



# EUROPEAN COURT OF AUDITORS

Special Report No 13

2013

## EU DEVELOPMENT ASSISTANCE TO **CENTRAL ASIA**

EN





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# EU DEVELOPMENT ASSISTANCE TO CENTRAL ASIA

(pursuant to Article 287(4), second subparagraph, TFEU)

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## REPLY OF THE COMMISSION AND THE EEAS

# ABBREVIATIONS

- BOMCA:** Border Management Programme in Central Asia
- CADAP:** Central Asia Drug Action Programme
- CRIS:** Common Relex Information System
- DCI:** Development Cooperation Instrument
- EBRD:** European Bank for Reconstruction and Development
- EEAS:** European External Action Service
- EIDHR:** European Instrument for Democracy and Human Rights
- ENPI:** European Neighbourhood and Partnership Instrument
- EU:** European Union
- GDP:** Gross domestic product
- IfS:** Instrument for Stability
- IMF:** International Monetary Fund
- Inogate:** Interstate Oil and Gas Transport to Europe Programme
- MDGs:** Millennium Development Goals
- NGO:** Non-governmental organisation
- ODA:** Official development assistance
- OECD:** Organisation for Economic Cooperation and Development
- OSCE:** Organisation for Security and Cooperation
- PCA:** Partnership and Cooperation Agreement
- PEFA:** Public Expenditure and Financial Accountability
- PFM:** Public financial management
- PPP:** Purchasing power parity
- RRM:** Rapid reaction mechanism
- RSP:** Regional Strategy Paper
- SBS:** Sector budget support
- SMART:** Specific, measurable, achievable, relevant and time-bound

**TACIS:** Technical Assistance to the Commonwealth of Independent States

**TFEU:** Treaty on the Functioning of the European Union

**Traceca:** Transport Corridor Europe–Caucasus–Asia Programme

**Unicef:** United Nations Children’s Fund

**US dollar/USD:** United States dollar



## EXECUTIVE SUMMARY

### I.

The audit assessed how the Commission and the European External Action Service (EEAS) planned and managed development assistance to the Central Asian republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) in the period 2007–12.

### II.

The audit found that the Commission and the EEAS made serious efforts, in challenging circumstances, to plan and put into effect the programme of EU development assistance to Central Asia set out in the Regional Strategy Paper (RSP) of April 2007. Planning and allocation of assistance were generally satisfactory. Implementation was less so.

### III.

The Commission discussed priorities with partner countries and sought to align its spending plans with their national priorities. The geographical distribution of aid took account of relative prosperity. Projects chosen for EU support all contributed towards meeting the broad objectives set out in the regional strategy paper. However, the Commission provided assistance to a larger number of sectors than is consistent with best practice.

### IV.

The Commission made use of a variety of delivery modes in implementing its plans. It included a large number of small projects, which placed a greater administrative burden on delegations. Managing the programme was also made more difficult by the wide range of financial instruments involved and multiple lines of reporting, which makes it difficult to establish how much the EU has spent per sector and per country in Central Asia. The Commission has not attempted to assess the overall administrative costs of its development assistance programme in Central Asia.

### V.

The Commission could and should have been more rigorous in managing its budget support programmes in Tajikistan and Kyrgyzstan and tied these to specific anti-corruption measures. Disbursement decisions were based on partner countries' commitments to reform rather than on progress achieved.

### VI.

Implementation was slow overall, though with some significant variations. The regional programmes did not achieve a genuine regional dimension; a significant share consisted merely of 'multi-country' facilities available to each partner country individually. The Commission set up arrangements to enable it to learn from experience and improve its programmes over time. This process yielded useful results, although in some cases they were not always available on time, and in others useful recommendations were not taken on board. Its reports focused on activity rather than results.

### VII.

This report sets out recommendations on how lessons learnt from experience gained in the 2007–12 period could be drawn for the future EU cooperation with this region.

# INTRODUCTION

1. This report discusses the planning and management of European Union (EU) development assistance to the five Central Asian republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) during the period 2007–12 (see the **Map**).

## MAP

### CENTRAL ASIA



Source: Based on UN Central Asia map No 3763, Rev. 7, December 2011. Responsibility for the adaptation lies entirely with the European Court of Auditors.

2. The five states, which became independent countries with the collapse of the Soviet Union in 1991, differ markedly in terms of population size, territorial area, endowment with natural resources and prosperity. Kazakhstan and Turkmenistan have large reserves of oil and gas, exports of which are reflected in their relatively high GDP per head. In terms of the achievement of the Millennium Development Goals (MDGs) the situation is diverse (see **Annex I** for more detailed information about each of the countries). There is also variation in their relative willingness to cooperate and integrate with the rest of the world.

## THE EUROPEAN UNION AND CENTRAL ASIA

3. The EU has been actively engaged with the countries of Central Asia since they became independent. The Commission's 2002 to 2006 Strategy Paper for Central Asia set out key objectives of the assistance strategy. These were to promote the stability and security in Central Asian countries and to assist in their pursuit of sustainable economic development and poverty reduction.
4. For the 2007–13 period, the European Commission (EC) set out its plans for development assistance in a regional strategy paper it adopted in April 2007<sup>1</sup>. The EU's policy towards Central Asia during the period to which the audit relates was agreed by the European Council in June 2007 and is set out in the Council document 'European Union and Central Asia: Strategy for a New Partnership'<sup>2</sup> which endorsed the Commission's approach.
5. Through the Council's Strategy and the Commission's assistance programme, the EU defined the priorities for its cooperation with the region as a whole, highlighting security and stability as its main strategic interests. The strategy advocated active cooperation with the Central Asian states in order to promote peace, democracy and economic prosperity. In particular it:
- proposed to make full use of a wide range of instruments, programmes, cooperation agreements<sup>3</sup> and political dialogue;
  - sought to balance bilateral approaches with actions aimed at tackling common regional challenges<sup>4</sup>;
  - identified seven main policy areas of particular importance<sup>5</sup>; and,

<sup>1</sup> European Commission, Regional Strategy Paper for assistance to Central Asia for the 2007–13 period.

