations for execution of work. This participatory form of development must be well managed and selection of the NGO is important; they should have adequate experience in BWSS and be apolitical. Traditionally NGO activities result from user demand; their projects may remain unrecognised in formal planning procedures and there may be little or no co-ordination with government or with other local projects. It is therefore necessary to ensure that policy conflict does not occur; for example official efforts to encourage beneficiaries to pay for their water supply may be in vain if an NGO provides services without payment requirements (or vice versa).

Experience has shown that a partnership between NGOs, local authorities and technical experts provides the best platform for providing services of adequate technical quality, safe water of adequate quantity and infrastructure that is appropriate and sustainable. In particular, NGOs have proven their ability to obtain local acceptance of paying for water



services, both for maintenance and the eventual replacement of equipment. In West Africa, this has come about as a result of insuring that there is a high return from the collected funds. Experience has also shown that capacity building takes time, and a long-term commitment to training beyond the project cycle period often proves necessary.

An assessment of the NGO capacity before and after the financing stage is needed to ensure adequate human, financial and technical means to undertake projects. Knowledge of the growing difficulty of water management in rural areas is more important than the volume of finance or the number of employees. As part of an evaluation of rural water supply and sanitation projects in West Africa, the importance of NGO co-financed BWSS projects was highlighted. A specific evaluation of NGO co-financed projects has therefore been undertaken.

**Further References:** *EU-ACP Co-operation in 1995*. EC, 1995. *EC-ACP Lomé Convention* ACP-EU Courier, No. 155, January-February 1996. *Challenges and options for a new partnership. Green Paper on relations between the European Union and the ACP Countries on the eve of the 21st century*. EC, 1997. *Guidelines for the negotiation of new co-operation agreements with the African, Caribbean and Pacific (ACP) countries*, Communication to the Council and European Parliament, 1997. *Evaluation Globale des Projets d'Hydraulique Villageoise en Afrique de l'Ouest*, Hydro R&D, 1997.