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**The Bumpy Road from Rhetoric to Reality - the EC on the  
Slippery Slope.**

**Does the Governance Incentive Tranche Strengthen or  
Weaken Aid Effectiveness under the Umbrella of the Paris  
Declaration?**

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## Abstract

During the last decade, development cooperation has placed the “good governance” agenda at the heart of its concerns. A large body of literature suggests that governance is one of the key variables that explains development success or failure. Although the validity of these studies and the soundness of the governance databases have become hot topics of debate, donors remain swept away by governance as a valid interest. The promotion of governance is seen as intimately linked and intertwined with the question of aid effectiveness and the latter’s translation into the Paris Declaration.

The European Union has been very keen to embrace the governance and the aid effectiveness agendas. One very concrete instrument launched by the EC is the “governance initiative” for ACP countries. Under this scheme, € 2.7 billion of the 10th European Development Fund (2008-2013) is reserved to ‘reward’ partner countries if they formulate action plans for governance reforms. During the course of 2007 the implementation of this instrument has been set in motion and the first disbursements are foreseen for the near future.

One would expect this instrument to integrate the insights of the aid effectiveness debate and the concerns of the Paris Declaration. A thorough desk study and interviews with stakeholders however reveal some major tensions and pitfalls at the level of the design as well as the process of implementation of the governance incentive tranche. More specifically, the paper assesses to which extent the modalities of the incentive tranche live up to aid effectiveness norms such as selectivity and the Paris Declaration principles of ownership, harmonisation, alignment, managing for results and mutual accountability. The study gives a detailed analysis of both design and implementation problems, while highlighting some possible avenues for tackling the weaknesses. In this way it aims to provide EU Member States with suggestions on strategies to positively influence the effectiveness of the Governance Tranche.

- First draft, please do not quote without permission –

## **1. Introduction: the new aid approach**

In the August 2006 Communication “Governance in the European Consensus on Development” the European Commission (EC) unveiled its new governance tool for ACP countries. This governance initiative offers supplementary funding (the incentive tranche) to states who credibly commit themselves to satisfactory governance reforms. The instrument is part of the 10<sup>th</sup> European Development Fund (EDF), which finances the EC’s development cooperation with the ACP community from 2008 to 2013. About one twelfth of the EDF budget is set aside for the governance initiative, which means that around € 2.7 billion will be allocated as a “governance incentive” to countries who schedule governance reforms.<sup>1</sup>

The EC is keen to highlight the “boldness” of this approach with regard to two aspects. Firstly, the *amount* that is being allocated with the specific goal of fostering governance<sup>2</sup> in ACP countries is fairly large. Secondly, the *process* prior to allocating the tranches is regarded as quite innovative because its main objective is to “incentivise” governance reforms.

The design and introduction of such a new instrument merits attention. Over the past decade donors have come to realise that their way of delivering aid has generated certain adverse outcomes in developing countries. Donor-driven, fragmented, parallel project approaches, conditionalities, and imposed structural adjustment programmes have produced a myriad of negative effects in recipient countries such as huge transaction costs, weakened state capacity and decreasing levels of local ownership (Van de Walle 2005, Moss et al. 2006, Bräutigam 2000, Knack 2000). All this has contributed to the ineffectiveness of aid. It is now understood that not *all* aid is *always* beneficial *everywhere*. Aid has to live up to certain criteria if it is expected to strengthen partner country’s government systems and spur their economic growth.

At several high level meetings donors and aid recipients have resolved to jointly tackle the aid effectiveness issue.<sup>3</sup> The Paris Declaration (PD), the widely endorsed outcome of the most recent conference and the centrepiece of the aid effectiveness strategy, engages all involved parties to live up to five monitorable aid effectiveness criteria: ownership, harmonisation, alignment, results-orientedness and mutual accountability. In the light of the discussion of the aid effectiveness level of the EC incentive tranche, it is useful to elaborate on the specific content of these principles.

- Ownership: partner countries commit themselves to development goals and strategies and aim to take the leadership in coordination of aid flows and activities
- Alignment: recipients’ policies and country systems form the basis of donor support
- Harmonisation: donors divide labour, share information, establish common procedures and simplify reporting
- Managing for results: aid management and implementation is rooted in a results-oriented approach driven by information-sharing and indicators
- Mutual accountability: both donors and recipients are responsible for the transparent use of resources for development; both partners assess their progress on the implementation of the Paris Declaration.

Twelve indicators are used to measure progress on these criteria and targets are set for 2010. Advancement in the implementation of the Paris Declaration will be reviewed at the

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<sup>1</sup> The whole EDF amounts to €22.6 billion (European Commission 2006a).

<sup>2</sup> The EC does not like to refer to “good” or “bad” governance as these terms evoke an overly normative content.

<sup>3</sup> High Level Forum on Harmonisation in Rome (2003), the Marrakech roundtable on Managing for Development Results (2004) and the Paris High Level Forum on Aid Effectiveness (2005).

Third High Level Forum which will take place in Ghana in September 2008. Donors<sup>4</sup> have enthusiastically endorsed the new principles and have committed themselves to reform their aid accordingly. The EC has profiled itself as one of the more vocal actors on this issue.

The EC actually played an important part during the consultations leading up to the Paris Declaration (OECD/DAC 2007a) and even self-imposed more ambitious goals on four of the indicators agreed at the High Level Forum.<sup>5</sup> By firmly committing itself to fully implementing the Paris Declaration the EC has put a rethinking of its aid structures and modalities on the agenda. This vow to reform has been formalised in a series of policy papers which constitute the EC's "aid effectiveness package" and most specifically in an action plan that forms a concrete application of the adherence to the Paris Declaration principles (EC 2006b).<sup>6</sup>

The contemporary paradigm in the development community thus stresses that aid effectiveness needs to be urgently and drastically heightened and that the PD is a useful tool to guide and monitor this reform. However, in spite of widespread donor acceptance of the necessity of aid reform and despite the legitimacy of the PD criteria, the real implementation of these promises has been rather meagre (Booth 2008, Easterly & Pfitze 2008, Jain 2007). Recent EC policy documents also point to the gap between what donors are promising and what they are actually putting into effect (EC 2008a, EC 2008b). The ECGIT, we argue, does not escape this trap. It even falls short in incorporating the Paris principles in its set-up. This brings us to the question why donors, although formally endorsing promises and good intentions, fail to deliver and instead get stuck implementing what they know to be suboptimal development policies?

In the next part we take a closer look at the design of the ECGIT. Afterwards some weak points of the ECGIT in the light of the aid effectiveness criteria are singled out. Then we try to offer some explanations, mainly relating to intra-donor political and institutional incentives, as to why the ECGIT does not represent an application of the principles the Commission and the European donors so enthusiastically proclaim. These findings are based on a desk study of European policy documents and interviews with Commission officials and some bilateral donors.