<sup>2</sup> Adopted by the European Council of 21–22 June 2007 (Council document No 11177/1/07). Published by the Council in October 2007 as 'European Union and Central Asia: Strategy for a New Partnership' (ISBN 978-92-824-2244-1).

<sup>3</sup> Currently Partnership and Cooperation Agreements (PCA) are in force with Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. At end May 2013, the PCA with Turkmenistan was not yet ratified.

<sup>4</sup> Examples of common regional challenges are organised crime, human, drugs and arms trafficking, terrorism and non-proliferation issues, inter-cultural dialogue, energy, environmental pollution, water management, migration, border management and transport infrastructure.

<sup>5</sup> Namely (i) good governance, the rule of law, human rights and democratisation; (ii) education and training; (iii) economic development, trade and investment; (iv) transport and energy; (v) environmental sustainability and water management; (vi) facing shared threats and challenges; (vii) intercultural dialogue.

- increased the EU budget assistance for the 2007–13 financial perspective to around 750 million euro over the period<sup>6</sup>.

6. The European Commission opened a delegation in Kazakhstan in 1993; and upgraded sub-offices in Kyrgyzstan and Tajikistan to full EU delegations at the end of 2009<sup>7</sup>. In 2012 an EU delegation was established in Uzbekistan. In 2005, the European Council appointed a Special Representative in Central Asia<sup>8</sup> whose mandate was to promote good relations between the EU and Central Asian countries and to strengthen stability, cooperation, democracy and respect for human rights in the region as well as enhancing the EU's effectiveness and visibility in the region.

## EU DEVELOPMENT ASSISTANCE

7. Between 1991 and 2013 the EU allocated more than 2,1 billion euro in development and humanitarian assistance to these countries, of which 750 million euro was for the 2007–13 period. During the 2007 to 2012 period, the Commission paid 435 million euro in development assistance to Central Asia, of which Kyrgyzstan and Tajikistan have been the main beneficiaries (see **Graph 1**).

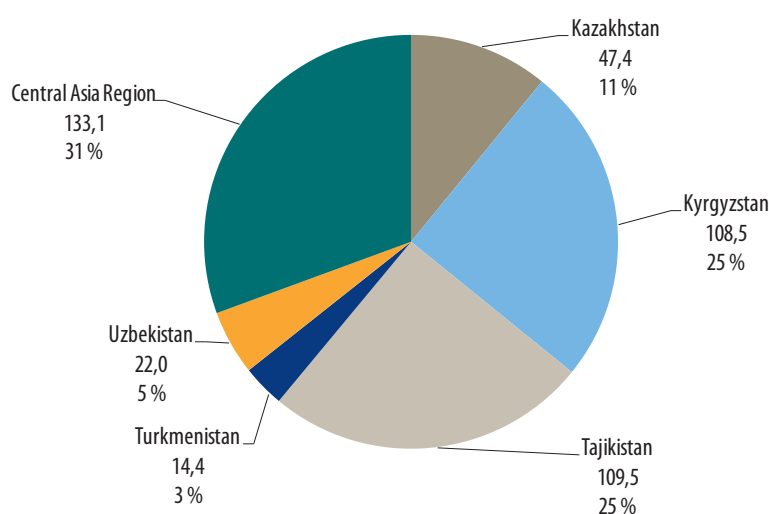
<sup>6</sup> The EU assistance is mainly implemented through the Development Cooperation Instrument (DCI) (Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation (OJ L 378, 27.12.2006, p. 41)).

<sup>7</sup> In 2011, the total number of staff dealing with development assistance in the three delegations was 74.

<sup>8</sup> Council Decision 2012/328/CFSP of 25 June 2012 appointing the European Union Special Representative for Central Asia (OJ L 165, 26.6.2012, p. 59).

GRAPH 1

### EU PAYMENTS TO CENTRAL ASIA, 2007–12 BY COUNTRY AND FOR THE REGION (IN MILLION EURO AND PERCENTAGE)



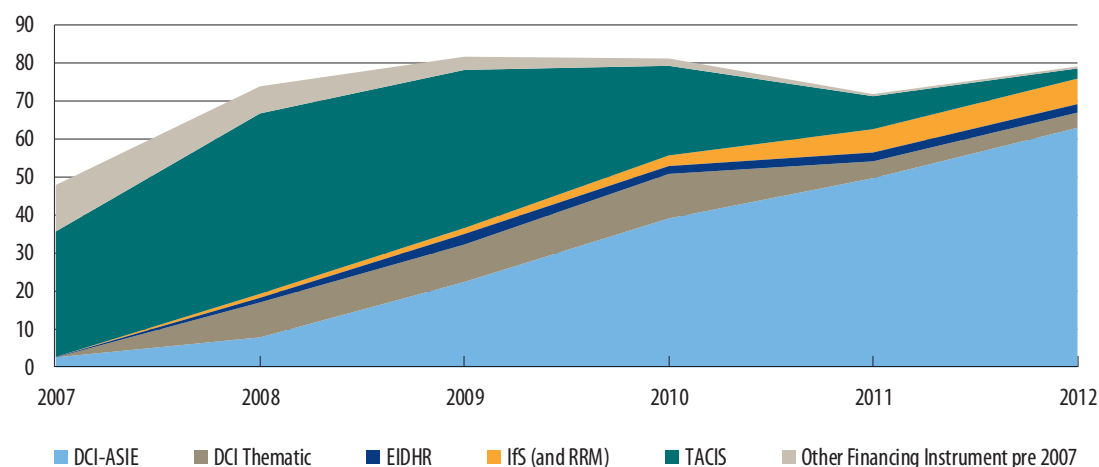
Source: Court analysis of data from the Commission's CRIS database.

