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## Allocating the next European Development Fund for ACP countries

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# The Current Column

*of 5 December 2013*

# Allocating the next European Development Fund for ACP countries

Bonn, 5 December 2013. The European Development Fund (EDF) is the key instrument for the implementation of the European Agenda for Change vis-à-vis Africa, the Caribbean and the Pacific (ACP). The Agenda sets inclusive and sustainable growth as well as democracy, good governance and the rule of law as the main goals of EU's development policy in order to achieve the long term objective of eradicating poverty.

Given the current general trend of reduced aid budgets, there is a pressing need to increase both the efficiency and effectiveness of development assistance. This means, respectively, getting more and better results per unit of aid. With this in mind and like any bilateral donor, the European Union (EU) has to decide on the allocation of aid to individual countries, yet this is more difficult in the case of the Commission and its 28 member states. As can be expected, this process is plagued with difficulties as each stakeholder argues in favour of its own criteria for allocation and country-specific interests.

By late 2013 and shortly before the official start of the 11<sup>th</sup> EDF, the country allocation for the now 15 billion € for 2014-2020 has not yet been agreed among the European Commission and the member states! After a long wait, member states were recently provided with an allocation formula produced by the Commission which sets the ground for a quantitative cross-country distribution. Results of the formula as applied to the different ACP countries covered by the EDF are then subjected to a qualitative adjustment. This qualification can be of around 10% of the formula-allocated funds or even 25% in special cases, an earmarking that can be used to reward performance or reform orientation.

It was expected that the formula for the cross-country allocation of this EDF would establish a transparent, general methodology to allocate aid based on commonly agreed indicators as opposed to an ad hoc negotiation every time an allocation is due. The idea behind this is that the actual allocation of development funds for the ACP Group increasingly respond to the needs and performance of each country.

## Needs- or Performance-based?

Whether to use needs or performance as a basic criterion in practice, however, remains contentious among member states. Should one invest more where there is more need regardless of the country's performance, therefore including support for countries that have done little developmental efforts? Or should one primarily reward those that made important strides toward developmental and governance goals, punishing countries that did not manage to achieve more even if they tried?

Ideally, a combination of both approaches would work best. In practice, however, it is very difficult to assess performance. When it comes to social indicators, poor outcomes may not always be the result of poor government performance but often enough of conflict – internal or external –, poor agricultural output or market fluctuations, natural disasters, and a very long etcetera of circumstances more or less beyond the government's control. And if we are looking at a way to reward or penalise the government, the focus should be on governance performance. Unfortunately, governance indicators do not really allow for a proper quantitative assessment in this area. At least not in a comparable, sufficiently sensitive manner across countries and over time that would allow for a very precise allocation. Additionally, one may end up making some governments pay for the sins of others given that performance indicators often have a lag or rely on impacts of pre-existing causes. That is why performance criteria may be strengthened but not overly relied on.

## The European Commission's formula

The European Commission has circulated its allocation formula among members in late 2013. And although it contains indicators that cover the main dimensions that member states wanted to see included as criteria, these are bundled together in a way that gives hardly any chance for modification.

But as it turns out, the Commission's proposed allocation formula is a surprising one. It does not have weights for the different indicators, it does

not allow for easy modifications and it presents exponentially different sensitivity for lower and higher scores. This is so because the variables it includes are all multiplied by each other in a geometric model. The inexistence of weights makes it difficult to discuss and indeed change the relative importance of the indicators within the formula.

Beyond this, equal changes in an indicator at the lower or higher end of its range may produce very differing results in the quantitative allocation. This practically renders the formula quite unpredictable for its application to other setups like the Development Cooperation Instrument with 47 other developing countries or a potential 12<sup>th</sup> EDF, an aspiration some member states have expressed.

#### **An alternative formula?**

In order to overcome the shortcomings mentioned above, it would appear as a much better solution to use an allocation formula that is linear instead of geometric and applied to each country income group's predetermined share. That is, a formula where the considered indicators are added to each other and a weighted sum is produced. This new formula would: i) not pose the problems of exponentially higher sensitivity to higher indicators scores; and ii) allow for an easy identification of the contributions of each indicators or weights in a meaningful way; and iii) once cali-

brated at will, be a good basis for negotiation for similar or future allocations (DCI, potential 12<sup>th</sup> EDF or its replacement, etc.).

Results with this new formula do not seem to differ greatly from those of the Commission this time around, but it may do so if it is to be used for future allocations. In addition, results from a couple of dozen models based on this formula trying to better account for performance show that such considerations should better be incorporated through the qualitative adjustment. This is because any change in the formula induces unpredictable outcomes in terms of particular countries' allocations.

In the end, there always remains, necessarily, a large degree of arbitrariness in whatever model one chooses: e.g. capping the population at 40 million; using its square root and not a different power like some international organizations do, or the logarithm; imposing the relative weights for the contribution of each indicator; choosing the formula itself, etcetera. Ideally, one chooses a model than can be subjected to easy calibration through a process of deliberation and political negotiation so that the final formula can then be applied over time and across different allocations. And such a formula should be a linear one along the lines of the proposal herein.



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