## **2. The set-up of the EC Governance Incentive Tranche (ECGIT)**

The implementation process of the ECGIT is initiated by the EC's drawing up of the partner country's governance profile. The profile is divided into nine sections<sup>7</sup> of which the first six ones correspond to the governance indicators developed by the World Bank. For these first parts the World Bank indicators for the period 1996-2004 are used as benchmarks to evaluate the governance trend. The local EC delegation<sup>8</sup> then produces its own assessment for the period 2005-2006 for all nine sections. All governance profiles are checked on their comparability in head quarters in Brussels, after which they are sent back to the EC field missions, where the weaknesses identified in the assessments are prioritized.

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<sup>4</sup> With the exception of the US and Japan, who command large aid budgets but have not been so eager to commit themselves to the approach.

<sup>5</sup> These additional pledges are: ensure all technical cooperation is delivered through coordinated programmes and increasingly in cooperation with other donors, direct half of its aid through country systems and increasingly do this through using budget support and SWAP's, preclude the installation of new EC Project Implementation Units and halve the number of un-coordinated donor missions (General Secretariat of the Council of the EU 2006)

<sup>6</sup> These documents can be consulted at the following location:

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2006-0382+0+DOC+XML+V0//EN>.

<sup>7</sup> Political/democratic governance, political governance/rule of law, control of corruption, government effectiveness, economic governance, internal and external security, social governance, international and regional context and quality of partnership (European Commission Interservice Quality Support Group 2006).

<sup>8</sup> With local EC delegation we mean the field delegation in the ACP country itself.

After the governance profile has been fully assessed and the most significant weaknesses have been singled out by the EC, the dialogue with the partner country begins. The EC delegation encourages the government to propose reforms that adequately tackle the identified governance concerns. If the government accepts to do this, it is expected to put forward an action plan that lists all planned measures, which preferably derive from other reform plans (e.g. the PRSP). These action plans are then sent to Brussels for assessment on three criteria:

- relevance: matching of the weaknesses recognized in the governance profile by pertinent reforms
- ambition: level to which weaknesses are dealt with, refers to political will
- credibility: result-oriented indicators and realistic timelines guide the reform plan, refers to capacity for carrying out the action plan. Previous performance and latest governance trends can possibly also be taken into account for this criterion.

Although the evaluation is meant to be qualitative, comparability demands that each criterion is given a score (basic =  $\leq 1$ , intermediate =  $>1$  to 1.49, high = 1.5 to 2.49, very high = 2.5 to 3) which leads to the differentiation of four tranches:

- initial level (10 %): basic or intermediate score on all three criteria
- second level (20 %): one or two criteria given a basic or intermediate assessment, at least one high score
- third level (25 %): high or very high score on all three criteria
- fourth level (30%): all criteria assessed as very high

An additional 5 % is added for countries that have concluded the APRM review process. The six Portuguese-speaking African countries that agreed to supplementary commitments in the cooperation with the EC in the domain of governance also receive up to 5 % extra. Furthermore, the special situation of fragile states is taken into account during the assessment as a corrective factor, although according to several sources they also receive a 5% bonus.

After this evaluation and the mutual comparison of the action plans by the EC geographical desks they are sent back to field where they are discussed by the EC and Member State delegations. Ultimately the assessments are attached to the Country Strategy Papers which must be approved by the EDF committee.<sup>9</sup> The tranche is allocated and disbursed as a “top-up” to the initial country allocations and adds to the funding for the interventions identified in the National Indicative Programmes. These interventions can be oriented towards any sector, including governance. The funds allocated through the ECGIT are however not specifically reserved for governance interventions.

The exact methodology for monitoring the implementation of the action plans nor the precise way it will affect the country allocations have been decided. It was merely established in the Communication that actual implementation of commitments would be assessed on the ground and taken into account for the mid-term and end-of-term reviews, and that allocations can be enlarged annually in the case of exceptional accomplishments. In all probability follow-up on governance commitments will become one of the performance criteria of the 10<sup>th</sup> EDF (alongside sectoral, financial and macro-economic performance) and this factor will affect the general country allocation, not only the tranche itself.

As of February 2008, ECGIT allocations for most countries have been decided. Only 17 partner countries have not been assigned a tranche level: for nine countries the assessment

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<sup>9</sup> These Country and Region Strategy Papers are the end-results of the EDF programming process. They lay out the foundations of the cooperation between the partner countries and the EC. The EDF is funded directly by the Member States and is not a part of the EC budget. All decisions about the use of the EDF fund must go through the EDF committee, comprised of representatives from the Member States (EC 2008c). The EDF committee decides with weighted voting on the CSPs.

process is ongoing, one country has decided not to put forward an action plan and for the remaining seven countries the programming process has been delayed.<sup>10</sup>

### **3. Evaluation of the ECGIT: old-style conditionality dressed up in new aid rhetoric<sup>11</sup>**

The EC is adamant about presenting the tranche as an “incentive”, a “dialogue” based approach and therefore an aid allocation method significantly distinct from other, more traditional, conditionality-based ways<sup>12</sup> of distributing resources. As such the ECGIT is portrayed as an original and unprecedented approach, a “risky” strategy as the EC likes to put it, with the objective to encourage governance reform in developing countries.

If one is extremely optimistic (and gullible) the Commission’s reasoning does indeed represent a heart-warming story: better governance benefits everyone, so all governments will surely draw up an ambitious, yet feasible action plan and enthusiastically implement it. The outcomes of this process are improved governance, speedy development and equally satisfied donors and recipients. If this dream-like fantasy is true to reality, then the tricky question that arises is: why is this financial “incentive” even needed?

The answer to this question lies in the reason why aid agencies exist: they mediate between the preferences of the donor and those of the recipient which are only seldom (if ever) fully convergent. If donors and recipients would fully agree on everything then there would be no need for dialogue or negotiation, hence a blank check would suffice (Martens 2005: 644). Aid money is thus used to bargain and persuade governments to take actions in line with donor intentions, and the use of conditions linked to carrots and sticks is to be understood from that perspective. Stokke (1995) distinguishes ex-post conditionality (the actions are to be accomplished before the aid is delivered) from ex-ante conditionality (aid delivery is granted based on recipient promises for future actions), and truth be told, the ECGIT fits the description of the carrot-like-ex-ante style of conditionality suspiciously well. To analyse the way the EC is applying conditionality through the ECGIT, we must dig a bit deeper into its implementation.

The action plan which recipients are expected to draw up, takes shape through a “dialogue [that] is intended to encourage the government to commit itself to taking the measures necessary to remedy the weaknesses identified” (EC 2006a: 169). Dependent on if and to what extent the government accepts the EC’s advice (cf. the assessment criteria relevance and ambition), it receives access to a higher or lower tranche. The picture is quite clear: the EC asks countries to propose reforms. If these reforms fit the priority issues identified in the governance assessment made by the EC, it will get more aid than if it does not. So although most donors, just like the EC, like to stay far away from conditionality concepts, while embracing the ideas of “dialogue”, “partnership” and “ownership” in discourse this does not necessarily imply that the actual processes on the ground respond to these lofty principles. With regard to the ECGIT, while recipients often do not take issue with the analysis made in the governance profile, practice shows that they do react less meekly when the EC presents them with its priority dimensions for reform, or even its proposal of specific measures (as does seem to happen sometimes). “Partners often accept the diagnosis, but are less happy about the medicine” is how one of our interviewees put it. This often less than enthusiastic reaction by recipients illustrates that not every country would have placed the governance reforms now present in their action plans on the agenda, were it not for the EC’s requests on

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<sup>10</sup> Situation as presented at the Workshop on Governance in the 10th EDF for ACP countries, Brussels, 15-02-2008. These countries are Eritrea, Fiji, Nigeria, Sudan, Zimbabwe, Ivory Coast and Somalia. The Bahamas chose not to submit an action plan.