8. During the early years of this period, spending mainly took place under the Technical Assistance to the Commonwealth of Independent States (TACIS programme), whose main objectives were to promote transition to the market economy and to reinforce democracy and the rule of law.
9. As from 2007, TACIS was replaced by the Development Cooperation Instrument (DCI), whose primary objectives are poverty reduction, sustainable economic and social development, and the integration of developing countries in the world economy. During this period, funds were also provided through other instruments such as the European Instrument for Democracy and Human Rights (EIDHR) and the Instrument for Stability (IFS) including the Rapid Reaction Mechanism (see **Graph 2**).
10. The EU budget for development assistance to the Central Asia countries averaged 89 million USD in the years 2010 and 2011, compared with 175 million USD by the United States, 165 million USD by Turkey, 124 million USD by Japan and 109 million USD by Germany<sup>9</sup>.

<sup>9</sup> Based on the Official Development Assistance statistics published by the Organisation for Economic Cooperation and Development.

GRAPH 2

#### EU PAYMENTS TO CENTRAL ASIA, 2007–12 BY FINANCING INSTRUMENT (IN MILLION EURO)



Source: Court analysis of data from the Commission's CRIS database.

- 11.** In terms of overall economic significance, development assistance represents a small proportion of overall financial flows to the region. In particular, in the cases of Kazakhstan, Turkmenistan and Uzbekistan, the Official Development Assistance (ODA)<sup>10</sup> represents less than 5 % of the annual foreign direct investments (FDI) and less than 0,2 % of the annual gross domestic product (GDP). From 1991 to 2011, the European Bank for Reconstruction and Development (EBRD) had also committed 5 945 million euro, in the form of loans, equity and guarantees, to the five countries, including 408 million euro in 2011.
- 12.** The Commission's Directorate-General for Development and Cooperation (EuropeAid) and, since 2011, the European External Action Service (EEAS)<sup>11</sup> are responsible for formulating EU development policy, for the multi-annual planning of the external aid instruments, and defining sectoral policies for such external aid. This is done from Brussels with the assistance of the EU delegations in the partner countries.

#### REVIEWS BY THE COUNCIL AND THE EUROPEAN PARLIAMENT

- 13.** The Council regularly reviews progress in the implementation of the EU strategy for Central Asia. In its latest review<sup>12</sup> the Council concluded that the strategy remains valid and that progress has been made in its implementation. Nevertheless, the Council considered that EU efforts should become more targeted and should contribute to the visibility and impact of the EU actions in Central Asia.
- 14.** In a 2011 report<sup>13</sup> the European Parliament concluded that EU funds were insufficient to allow the EU to have an impact in all of the Council's seven priority areas<sup>14</sup> and urged better definition of the policy priorities. The Parliament emphasised that partner countries must comply with international standards of democracy, governance, rule of law and human rights. Against the background of concerns about corruption, the Parliament called on the Commission to present a report — which is still pending — on the use of sector budget support in Kyrgyzstan and Tajikistan.

<sup>10</sup> Based on OECD statistics, in 2010 and 2011, the total average annual ODA to Kazakhstan, Turkmenistan and Uzbekistan was 484 million USD, compared to the average annual FDI 11 093 million USD in the same period and the GDP (in purchasing power parity) 347 billion USD cumulatively for the three countries, as reported by the EBRD and the World Fact Book respectively.

<sup>11</sup> The EEAS took the responsibilities over from the former Commission Directorate-General RELEX.

<sup>12</sup> Council of the European Union, Council conclusions on Central Asia, 3179th Foreign Affairs Council meeting, Luxembourg, 25 June 2012, and Council document No 11455/12.

<sup>13</sup> European Parliament resolution of 15 December 2011 on the state of implementation of the EU Strategy for Central Asia, Strasbourg, P7\_TA(2011)0588.

<sup>14</sup> The Council set out the following priorities: (a) good governance, the rule of law, human rights and democratisation; (b) education and training; (c) economic development, trade and investment; (d) transport and energy; (e) environmental sustainability and water management; (f) facing shared threats and challenges; (g) intercultural dialogue.

## AUDIT SCOPE AND APPROACH

**15.** The audit assessed how the EEAS and the Commission planned and managed development assistance to Central Asia, in the period 2007 to 2012, in particular assistance paid under the DCI, which was the main financing instrument. The audit asked:

- whether, in allocating its budget, the Commission followed best practice and respected its declared priorities for development assistance in Central Asia;
- whether the Commission delivered development assistance in an appropriate way;
- whether the Commission successfully implemented its aid policy, developed it in the light of experience and reported appropriately.

Other aspects of the EU strategy, such as policy dialogue, were not included in the scope of the audit.

**16.** Audit work was carried out between June and November 2012. The audit assessment was based on documentary review and analysis and interviews. Visits were made in October 2012 to Kyrgyzstan, Tajikistan and Uzbekistan, during which the auditors interviewed EU delegation staff, representatives of national authorities, Member States' embassies, technical experts, civil society organisations, other donors and stakeholders. The auditors examined a total of 21 support programmes (19 country-specific and two regional programmes, see **Annex II**<sup>15</sup>).