<sup>11</sup> For some critiques voiced by civil society on the set-up of the ECGIT, see AfriMAP 2007, BOND 2006, Ceuppens 2006, CIDSE 2006 and Stocker 2007.

<sup>12</sup> It became clear during the interviews that the Commission does not want the ECGIT to be even remotely associated with the word “conditionality”.

these matters. This pressure to underwrite donors' wishes is especially high for low income and aid dependent countries.

In short, although the EC is adamant about not using the word conditionality, in fact the ECGIT's substantive content is based on ex-ante conditionality. Unfortunately, this traditional way of imposing conditions does not work very well. After countless disappointing experiences with unfulfilled conditions, policy turnarounds and ineffective aid, donors have come to accept that reform and political will cannot be bought. Why has traditional conditionality been so unsuccessful?

### ***Recipients' lack of incentives to reform***

Lack of ownership on the recipient side is one important cause of incompliance with conditions. If a government is induced to apply externally requested measures, which are not in touch with a local reform drive, commitment to implement will be low (Collier 1997 et al.; Stokke 1995). Diverging interests between donor and recipient is a typical principal-agent problem (Killick 1997).<sup>13</sup> When donors try to impose ex-ante conditionality, the recipient's (agent) incentive to comply is very low, as he has already gained the benefits without having had to make any costs.

Among the ACP community, commitment to governance reforms surely differs widely. In several countries an endogenous process of political reform has been set in motion and some countries' governance action plans probably reflect already internally planned reforms. For these countries the tranche might function less as a conditionality and serve as a valuable extra resource for the implementation of their national developmental strategies, of which the CSP is hopefully a part. But to assume this for the bulk of ACP countries might be somewhat naïve. In Sub-Saharan Africa there are a number of neo-patrimonial states where an absence of political will to reform has driven donor-recipient relations for the past decades. These states function according to a certain political logic where patronage, clientelism and rent-seeking operate as the main power-enforcing techniques. Hence, governance reform can be a less than enticing, even menacing, prospect for these regimes (Cammack 2007).

Indeed, the people we interviewed at the EC admitted that the tranche couldn't motivate a great deal of countries and that this led to a meagre effort being put into some of the action plans. This lukewarm reaction gives a clear indication of the level of ownership of the partner countries of a program which ironically was designed to provide an "incentive". Another reason for this weak interest put forward by the interviewees was that for some states the stakes were not very high. This is because there is only a 5 or 10% differentiation between the different tranches, hence big differences in quality between action plans cannot be translated into equivalent divergences in resource allocations. This lack of variation is also shown in the final allocation of countries: the majority of countries ended up in the middle tranche (25%).<sup>14</sup>

The low motivation and weak interest exhibited by a score of countries are reflected in the poor quality of a number of the action plans. Some of them are utterly vague in expressing goals like "structuring an open dialogue with the political opposition and civil society on the strengthening of the democratic system" (République du Tchad – Communauté européenne 2007 : 21) or "strengthening the State in its regulatory role in order to guarantee a better partnership between public and private sectors, especially in the social sectors" (République du Bénin – Communauté européenne 2007 : 136) without including measurable performance indicators. These reform plans do not seem to indicate a serious government commitment to reform, nor do they provide a good foundation for grounding the governance initiative in a

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<sup>13</sup> Principal agent theory describes the interaction between two parties with divergent interests, where one party needs cooperation from the other to attain its own objectives.

<sup>14</sup> The intermediary score is as follows: 3 countries at 10%, 11 countries at 20%, 41 countries at 25% , 5 countries at 30%.

sufficiently results-oriented framework. On a positive note, some of these reform proposals do strongly draw on other action programs such as the PRSP, sector strategic plans or APRM plans of action and are based on achieving certain concretely defined performance goals. In the worst case however these national development strategies are also donor-driven and the chances of implementation remain meagre. In general, too many of the action plans display such a long and diverse list of desirable reforms that it seems implausible that states with limited capacity will be able to implement them – and this plausibility further diminishes when we take into account that they very often get similar “reform wish lists” from the World Bank and other donors.<sup>15</sup>

### ***The adverse effects of “easy aid”***

The funds diverted to uncommitted states not only seldom result in any policy reforms, in many cases they actually serve to prop up these non-developmental regimes. Rent-seeking possibilities increase when aid flows in, raising the incentives for clientelism and patronage. In states governed by chronically uncommitted leaders, already deeply entrenched systems of neopatrimonialism are consolidated through the continuous inflow of this “easy” money (Bräutigam 2000, Knack 2000, De Haan & Everest-Phillips 2007). The aid-dependency literature finds affluence of aid to be related to higher levels of corruption (Svensson 2000, Alesina & Weder 2002), deteriorating levels of governance (Bräutigam & Knack 2004, Bräutigam 2000, Knack 2000) and reduced income generation (Remmer 2004).

This last issue points to the underlying mechanisms that forge the link between aid dependency and bad governance. States that receive huge amounts of aid feel less pressure to reform their system towards higher efficiency because they rely on foreign aid to “insure” them (Bräutigam & Knack 2004, Bräutigam 2000, Gibson et al. 2005, Fritz & Rocha Menocal 2006). Due to this “moral hazard”, ex-ante conditionality can actually induce governments to postpone the implementation of efficiency-increasing policies or the search for alternative revenue sources because the received aid “buys” them time. Moreover, when the majority of state income originates from unearned sources, regimes become excessively independent from their citizens which negatively affects domestic accountability and institution-building (Moore 2001, Moss et al. 2006).

The disbursement of aid to regimes that have not shown any proof of developmental commitment can thus put in motion undesirable mechanisms which have the potential to further intensify weak governance and aid dependency. It does not look like the EC has taken this insight on board, as ownership over reform does not appear to have been a criterion for aid allocation. When we take a close look at the assessment methodology for the governance action plans, it becomes clear that it is impossible for a country *not* to get access to the tranche. A nil score on each criterion leads to three qualitative ratings of “basic” which results in the allocation of a 10 % tranche. Uninterested as a country may be in reform, it will receive extra aid if it submits any kind of governance action plan. All countries that went through the process of putting forward an action plan during the 10<sup>th</sup> EDF programming exercise were thus rewarded with the allocation of an ECGIT. Assuming that not all 69 ACP-countries that submitted a reform plan currently have a committed developmental regime in place, we can reasonably argue that part of the € 2.7 billion reserved for the ECGIT will flow to states where these funds will probably not be put to effective use.

In short, the concept of the action plans does not seem to be designed to be locally owned. For some countries, this means that chances are that governance reforms will not be sufficiently implemented and that extra aid will possibly further fund the workings of an

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<sup>15</sup> The EC’s negotiations with the ACP countries in the realm of trade liberalisation seem to suffer from the same weaknesses. Countries are expected to step up their regulatory framework and institutions in order to benefit from the implementations of the Economic Partnership Agreements, but the EC does not sufficiently factor in how long and difficult the road to reform will be when a large part of the partner countries do not possess sufficient political will or capacity to thoroughly reform their institutions (Borrmann & Busse 2007, Szepesi 2004).

ineffective regime. Unfortunately, weak commitment on the part of the recipient has generally been overly tolerated by donors, which further exacerbates incompliance problems.

### ***The importance of a strong M&E system***

Lack of recipient commitment can be mediated if strong and clear monitoring schemes linked to disbursement decisions are installed so as to track progress. The importance of monitoring and evaluation for any intervention is well explained and documented, hence it hardly needs any explanation here. Given the fact that the action plan serves as a basis for allocating resources, one would expect that the EC would have thought out a monitoring system or a methodology to track progress, and added to that some guidelines on how progress (or lack thereof) is linked to future disbursements. Establishing such a scheme and communicating or discussing its implications is not just functional for aid effectiveness' sake in terms of results-orientedness, it is just as much about respecting the mutual accountability principle as stipulated in the Paris Declaration. Systems of mutual accountability heavily draw on the idea of transparency and predictable behaviour on both donor and recipient sides. In this case, the introduction of a new instrument raises all kinds of questions on follow-up and implications on aid disbursements. To which extent has the EC respected some of these principles in the design of the ECGIT and its monitoring and evaluation?

When going through all the EC documents on the GIT, little to nothing can be found on its monitoring and evaluation. Our interviewees however stated that monitoring governance progress will be the crucial test for the ECGIT. They also expressed the hope that the EC and the Member States will gather sufficient political courage to cut the allocations of partners who have not shown enough progress in the implementation of their action plans. Unfortunately the EC did not prepare in detail how this monitoring will take place. There is no exact methodology for monitoring the implementation of the action plans nor is there much clarity yet on how it will affect the country allocations. Furthermore, no specific funding is foreseen for the implementation of the action plans. As stated earlier, the funds from the governance tranche flow directly to the focal sectors identified in the CSP. This also raises doubt about the feasibility of a successful implementation of the action plans and the EC's focus on results. The ECGIT does therefore not seem very oriented towards the results at all.

This slackness of the EC with regard to the monitoring of the action plan raises doubts about the way the ECGIT is supposed to foster results on the ground. In addition, it is not very plausible that the EC will be brave in cutting aid, as they have already avoided "risky" decisions during an earlier phase, when they allocated almost all tranches around the middle value.

In conclusion, under ex-ante conditionality, low ownership drives partner countries to handle aid funds in a way that is not sufficiently geared towards the attainment of development results. The EC has not succeeded in avoiding all these long-established pitfalls of ex-ante conditionality, and it does not seem able yet to correct these flaws through a well established monitoring set-up.

It is rather strange that the Commission, though formally committed, did not implement the new aid principles and some level of ex-post conditionality or selectivity, since these try to combine results-orientedness with ownership. Ideally the new aid approach sets out that governments and donors negotiate aid and reforms through a policy dialogue where they mutually agree on which actions and targets should be set out. Monitoring, evaluation and disbursement consequences are to be spelled out so as to ensure predictability and mutual accountability. The agreements are reflected in a contract over which both parties should ideally have ownership. Aid selectivity also aims at rewarding good performers and is closely linked to the result-orientedness so central in the new aid approach and in the Paris Declaration. If countries are producing satisfactory results they become eligible for more and more flexible forms of aid. Evidently, this selective strategy brings with it the danger of creating "aid orphans". However, given the fact that these countries are also the ones that

need more aid, donors do supply assistance but often using somewhat less flexible modalities than budget support, while more donor-steering takes place in the programme approaches in these states (Radelet 2005).

In theory this focus on result-orientedness creates incentives for recipients to step up their reform processes. With the creation of the ECGIT, the EC has rather bluntly bypassed these principles that now guide aid allocation and delivery. Why would it take this course if they are aware of all the aforementioned troubling effects of traditional aid mechanisms?

#### **4. Why do donors, who should know better, design imperfect policies?**

A closer look at the ECGIT thus actually reveals that it does not fully live up to the aid effectiveness criteria and that it is quite uncertain that it can foster real governance reforms in ACP states. This is partly due to the Commission's lack of inclusion of the lessons learned on aid effectiveness when it comes down to real policy practice. This is rather puzzling, as the EC's, and other donors' current discourse would suggest that they have ruefully accepted the analysis of aid's failures and agreed on a more useful way forward. Then why aren't the 'lessons learned' incorporated in their actual aid practice? In other words, why would a PD-adherent donor like the EC design a new instrument that does not strengthen the effectiveness of its foreign aid?

The answer is that aid effectiveness is not just dependent on the governance situation of the partner country, it also very much hinges on the incentives and structures of donors (Faust & Messner 2007) and unfortunately, in spite of high level declarations, aid effectiveness principles have not been sufficiently internalised at the institutional and individual level. Political commitment to the PD agenda thus seems to be more "instrumental" than "intellectual" (De Renzio et al. 2005).

Many underlying reasons for donors' lack of substantive action in reforming aid can in fact be found in their identities as *political actors*. Although the EU possesses many characteristics that distinguish it from nation-states and international organisations and has been called an "unidentified political object"<sup>16</sup>, it is generally accepted that it is a political project which can be understood in the same way as other political systems (Hix 2005, Moravscik 1993). Even if the EU possesses many specific features that merit special attention (some of which will also be addressed in this paper) it is appropriate to base an analysis of its policies on general theoretical frameworks that try to explain the actions of political actors.

The "fundamental equation of politics: preferences + institutions = outcomes" (Hinich & Munger 1997:17 in Hix 2005: 13), can therefore clarify our understanding of EC development policy. This basic theoretical statement points to the two aspects that shape political behaviour and processes. Firstly, political actors are rational beings who choose courses of action that will most probably result in their preferred outcome. Of course other actors' actions and the domestic and international situation reduce possible courses of actions (Moravscik 1993). Moreover, political actors are also constrained by the institutions (formal and informal) that regulate the political game. EU development policy is indeed considered to be widely influenced by internal (e.g. institutional reform and the widening and deepening of the integration process) and external (e.g. relating to international politics or the aid architecture) developments (Holland 2002, Arts & Dickson 2004).

In the following paragraphs, some of the weak points of the ECGIT will be clarified with reference to the preferences and institutions that shape the EC's behaviour and decisions as an aid donor who is also and mainly a political actor. As will become clear, one of the main stumble blocks hindering coherent donor action concerning aid effectiveness is specifically

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<sup>16</sup> Jacques Delors, 1985.

donors' schizophrenic nature as developmental and political actors.<sup>17</sup> These two roles do not necessarily effortlessly overlap.