**17.** The audit made use of analyses from other sources, e.g. studies and reports by other donors. The Court carried out a survey on donor coordination and on other donors' perceptions of the EU's work in the field, which was sent to other donors' senior country-resident staff in each of the five Central Asian republics<sup>16</sup>.

<sup>15</sup> Selected so as to cover 70 % of development cooperation instrument spending in the 2007–11 period in Kyrgyzstan and Uzbekistan, and the sector budget support programmes in Tajikistan.

<sup>16</sup> Of the 91 recipients of the survey, 28 replied.

# OBSERVATIONS

## ALLOCATION OF THE BUDGET

- 18.** Paragraphs 19 to 36 below examine how the Commission allocated the EU budget: to what extent it followed best practice and followed its declared priorities for development assistance in Central Asia.

## THE COMMISSION SET BROAD OVERALL PRIORITIES FOR ITS SPENDING

- 19.** As explained in paragraph 4, in line with the EU's policy for Central Asia, the Commission's Regional Strategy Paper (RSP) set out its spending priorities. It recalled that poverty reduction is the primary objective of EU development policy, with the promotion of good governance and greater respect for human rights as complementary objectives<sup>17</sup>. It identified three priority sectors for EU development assistance:

- promoting regional cooperation, in particular networks and market integration, the environment, border and migration management, customs, the fight against organised crime and cross-border cooperation between individuals and within civil society;
- reducing poverty and increasing living standards, in particular through community development and targeted rural development schemes; and reforms in agriculture and social protection;
- promoting democratisation, human rights, good governance and economic reform.

- 20.** The Commission set itself the target of spending 30–35 %, 40–45 % and 20–25 % respectively of its total budget on these three objectives.

- 21.** The Commission then split the period into two sub-periods (2007–10 and 2011–13) and drew up an indicative programme for the first period which included more detailed plans for the allocation of aid and the identification of specific priorities. The Commission carried out a mid-term review in 2010 and concluded that no significant adjustments were necessary. Based on the review, it prepared its expenditure plans for 2011–13.

<sup>17</sup> Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy, The European Consensus on Development (OJ C 46, of 24.2.2006, p. 1).



## THE COMMISSION DEPARTED IN SOME RESPECTS FROM BEST PRACTICE WHEN PLANNING AND ALLOCATING ASSISTANCE ...

- 22.** Recognised best practice in the allocation of development aid, as set out in, for example, the EU Consensus on Development, the Paris Declaration on Aid Effectiveness<sup>18</sup> and the EU Code of Conduct on Complementarity and Division of Labour in Development Policy<sup>19</sup> includes the principles that:
- development priorities — set out in country strategies, policy dialogues and development cooperation programmes — should flow from clear analysis of recipient country national development strategies, institutions and procedures;
  - if aid is to be fully effective, recipient countries should own the development strategies and programmes supported by donors;
  - EU donors should aim at focusing their active involvement in a particular country on a maximum of three sectors each.
- 23.** The RSP and indicative programmes provide only limited justification for the Commission's detailed choice of spending priorities, for example in respect of how much should be spent on regional and how much on bilateral programmes; or why particular sectors or programmes were expected to produce the best value for money in relation to the EU objectives. In reality there was a considerable degree of continuity with previous patterns of spending in the countries concerned.

## ... BUT IN PRACTICE TOOK REASONABLE DECISIONS ABOUT ALLOCATION

- 24.** On the other hand the Commission's allocation of expenditure in most respects represented a reasonable attempt to apply the RSP priorities.
- 25.** Continuity in the distribution of spending permitted the Commission to make optimal use of its previous experience particularly in Tajikistan and Kyrgyzstan.

<sup>18</sup> OECD, Paris Declaration on Aid Effectiveness, 2005 (<http://www.oecd.org/dac/effectiveness/34428351.pdf>).

<sup>19</sup> Council of the European Union, 9558/07, Brussels, 15 May 2007.

- 26.** The Commission took care to ensure that its spending allocations were satisfactorily in line with those of other donors, avoiding overlaps and contributing to donor coordination. Three quarters of respondents to the Court's survey of donors commended the choices of sectors to support. Two thirds considered that the Commission chose good quality programmes to support, particularly in the sectors of human rights and promotion of civil society.
- 27.** The Commission faced particular challenges in terms of coordination with partner countries:
- Kazakhstan, Turkmenistan and Uzbekistan, not being Paris Declaration adherents, have not produced needs assessments for development assistance or poverty reduction strategies in the form used in the EU's programming;
  - the RSP stated that the purpose of the EU's development assistance was to support implementation of its political strategy, noting that the EU strives to promote prosperity, solidarity, human rights and democracy, decent work, security and sustainable development worldwide. For the partner governments, human rights, good governance and development goals such as poverty reduction are not always of the highest priority;
  - National programming documents can lack clear focus. For example, in Kyrgyzstan the action plan of the Country Development Strategy for the 2009 to 2011 period included 508 actions in 19 different sectors.
- 28.** Notwithstanding these difficulties, the Commission discussed aid priorities with the governments of the recipient countries and sought to align its spending with national plans, where they were available. The results of this process were reflected in the RSP and the indicative programmes.
- 29.** The programmes and projects which the Court examined in Kyrgyzstan and in Tajikistan were in line both with the Commission strategy and, so far as could reasonably be established, with the priorities of these recipient governments. For example:
- in Kyrgyzstan, the support provided by the Commission to the education sector from 2009 onwards assisted the government in plans to reform and develop the country's education system;

- in Tajikistan the Commission's support for social protection fitted well with the government's priority for the social sector, which was to increase the quantity and quality of social services for the poor and to achieve the relevant Millennium Development Goals.