When analysing European policy, it is important to keep in mind the specific institutional structure that simultaneously empowers and limits the EU's scope for action. EC development policy towards the ACP is financed by the EDF, which is funded directly by Member States' contributions and is not a part of the EC budget. As mentioned earlier, the management of the EDF fund, which encompasses decisions concerning the ECGIT, is carried out by the EDF committee, comprised of representatives from the Member States (EC 2008c) who decide by qualified majority voting (QMV).<sup>18</sup> This intergovernmental character of the decision-making processes naturally holds certain implications for the design and content of policies. European development policy thus consists of "an unfamiliar blend of national and supranational competences" (Holland: 243) and could be qualified as a "mixed system" (Groux and Manin 1985 in Arts & Dickson 2004).

Moravcsik's (1993) theory of liberal intergovernmentalism highlights the central role domestic contexts and interstate bargaining play in the European integration process and how these processes often lead to a "lowest common denominator" outcome. Policies come into being in two bargaining stages: one policy discussion takes place within the Member States, the other one has the Member States and the European institutions sitting at the negotiation table. European development policy making could thus be regarded as a two-level game (Putnam 1988) where national leaders must succeed in supplying to the domestic needs voiced at the first level, while sufficiently taking into account the wider European interest at the second level. The actors involved in European policy-making are thus the Member States and the European institutions. This model consequently specifies three types of interests that must be taken into account: national interests (Member States), specifically "European" interests (shared by the European institutions and Member States), and the bureaucratic interests of European institutions (Olsen 2005). Many aspects of the ECGIT can be explained by taking into account the way these divergent interests are accommodated in the search for a common policy. In the following we focus respectively on how European, national and bureaucratic interests, and the institutions that serve to channel them, have influenced the design of the ECGIT.

#### **4.1. The "transcending" European interest**

Firstly, Europe has a great interest in acquiring a strong international presence (see e.g. EC 1997). This desire to play an international political role more proportional to its enormous economic weight only really became possible after the end of the Cold War and has been reflected in numerous European policy documents and institutional reforms.<sup>19</sup> Most eye-catching has of course been the constant push for the development of a Common Foreign and Security Policy (CFSP), but also the creation of the post of "Mr. Europe", the new High Representative, in the Lisbon treaty is worth mentioning in this regard. Developing a broader and stronger international identity and sphere for action can be related to the advance of several specific "European" interests and values that transcend and connect those of the different Member States. Several interlinked material and ideal interests come into play, among others European concerns about immigration, terrorism and security and genuine belief in the ideals of democracy and human rights, which are cornerstones of EU external action (Holland 2002).

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<sup>17</sup> When referring to developmental and political actors, we are talking about the objectives actors pursue. Developmental objectives include poverty reduction and the increase of economic growth. Political goals are however more related to self-interest, the distribution of power and resources, and the pursuit of ideological aims.

<sup>18</sup> For more information about the voting procedures, see [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l\\_247/l\\_24720060909en00320045.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_247/l_24720060909en00320045.pdf) (last consulted 16-05-2008).

<sup>19</sup> The most important and authoritative one being the Maastricht treaty. European Union, *Treaty on European Union* (1992) Official Journal C 191 of 29 July 1992, Brussels, art. B: "The Union shall set itself the following objectives: [...] to assert its identity on the international scene, in particular through the implementation of a common foreign and security policy"

Development policy is one way the EU has tried to assert its growing identity on the global scene and its international influence (Petiteville 2003, Holland 2002, Olsen 2004). Many observers point to a growing linkage between development and foreign policy within the EU, inter alia mentioning the transfer of the competence for development from the Development Council to the the Council for General Affairs and External Relations in 2002 (Open Europe 2007, Eberlei & Auclair 2007, ECDPM & ActionAid 2008, Woods 2005, Olsen 2007, Orbie & Versluys 2008). The European Security Strategy of 2003 explicitly includes development policy in its range of tools<sup>20</sup>, citing “[s]ecurity as the first condition for development” (European Council 2003: 13). The heavily mediated public declarations<sup>21</sup> about Europe’s huge aid budget and widespread presence in the world adds weight to the perception that the EU considers development policy to be a significant symbolic and essential component of its authority as a global political entity.

ACP cooperation specifically functions as a symbol of a global European role, embodied in a commitment to the developing world (Arts & Dickson 2004). Africa was the first region targeted by EC external action (under the weight of “colonial inheritance” (Grilli 1993) and EU-Africa relations have now evolved into one of the foundations on which the EU is seeking to construct its international role (Lister 1997). A policy focus on democratization and human rights in Africa emerged after the Cold War, while security gained more importance after 9/11. This also means that aid to Africa has taken on another, more political and security-related role and is being increasingly used as an instrument of the CFSP (Olsen 2004, Olsen 2007).<sup>22</sup> In sum, the EU-Africa partnership has a strong emblematic value as one of Europe’s most longstanding external action areas and this partnership has increasingly become security and foreign policy oriented. One important initiative in this respect is the EU-Africa Strategic Partnership which is a political partnership based around eight themes, including security, governance, trade and migration (European Commission 2007). Maintaining strong EU-Africa relations can thus be considered as a second relevant European interest.

How is this related to the ECGIT? It is important to recognise that aid, apart from its developmental purposes, can also serve an important diplomatic function by serving towards the attainment of international political goals and for example provide the key to access to the higher placed officials in receiving countries (Lancaster 2007).<sup>23</sup> Lebovic’s (2005) analysis of bilateral aid allocations reveals that donors take into account their relative position to other donors when deciding on aid allocations. Partner countries often receive a substantial aid “bonus” from donors who want to benefit from the visibility and the relative influence which is linked to the primary donor status. Research confirms that heightening aid allocations serves donor interests in maintaining close relations with recipient countries.<sup>24</sup> Furthermore, a negative correlation has been found between specialisation (in certain

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<sup>20</sup> “The challenge now is to bring together different instruments [...] [including] the European Development Fund” (European Council 2003: 13).

<sup>21</sup> For example, the establishment of the European Community Humanitarian Aid Department (ECHO) in 1992 is regarded as an attempt to guarantee the EC more visibility in a highly mediated activity (Olsen 2004).

<sup>22</sup> Exemplified by the use of €250 million from the EDF for the African Peace Facility (Woods 2005, Olsen 2007).

<sup>23</sup> One could raise the question if it is fair and useful to evaluate aid effectiveness always and only as development effectiveness (Lancaster 2007). Aid that is given for other purposes can be effective in other ways, e.g. establishing better diplomatic relations. In this case however, we choose to evaluate the EC on the effectiveness of its aid defined as development effectiveness because this institution has publicly committed itself to incorporating the development/aid effectiveness criteria as the basis of its development policy and also more specifically of its policy on governance in development. “The principles on aid effectiveness approved in March 2005’s Paris Declaration and approved by the Council in April 2006 must be fully applied to governance” (EC 2006a:157). Furthermore development effectiveness can be regarded as a public good where each donor, especially those with huge aid volumes, can be held accountable for its contribution.

<sup>24</sup> The EC is one of the donors often criticised for letting geographical proximity and domestic interest weigh heavily on aid allocations. The top five of EC aid recipients in 2004 included Serbia and Montenegro, Turkey and Morocco. In general the Human Development Index of EC development partner countries (including non-ACP states) is not correlated with the amount of EC aid received per capita (Open Europe 2007). Another study finds that civil rights and GDP/capita only slightly influence aid allocations to ACP countries (Wolf & Spoden 2000). The 2007 EC DAC Peer Review also stresses the weak poverty focus of the EC’s aid allocation (OECD/DAC 2007b).

recipients or regions) and selectivity, as donors that continue to provide aid on historical or other institutionally grown reasons only slightly take into account their recipients' governance performance (Easterly & Pfutze 2008). Although many commentators observe a growing European disinterest in Sub-Saharan Africa, reflected in decreasing aid budgets (Olsen 2005, Smith 2004), the EC consistently points out the central place Africa occupies in European development policy and the central place Europe as a donor occupies in African development.<sup>25</sup> Moreover, the €2.7 billion allocated to the ECGIT was heavily publicised as a considerable aid transfer. General decrease of the budget directed towards the ACP thus does not necessarily mean that the Europe's interest in a position as main donor in Africa has decreased. Relatively, she does aim to maintain a primary position, an ambition reflected in the concerns voiced<sup>26</sup> in relation to the rise of new donors, like the United States and China, on the continent (Kingah 2006), a development that has resulted in "a race for generosity and altruism between Europe and America" (Santiso 2002: 406). Big aid budgets thus allow the EU to present itself as "the interlocutor *par excellence* of countries in the South" (Orbie & Versluys 2008: 77).

Basically, one could consider initiatives like the ECGIT as part of this broader EC policy of consolidating the EU as an international actor and strengthening EU-Africa ties. Several findings point in this direction. To begin with, the EC representatives we interviewed asserted that the governance initiative -even though it is an aid allocation mechanism- is not about the action plans, it is not about the tranche, and it is definitely not about the money. They insist on letting go of this fixation on "who gets what, when and how". They claim that the value of the governance initiative lies in its process and in the message it transmits to partner countries. More specifically: the ECGIT is to revive the Article 8 political dialogue of the Cotonou Agreement between the EC and the ACP-countries. This dialogue, a major innovation of the Cotonou agreement, is meant to be a very flexible instrument which serves to facilitate cooperation, information-sharing and agreement on priorities with regards to all issues of ACP-EU cooperation including human rights, democracy and good governance (Cotonou convention 2000: art. 8-9). Unfortunately, implementation of the Article 8 dialogue has not been running very smoothly. Local EC delegations have been unsure of how to initiate and structure this dialogue while partner countries have not always been enthusiastic about discussing sensitive political issues with the EC (O'Connell 2006, Mackie 2003, Hazelhet 2005, Stathopoulos 2003). The EC hopes that the negotiations and discussions during the implementation process of the ECGIT, linked to the interaction and "contract" the EC enters into with each ACP-state, will get the motor of this run-down dialogue running again. Although this dialogue could in effect constitute a useful instrument to discuss and negotiate ACP-states' development policies and governance reforms, it also has other purposes which might be not as purely development-related. Even if the dialogue is supposedly based on a partnership it does hold the connotation of a rather coercive European involvement in partner countries' policies (Orbie & Versluys 2008). The political dialogue opens up access to high-level government officials and space for discussion on issues of developmental and more general political and diplomatic interest. It could thus serve to bolster the political European action towards the ACP states, which would reinforce Europe's up till now rather weak CFSP. It is also important to point out that this separate EC dialogue with partner countries runs counter to the idea of the harmonised policy dialogue. In this way it also increases the possibility that recipients receive mixed signals from the donor community.

Secondly, the design of a methodology that awards *all* ACP states an extra tranche and the EC's relaxed attitude towards partner countries' lack of commitment, combined with the

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<sup>25</sup> For example: "[t]he Union is already the world's largest donor in Africa and is the continent's most important economic and trade partner. The European Union thus has a particular role to play and a particular responsibility towards the African continent" (EC 2008d)

<sup>26</sup> The Commission recognises that the arrival of new actors on the African continent, be it for economic, strategic or political reasons, alters the geopolitical environment in which the EU must conceive and put into practice its Africa policy (EC 2005)

statements from EC representatives about the strengthening of the political dialogue through the ECGIT lead us to suspect that the ECGIT was at least partly designed to consolidate the EC's preferential relationship with the ACP community. In the previous section it was pointed out that the ACP countries react rather lukewarmly to the ECGIT. Remarkably, the EC in turn does not seem to care much about this lack of eagerness from the partner countries: as explained before, even the worst action plans get a 10 % tranche. Put bluntly: even bad promises receive a 10% amplification of the for them available carrots. The implementation process of the ECGIT - which presupposes ample dialogue between the EC delegation and the recipient government outside of the harmonised policy dialogue – could conceivably be a way for the EC and some of the Member States to assert themselves as key interlocutors of the partner country. A reinforced Cotonou political dialogue would also carve out a separate forum for the EC to let its voice be heard. Consistent conditionality seems to have been forsaken by the EC in order to keep a strong presence and visibility in the ACP countries, reinforce their contacts with local leaders, profile itself as a big donor and buy a ticket to the negotiating table of the partner countries.

#### **4.2. Member States' double loyalty**

Bilateral donors naturally face similar incentives as the EC: aid serves as a multifaceted instrument that serves developmental purposes, but also plays a role in states' foreign policy. Empirical studies of the rationale behind donors' aid allocation support this statement. The effect of recipient countries' broad level of governance (Neumayer 2003, Hout 2007), democracy, military expenditure and human rights record (Carey 2007, Zanger 2000) or corruption (Alesina & Weder 2002, Svensson 2000) on aid allocation is variable among aid agencies but in general rather weak, although the trend has been improving (Dollar & Levin 2004). Other factors and interests predominantly come into play when donors assign their aid (Neumayer 2003): recipient need (poverty-oriented aid: e.g. GDP/capita, infant mortality) but also strategic "friendships" and colonial ties (Alesina & Dollar 2000). The weight given to more self-interested motives often eclipses the significance given to the factors more important for potential effectiveness of the allocated aid.

As for Europe's preferential ACP policy, a few Member States with historical interests in Africa have always been its driving force. Especially France has been influential in keeping the EU's gaze turned towards Sub-Saharan Africa (Grilli 1993, Claeys 2004). Member States often support EU action because they hope that a policy on a higher level can complement and reinforce their own external actions (Smith 2004) and it can be argued that without the strong lobbying from some Member States, the ACP would not have been able to sustain its special status in the European development policy for such a long time (Olsen 2005).

The institutional architecture of the DG Development creates possibilities for Member States and their political interests to weigh in on EC development policy. In the EDF committee decisions are taken with QMV and the European Parliament is not involved. This leads to a situation where bargaining between the Member States, and the Member States and the Commission leads to a frequent accommodation of political interests. This type of institutional set-up in effect "re-bilateralises" EU-ACP relations (Claeys 2004).