**30.** In Uzbekistan, likewise, the projects examined by the Court (for example support to reform the criminal justice system and improve the maternal and child health systems) were in line with the country's needs as defined by the government. On the other hand, alignment with needs identified by the government did not necessarily translate into full support by the authorities in the implementation of projects. For example, international experts working on the reform of criminal justice were denied access to prisons and court cases. In order to secure the government's cooperation in its programme to reduce infant malnutrition, the Commission had to emphasise the promotion of healthy diets for mothers and children, as the Uzbek government did not admit that malnutrition existed.

#### AID LEVELS MIRRORED RELATIVE PROSPERITY

**31.** The Commission earmarked the highest levels of aid to the countries it perceived to be most in need and most willing and capable of best use of aid, namely Tajikistan and Kyrgyzstan. The allocation to these two countries was three times higher per head than for the other three recipients (see **Table 1** and **Annex I**).

TABLE 1

#### TOTAL AID ALLOCATED FOR THE DEVELOPMENT COOPERATION INSTRUMENT (DCI) IN CENTRAL ASIA UNDER RSP 2007–13 AND GDP PER CAPITA

Area	Total allocations 2007–13 (million euro)	GDP per capita in 2007 (current US dollar)
Kazakhstan	74	6 771
Kyrgyzstan	106	722
Tajikistan	128	563
Turkmenistan	53	2 606
Uzbekistan	71	830
Region	242	
Total	674	

Source: EU–Central Asia Development Cooperation, European Commission, 2011 and the World Bank, World Development Indicators.

#### AID WAS ALLOCATED TO TOO MANY SECTORS ...

32. The Commission's approach was however less satisfactory in respect of the number of sectors to which it paid assistance.
33. As indicated in paragraph 22, a guiding principle of development policy to which the Commission has subscribed is that EU donors should aim to focus their efforts on a maximum of three sectors in any partner country, so as to optimise results and reduce transaction costs.
34. Notwithstanding the small size of its development assistance programme in Central Asia, the Commission did not apply this principle rigorously. It selected four sectors for assistance in Kyrgyzstan (governance, agriculture and rural development, education and social protection); in Tajikistan five sectors (governance, agriculture and rural development, social protection, private sector and health); and in Uzbekistan six (private sector, governance, health, agriculture and rural development, environment and energy and education).
35. In addition, the Commission channelled EU development assistance money to various additional sectors through regional and thematic programmes. These programmes supported sectors such as energy, transport, environment, water, border management and the fight against drugs, rule of law, democracy and human rights, private sector development and higher education.

#### ... BUT IT REFLECTED THE COMMISSION'S STRATEGIC PRIORITIES

36. An analysis of the Commission's database by the Court identified no significant instances where aid was provided to a national programme which did not address one of the wide objectives of reducing poverty and improving governance; many national programmes are directed at both poverty reduction and good governance. The amounts contracted by the end of 2012 respected the priorities set out in the RSP (see paragraph 20).

## PUTTING THE POLICY INTO EFFECT

- 37.** Paragraphs 38 to 62 below examine the methods by which the Commission delivered aid: its choice of delivery modes, the attention which the Commission gave to administrative costs, whether programmes included clear objectives and performance indicators to permit monitoring; and the Commission's design and management of the budget support provided in two of the Central Asian republics.

<sup>20</sup> Paragraph 113 of the European Consensus on Development.

## THE COMMISSION PROVIDED AID THROUGH A RANGE OF DELIVERY MODES

- 38.** The Commission implemented its aid programmes in a number of ways, according to circumstances (see examples in **Box 1**):
- contribution agreements with international organisations, where these had developed activities in the partner countries and were accepted as partners by the authorities;
  - budget support where it was eligible, given that, where conditions allow, it is the *preferred method of development cooperation* according to the European Consensus on Development<sup>20</sup>;
  - grants to non-governmental organisations (NGOs) where civil society was active;
  - service contracts (and a few works contracts), in particular technical assistance, where the aim was convergence with European standards and good practices, in combination with sector budget support.

## BOX 1

**EXAMPLES OF PROGRAMMES FINANCED BY THE EU****Contribution agreement with an international organisation**

The **support to prison reform project** aims at improving prison management and social reintegration of offenders, by developing a prison reform programme in Kyrgyzstan. Enhancing hygiene and supporting income-generating activities are also among the actions provided by the programme. The overall budget of the action implemented by the United Nations Office on Drugs and Crime is 2,78 million euros of which the EU contributes to 2,5 million euros.

**Budget support programme**

The **sector policy support programme in social protection and public finance management** in Kyrgyzstan is funded through geographical and thematic financing instruments. The 7-year strategy paper allocated 53 million euros to the programme. The social protection component aims to develop a more efficient social assistance system that would improve the conditions of vulnerable people and deprived children. In parallel, the public finance management component aims to assist the Kyrgyz government to improve its annual budget process in terms of transparency, accountability, predictability and its internal controls.

**Grant to a non-governmental organisation**

The Commission co-financed 80 % of a project on the **strengthening of children and families in need** with 200 000 euro. The project is implemented by the Uzbek division of SOS Children's Villages, an international NGO present in Uzbekistan since 1996. The contract was signed in 2011 as part of the institution building partnership programme, which aimed to improve the living standards of vulnerable groups in Uzbekistan by strengthening the cooperation between NGOs and local authorities.

**Service contract: technical assistance programme combined with a sector budget support programme**

Tajikistan. Since 2007, in order to support the social protection sector budget support programme, the Commission has developed a **technical assistance and capacity development programme** focusing on: (a) improvement of the targeting and rationalisation of the social benefit schemes; (b) the development of social services; (c) the modernisation of the residential care institutions system; (d) the development of labour market policy. The overall budget of the programme is 5 million euro, and it was contracted out to seven European consultancy firms with contracts varying from 90 000 euro to 2,5 million euro.

39. The Commission made use of all these delivery modes (see **Table 2**).

**NUMEROUS SMALL PROJECTS AND FINANCING INSTRUMENTS:  
A MANAGEMENT CHALLENGE**

40. As indicated in **Table 2**, grants and service contracts constituted a large proportion by number (but a small proportion by value) of the Commission's aid efforts in Central Asia. The administrative implications of such a high number of programmes can be considerable<sup>21</sup>.

41. The EU delegation in Kyrgyzstan was managing 56 contracts at the time of the audit. The delegation reported that it was significantly constrained in its ability to visit the places where the contracts' activities were implemented. The delegation was also providing support<sup>22</sup> for another 99 contracts managed by the headquarters services.

<sup>21</sup> For example, with grant programmes, the Commission staff, including those in the delegations, have to manage the entire project cycle, i.e. drafting and issuing calls for proposals, briefing participants, drawing up and signing contracts, monitoring and supervising implementation, managing financial and payment cycles, arranging audits, evaluations and reporting.

<sup>22</sup> This type of support involves providing feedback on the proposals submitted by the beneficiaries, coordinating the activities of the project in the country and representing them by participating in committees, seminars, etc.

**TABLE 2**

**AMOUNTS CONTRACTED UNDER THE DCI AND DCI-THEMATIC PROGRAMMES  
BETWEEN 2007 AND UP TO END OF 2012 BY DELIVERY MODE**

	Number of contracts/ agreements signed	Amount contracted up to end of 2012 (million euro)	% of the total (by value)
Contribution agreements	33	128	36 %
Budget support programmes	15	98	28 %
Grants to NGOs	143	61	17 %
Service and works contracts	244	66	19 %
	435	353	100 %

Source: Court analysis of data from the Commission's CRIS database.

**42.** The Commission provides development assistance in Central Asia through various financing instruments. The Development Cooperation Instrument is the main source of funds, through its geographic programme for Asia as well as through five thematic DCI instruments: Food Security, Non-State Actors and Local Authorities in Development, Migration and Asylum, Environment and Sustainable Management of Natural Resources including Energy, and Investing in People. Five global instruments also provide funding to Central Asia (see paragraph 8) as well as the European Neighbourhood and Partnership Instrument (ENPI), which fall under the responsibility of different parts of the Commission's headquarters.

**43.** This panoply of sources of finance added further complexity to the management of EU spending, both within delegations and centrally. For example, for 31 of the 56 contracts which the delegation in Kyrgyzstan was managing at the time of the audit, it liaised with EuropeAid's geographical unit for Central Asia. For the remaining 25, it liaised with six other units in EuropeAid and one unit in the EEAS. The delegation's support for the other 99 contracts required it to liaise with 11 units in EuropeAid, two other EU delegations (in Kazakhstan and Tajikistan), the EEAS, and the Commission's Directorates-General for Research and Innovation, and Economic and Financial Affairs.

**44.** The proliferation of spending instruments also makes it difficult to establish (without time-consuming ad hoc exercises) how much the EU has spent per country and per sector in Central Asia:

- the Commission's Common RELEX Information System (CRIS) does not identify spending per partner country in the regional programmes<sup>23</sup>;
- CRIS reports do not include the country component of regional and global programmes, particularly under the European Instrument for Democracy and Human Rights (EIDHR) and the Instrument for Stability (IfS);
- finally, the Commission does not specify spending in Central Asian countries under programmes financed by the European Neighbourhood and Partnership Instrument<sup>24</sup>.

<sup>23</sup> See the European Court of Auditors Special Report No 5/2012 on the Common External Relations Information System ([www.eca.europa.eu](http://www.eca.europa.eu)).

<sup>24</sup> Such as the Transport Corridor Europe–Caucasus–Asia (Traceca) and the Interstate Oil and Gas Transport to Europe (Inogate).



## LITTLE FOCUS ON ADMINISTRATIVE COSTS

45. The provision of development assistance, often in difficult circumstances, can be a labour-intensive and costly activity. Decisions about what and how to spend need to balance considerations of likely results on the one hand and costs on the other, with results (particularly in a sensitive area like Central Asia) judged from a comprehensive perspective. Nonetheless, the costs of administering segments of an aid budget are something of which an aid agency can reasonably be expected to be aware.
46. The Commission manages administrative costs by a combination of methods, including workload assessments for each delegation. However, the Commission has not set up a system for reporting on the overall administrative cost involved in delivering its development assistance, at regional or country level.
47. The Court estimated the administrative cost of the Commission's development activities in Central Asia on the basis of Commission data. The Court included in its estimate the staff cost and administrative cost associated with the development assistance staff in headquarters and delegations. Support expenditure (e.g. Europa Houses<sup>25</sup>, consultancy and monitoring services) was also included.
48. The Court calculated that relevant administrative costs in 2011, the latest complete year at the date of the audit, were 10,5 million euro (see **Annex III**). Out of this, 6,6 million euro (63 %) was for development co-operation work (staff salaries and other operational expenditure) in the three delegations that were then open (see paragraph 6); headquarters staff costs were 1,8 million euro (17 %) and various support expenditure (including the cost of consultancy to support the identification and formulation of projects, results-oriented monitoring and evaluation and also costs related to Europa Houses) was 2,1 million euro (20 %)<sup>26</sup>.
49. This sum represents 14,6 % of the development spending in Central Asia in 2011 (71,7 million euro)<sup>27</sup>. The percentage should be regarded as an order of magnitude rather than as a precise estimate: the arithmetic is sensitive for example to changes in the level of annual disbursements.