The fact that the EC as a donor is not a unitary actor in this way narrows its policy options, as the weight of individual member states' interests at times impedes the formulation and implementation of a coherent and consistent development policy (Hoebink 2004). It is indeed more difficult for the EC as a regional organisation to differentiate between partner countries because it possesses the arduous task of uniting the diverging interests of 27 Member States, a lot of which are big donors with fixed interests in certain states. It is important to keep in mind that Member States have to take into account domestic pressures when negotiating on policies within the European framework. The intergovernmental nature of aid allocation within the EC thus inevitably involves opaque political negotiation and a greater continuity in country allocations (Santiso 2002, Santiso 2003, Hout 2007). The 2007 EC DAC Peer review (OECD/DAC 2007b) indeed suggests that the rather low poverty focus of EC aid

allocation could well be at least partially explained by the power Member states have in the decisions concerning the EDF budget where short-term political objectives often seem to prevail (Santiso 2003).

The discussion within the EC on the methodology of the assessment of the ECGIT action plans is an example that sheds light on this issue. Originally a rather technocratic methodology, yet more inclined towards the selectivity idea of the new aid approach, was proposed: past performance and proposed governance reforms would each count for 50% in the assessment, the countries with the weakest action plans would not receive any tranche and differentiation between the various tranches would be quite large. This approach was abandoned because it was regarded as too “politically sensitive” and “judgmental”. The top political level in the DG Development pushed the incentive-based approach in detriment of a focus on scores or performance criteria.<sup>27</sup> According to EC representatives, Member States supported this turnaround because it lessens the political friction through guaranteeing each of their own “long-established” ACP-partners a piece of the cake.<sup>28</sup> Moreover, the EC and the Member States also agreed on a smaller differentiation between the tranches, in order to avoid possible tensions when allocation decisions would have to be made. As indicated by the EC, Member States therefore also reacted very acquiescently when it came to the discussion of the actual allocated tranche during the implementation phase and no serious objections were made in the EDF committee regarding tranche allocations. One interviewee also suggested that some of the Member States with strong ties to the weaker partner countries had been the ones to strongly push for the low differentiation and the special treatment for fragile states. For one Commission official, the political “hijacking” of the allocation method of the ECGIT was a bitter pill to swallow, but he asserted that political meddling into official aid allocation models was commonplace.<sup>29</sup>

Bargaining and negotiation between the Member States do seem to play a bigger part in the process of the ECGIT than the official version of the methodology would suggest. Moreover, during the allocation process of the ECGIT, the space for political manoeuvring is even larger than usual as the assessment of the action plans is not very straightforward and the results are not publicly communicated. In conclusion, constructing a strong and coherent development policy is difficult when a donor not only has to take into account interests within its own constituency, but also the interests of –in this case 27- other actors, who possess ample institutional space and power to contest supranationally taken decisions that are not wholly in their interest. The two-level game in EC development policy thus complicates the design of a straightforward policy and obfuscates the direct application of aid effectiveness principles.

The intergovernmental nature of the EC’s ACP-aid however also holds opportunities for stepping up harmonisation between European donors. For example, in some countries the governance profile was a joint effort with each donor contributing, in some sort of division of labour, to the assessment on the basis of their experience and expertise in specific governance issues. In other situations the governance profile was fully put together by the EC, with the Member States only allowed to provide feedback on the EC’s work, while for example in Burundi bilateral European donors were not even aware of the existence of the ECGIT. In general, the overall picture however seems to suggest that the introduction of the governance profile has managed to gather EU-donors around a common issue and establish

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<sup>27</sup> Performance criteria are, together with indicators of recipient need, integrated into the aid allocation mechanism of the 10th EDF. This however concerns the initial allocation, which is allocated separately from the ECGIT.

<sup>28</sup> For the same reason, Member States have voiced concerns over a possible future budgetisation of the EDF – it limits the visibility of their aid and weakens their special relationship with the ACP states (Mackie et al. 2004). It would also mean giving up the special power they possess because of the intergovernmental nature of the EDF – budgetisation would entail a greater transparency and democratisation, but also a power-sharing with the European Parliament (Orbie & Versluys 2008).

<sup>29</sup> Even when formal aid allocation methods are results-based, they only play a limited role, as high-level political promises from the donor to the recipient side often intervene.

a useful discussion about the partner country's governance among them.<sup>30</sup> In this respect the governance profile is a useful and potentially powerful harmonising instrument.

#### **4.3. Incentives within the Commission**

It is important to keep in mind that Member States do not negotiate about the ECGIT only among themselves. Another actor with a strong voice sitting at the table is the EC. New institutionalist theory reminds us that it is important to take account of institutions' own incentives and interests (Hix 2005). Of course these institutional interests are strongly tied to the abovementioned European interests. The Commission, often in alliance with some Member States with strong ties to the African continent, has for example played an important role in the sustained continuation of the ACP-EU partnership in the face of competing interests (e.g. the growing importance of Europe's near neighbourhood after the end of the Cold War). However, the EC's strong protection of the EU interests concerning Africa is not solely based on European foreign policy interests. The link between foreign policy and development issues makes a strong European involvement in African CFSP issues also a guarantee for a continued large aid budget (Olsen 2005).

It is important to recognize that the DG Development, like any other aid agency, has its own bureaucratic interests in disbursing large aid budgets to ACP nations, as the Commission naturally holds the objective of sustaining and enlarging its scope for action (Faust & Messner 2007). Member States however still strongly consider foreign affairs issues to be strictly intergovernmental, which means that the EC has always had to battle with the Council (as a representation of the Member States) for the Europeanization of external action. European aid, under the threat of "renationalization", has as a result had to justify and fight for its existence (Santiso 2002). This EC stance is emphasized from within by Commissioners who logically have a strong interest in advocating ever stronger integration (Garrett & Tsebelis 1996).

Broadening the Commission's capacity for external action can be considered part and parcel of this call for a broader European integration process (Holland 2002). In other words, development policy has become increasingly instrumental to the process of European integration as a means to "reinforce both its *internal* and external legitimacy" (Orbie & Versluys 2008: 86, emphasis added). A large aid budget and strong ties with the developing world thus enhances the domestic authority of the Commission as an independent actor, apart from serving wider European external interests. The implementation process of the ECGIT in this way reinforces the Commission's relations with African nations and thus also this institution's legitimacy as an external actor apart from the Council. Clearly, support for certain policy options can thus be more reflective of the rivalry between institutional actors than well thought through preferences. It is therefore not surprising that this pursuit of bureaucratic interests frequently leads to short-sighted decisions and inconsistent policies (Holland 2002, Faust and Messner 2007).

Apart from pursuing objectives in their self-interests as an organisation, aid agencies also battle with certain internal incentives which do not always lead to optimal policy design and implementation. Certain organisational mechanisms, like institutional inertia and path dependency, inherent to large bureaucracies akin to the Commission, inhibit an immediate change in European policy towards the ACP community (Lister 1997, Holland 2002) and rather support "the persistence of an entitlement culture" (Santiso 2002: 408).