<sup>25</sup> Europa Houses, set up by the Commission, are acting as technical support offices for EU actions and increase the awareness and visibility of EU policies in countries where there is no EU delegation.

<sup>26</sup> Costs relating to technical assistance associated with the implementation of specific projects in partner countries were not included in support expenditure in the calculation.

<sup>27</sup> Excluding consultancy costs relating to identifying projects, results-oriented monitoring and evaluation from the calculation would reduce this figure to 12,7 %.

- 50.** In addition, the individual budgets of programmes included administrative costs. For example, the Court's examination of 20 grants and contribution agreements with international organisations showed that, on average, 6 % of their budgets were identified as general administrative costs. For budget support programmes, the corresponding figures were much lower in percentage terms. The cost of the regular progress reviews which were contracted to external experts added up to 1,1 % of the programme's budget in Tajikistan and about 1,6 % in Kyrgyzstan.
- 51.** Since the Commission does not report an indicator for administrative costs, it is not possible to compare these estimates with the cost it incurs in running aid programmes elsewhere in the world. The Court however notes with concern that the Commission appears to have imperfect information on administrative costs representing a substantial proportion of the cost of its development assistance spending in Central Asia.

#### OBJECTIVES AND INDICATORS: A MIXED PICTURE

- 52.** The Court's examination of programmes in the three countries visited revealed a mixed picture in so far as setting SMART objectives (and the indicators to assess them) was concerned, as the examples below illustrate:
- in Tajikistan six out of seven technical assistance programmes examined had well-defined output targets for the preparation of sector studies, strategies, guidelines and recommendations to the government. On the other hand, the technical assistance programme supporting the Ministry of Finance had vaguely formulated objectives;
  - in Kyrgyzstan the food security information programme contained vague indicators, such as 'food security information is generally accepted to be accurate and timely', 'adequate numbers of staff are trained' and, 'usefulness of crop forecast'. On the other hand, the programme for 'operationalising good governance for social justice' defined quantified targets;
  - in Uzbekistan two out of the four programmes examined had quantifiable objectives but no benchmarks and baselines were defined to allow assessment of the added value of the programmes.

### BUDGET SUPPORT: THE COMMISSION COULD HAVE BEEN MORE RIGOROUS ...

- 53.** Sector budget support (SBS) constitutes a transfer of EU resources to the national treasury of a beneficiary country in support of sector-specific policy goals and reform objectives. The Commission's development assistance in Central Asia included SBS to Kyrgyzstan and Tajikistan in favour of social protection, under which it paid, in the period 2007 to 2012, 39,4 million euro and 24,4 million euro respectively.
- 54.** The Commission requires any country which receives budget support to put in place a relevant and credible programme to improve public financial management (PFM)<sup>28</sup>. In order to ensure that a sector budget support programme achieves its objectives, both in terms of sector development and PFM improvements, the Commission attaches conditions. The Commission makes payments of budget support in tranches spread over several years, subject to the country's fulfilling these conditions, which need to be clear and to be rigorously enforced if they are to be effective.
- 55.** The Commission followed this pattern in its budget support programmes in Tajikistan and Kyrgyzstan. Both governments had a PFM programme; in both cases the Commission made SBS disbursements conditional upon progress in carrying it out.
- 56.** In 2007, the Commission suspended the Tajik SBS programme for 2 years because the International Monetary Fund (IMF) discovered that the Ministry of Finance had issued guarantees that were putting the state budget and macro-economic stability at risk. The programme was resumed in 2009 following agreement with the IMF. The Commission's reaction contributed to the resolution of the issue.

<sup>28</sup> Based on the weaknesses and strengths identified by the PEFA (Public Expenditure and Financial Accountability) assessment. The PEFA-PFM Performance Measurement Framework is a tool to assess the PFM system in a country using 28 indicators.

**57.** However, in other respects the Commission's enforcement of PFM conditions was insufficiently rigorous. The Commission disbursed its budget support in Kyrgyzstan in three tranches<sup>29</sup>, each of which was preceded by an assessment of progress towards PFM objectives<sup>30</sup>. The Commission assessed that progress had been slow, but justified the disbursement of each of the three tranches mainly because it considered that the Kyrgyz government remained committed to further reforms. There was no clear evidence for this opinion. A core part of the Commission's reasoning for its disbursement decisions is based on its assessment of the partner countries' commitment to reform rather than on the actual progress achieved<sup>31</sup>.

**58.** With regard to SBS for social protection during the period 2007–09 in Tajikistan, the Commission had not defined strict deadlines by which the government had to comply with the conditions. As a result, the partner country did not have an incentive to press forward with required reforms, and implementation of the reforms required from government was delayed. However, the Commission addressed this weakness in the subsequent sector budget support programme.

#### **... AND IT DID NOT DECISIVELY LINK IT WITH CONDITIONS DESIGNED TO MINIMISE CORRUPTION**

**59.** Corruption is a serious problem in the republics of Central Asia. In Transparency International's Corruption Perceptions Index, all were rated at less than 28 out of 100 in 2011, with Kyrgyzstan, Turkmenistan and Uzbekistan in the bottom 10 % of the 182 countries surveyed. Besides that, international organisations regularly report that the anti-corruption strategies of Kyrgyzstan and Tajikistan are progressing poorly<sup>32</sup>.