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<sup>30</sup> In over forty countries, mostly located in Sub-Saharan Africa, the EC and the EU Member States jointly deliver more than 50 % of ODA (EC & DAC 2006). Together, the Member States and the EC are the biggest suppliers of ODA in the world (OECD/DAC 2007b). It is obvious that the potential is enormous: harmonisation of the EC and all the EU Member States present in a given country would in most ACP-countries imply that already almost half of the donor community is bringing their aid in line. This would immensely diminish transaction costs for highly burdened governments.

Some other problems are related to the principal-agent issues mentioned earlier. Whenever recipients do not live up to the deals made, donors are not very good in handling carrots and sticks in appropriate ways. Partner countries promise the same reform over and over again to different donors, who keep disbursing aid in spite of the governments' failure to comply its part of the conditionality "contract" (Svensson 2003, Van de Walle 2005). This "push-over" behaviour can partly be explained by the Samaritan's dilemma, which tricks donors into disbursing because they fear that their withdrawal of aid will negatively affect those that are in dire need of assistance (Gibson et al. 2005). In short, donors are too soft. They honestly want to believe that partner countries are development maximisers and thus prefer to continue disbursements, just in case this time their aid will acquire the desired effect.

The principal-agent relationship however does not only characterise donor-recipient relations, it can also explain the dynamics of the relationship between the EC and its constituency. The notorious "broken feedback loop" makes it difficult for the principals (the European tax-payers and politicians) to know if the agent's (Commission) activities have changed the lives of the beneficiaries (the population of the recipient countries).<sup>31</sup> Given that disbursed monies are the most easily observable aid activities and an agencies' budget depends on previous expenditures, spending pressure pushes agencies towards disbursing aid regardless of recipients' policies. This compromises the potential effectiveness of conditionality (Svensson 2003, Svensson 2006, Easterly 2002, Martens 2001, Gibson et al. 2005). In the case of the EC, the relationship between the Member States and the EC and between the European public and the EC can be described as especially problematic principal-agent relationships. The EC faces a set of multiple principals (27 Member States) with possibly conflicting priorities (Seabright 2002) and is even further "separated" from the other principal, the tax-paying public, than national aid agencies. The result is a strong focus on budgets and other inputs. This information asymmetry between aid agencies and constituencies is one of the reasons why donors' public announcements do not always match their real-life decisions and actions: they cater to voters through their publicly declared policy choices, but often implement different policies under the pressure of internal incentives (Jain 2007).

At the launch of the ECGIT, the EC enthusiastically communicated in several speeches and policy documents about the "boldness" of this governance incentive tranche and the hoped turnaround it would expectantly cause in partner countries' governance systems. However, since then, little information has been released to the general public about the progress in the actual implementation of ECGIT and the governance action plans.<sup>32</sup> Many Member States have also reacted without much interest to the actual implementation of the tranche because, as one EC interviewee claimed, "the Member States give us the money and they trust us with it, and it is very hard to follow this up from the capitals". In the end, very little feedback about the ECGIT has reached Member States and their taxpayers. Ultimately "je dépense donc je suis" (Orbie & Versluys 2008: 78) seems to be the EC's guiding principle, while the European public is left in the dark about the actual allocation, use and effects of the used development funds. The Commission's principals can then in fact only base their judgement of the Commission's dedication to ACP governance on the budget spent on this objective, and not on the actual effects of the ECGIT.

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<sup>31</sup> When it comes to the purpose of foreign aid, the public generally has different preferences than the government: while politicians take into account the political and economical objectives of aid, taxpayers usually would like their money to be used for purely developmental purposes (Milner 2005, Jain 2007).

<sup>32</sup> A workshop for civil society organisation organised as an input to the review of the ECGIT to be completed in 2008 provided rather general information without really embarking on an evaluation of the implementation and results of the ECGIT.

## 5. Conclusion

With the launch of the ECGIT, the Commission seems to have fallen into the trap of traditional ex-ante conditionality. Although the governance profile could offer some potential for harmonisation, the ECGIT does not embody crucial Paris Declaration principles like ownership, results-orientedness or mutual accountability, and could thwart the harmonisation of the policy dialogue between donors and recipients. This is a somewhat surprising finding as the EC has repeatedly and resolutely stated its commitment to the principles of aid effectiveness. Why didn't the Commission opt for a selectivity-inspired approach, which would be more in line with aid effectiveness norms and thus secure the maximum development value of European aid funds?

Finding an answer to the above question implies stepping out of the framework offered by the PD and looking at the whole range of donor's rationales for giving aid. The PD tackles the symptoms, but not the underlying essence of the problematic aid structure (Faust & Messner 2007): it supposes that implementation of the aid effectiveness principles from the donor side would consist of a fairly technical matter, requiring mainly an institutional and practical effort largely equivalent to a practical reorganization of aid agencies' activities. Reforming aid is however not only about making some organisational or technocratic adjustments. It is about making tough political choices. An analysis of the political rationales and institutional interests that impede a full application of the aid effectiveness principles to the ECGIT illustrates that the spectrum of motivations and actors that are involved in the formulation of development policy complicates the application of straightforward principles. Donors are not unitary (within one agency different actors play a role), unified (donors are not always on the same page) or one-dimensional (one donor can pursue different objectives at the same time) actors. Diverse political processes, actors and motivations intersect the long road from lofty declarations and ambitious goal-setting to real-life actions and decisions.

Implementing the Paris Declaration and bringing about real governance reform thus obviously not only depends on developing countries. It also requires real donor commitment, but this is unambiguously influenced by their domestic setting and the issues at stake there. Lancaster (2007) is very right in pointing out this dimension of aid: home politics are not to be neglected in understanding the rationale of donor behaviour. The case of the ECGIT adds weight to the argument that development policy actually hasn't changed as much as the current paradigm in donor speak would suggest. However, "there is no easy resolution of these tensions, where the rhetoric of partnership meets the political imperatives of accountability to domestic donor concerns" (Rogerson 2005: 551). In the case of the ECGIT, certain corrective actions could possibly enhance its effectiveness. Member States should push the EC towards developing a rigorous methodology for the monitoring of the action plans. Their experiences in monitoring and evaluation of own foreign aid can serve as a model of best practice. Development effectiveness of the ECGIT would also derive benefit from the inclusion of independent actors in the monitoring and evaluation process. Research institutes, think tanks and civil society organisations from ACP- and European countries should therefore become more involved in the process of the ECGIT. Not the EC or the Member States have however been very communicative or transparent to the wider public on the implementation of the instrument. Better communication from these actors towards their constituencies is thus called for.

A rethinking of Europe's role as a donor should be placed on the agenda of Member States, civil society organisations, and European institutions. As it is the complexity of the two-level game and the subsequent multitudes of interests that come into play that are part of the barrier to a coherent ACP cooperation policy, a thorough restructuring of the institutional set-up is called for. This may be very difficult to achieve, since the involved actors will probably strongly oppose a reduction of their role. One aspect that nevertheless certainly merits (another) thorough debate is the possible budgetisation of the EDF.

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