**60.** Such pervasive corruption may affect the Commission's reputation and reduce the effectiveness of the support programmes.

**61.** PFM programmes can be used to combat corruption. The Tajik and Kyrgyz PFM programmes contained measures aimed at improving the efficiency and transparency of government financial management which could be expected to assist in reducing corruption, such as improved internal controls, procurement procedures and internal auditing in the public administration.

<sup>29</sup> June 2008, December 2010, July 2011.

<sup>30</sup> The Commission used reports by external consultants as input for these assessments.

<sup>31</sup> This practice diverges from the Court's recommendation in the Special Report No 11/2010 'The Commission's management of general budget support in ACP, Latin American and Asian countries': The Commission should support disbursement decisions with a more structured and formalised demonstration of satisfactory progress during the period concerned by clearly setting the criteria against which progress is to be assessed and specifying the progress made and the reasons why progress may not have been according to plan.

<sup>32</sup> Organisation for Economic Cooperation and Development (OECD) reports: Istanbul Anti-Corruption Action Plan, Second Round of Monitoring, Kyrgyz Republic, Progress Report, 24/2/2012 and Istanbul Anti-Corruption Action Plan, Second Round of Monitoring, Tajikistan, Progress Report, 16/2/2012.

62. The Commission implements PFM, technical cooperation and justice reform programmes, which certainly have a positive impact on the prevention of corruption. However, the Commission did not attempt to tie its budget support programmes directly to specific anti-corruption measures, for example criminalisation of corruption, corruption prevention measures and strengthening public institutions' accountability.

## IMPLEMENTING AND REPORTING

63. Paragraphs 64 to 81 below examine three aspects of the Commission's management of its aid policy over the audited period: to what extent and how rapidly the Commission succeeded in implementing its aid policy, whether it modified its programmes in the light of experience and the way in which it reported on its provision of development assistance in Central Asia.

### IMPLEMENTATION SLOW OVERALL BUT VARIABLE ...

64. As at the end of 2012, 50 % of overall planned commitments for the 2007–13 period under the DCI-Asia instrument had been contracted and 27 % paid (see **Table 3**).

TABLE 3

### CENTRAL ASIA REGIONAL STRATEGY 2007–13. DCI-ASIA IMPLEMENTATION AS OF 31.12.2012 — CONTRACTS AND DISBURSEMENTS

Area	Total allocations 2007–13 (million euro)	Contracted amounts 2007–12	Disbursed amounts 2007–12
Kazakhstan	74	60 %	28 %
Kyrgyzstan	106	73 %	45 %
Tajikistan	128	65 %	32 %
Turkmenistan	53	21 %	13 %
Uzbekistan	71	28 %	9 %
Region	242	42 %	26 %
Total	674	50 %	27 %

Source: EU–Central Asia Development Cooperation, European Commission, 2011 and data extracted from CRIS.

- 65.** The audit identified cases in which there were long delays in getting programmes under way. For example, in the sample of programmes examined in Uzbekistan, it took, on average, 2 years to sign the financing agreement and 1 year to start the implementation of the programme. Heavy bureaucratic procedures in recipient administrations, difficulties in finding suitable fundable activities and complex Commission procedures contributed to delaying the strategy implementation. About three quarters of the respondents to the Court's survey of aid donors said that the Commission's procedural and legal requirements were too complicated.
- 66.** Speed of implementation varied significantly among recipient countries. Progress has been particularly slow in Turkmenistan and Uzbekistan. This was mostly due to the differences in priorities and approaches to development cooperation between the EU and these countries. In addition, important political events, such as the Andijan events in Uzbekistan in May 2005, slowed development cooperation activities during the first 3 years of the period examined, and it was difficult for the Commission to compensate for the time lost.
- 67.** In Kyrgyzstan and Tajikistan implementation was faster. This reflects the improvement in development cooperation between the EU and the two countries, which are both Paris Declaration adherents. During the period examined, a significant part of the assistance to these partner countries was provided through sector budget support. During the period 2007 to 2012, the Commission provided budget support amounting to 24,4 million euro for Tajikistan (22 % of the aid provided) and 39,4 million euro for Kyrgyzstan (36 % of the aid).

#### **... WITH THE REGIONAL PROGRAMMES FAILING TO ACHIEVE A GENUINE REGIONAL DIMENSION**

- 68.** As set out in its RSP, and in conformity with the EU strategy, the Commission committed about one third of the strategy budget to regional programmes aiming to achieve leverage for its political efforts to promote regional cooperation (see paragraphs 19 to 20). Although this was consistent with the strategy objectives, the regional programmes have not achieved the 'genuine regional dimension both in terms of joint implementation and in terms of regional impact' envisaged by its development strategy<sup>33</sup>.

<sup>33</sup> European Commission, Regional Strategy Paper for Assistance to Central Asia for the 2007–13 period.

- 69.** Running regional programmes added an extra layer of difficulty for the Commission. It needed to obtain agreement from all beneficiary countries at each stage of programme preparation, though the degree of political commitment to regional programmes varied from country to country and from programme to programme.
- 70.** A considerable share of the regional funds of the RSP<sup>34</sup> have been committed to programmes such as Erasmus and Tempus (36 %) and the Investment Facility for Central Asia programme (29 %). These 'multi-country' programmes mainly replicate similar activities in more than one beneficiary country rather than promote cooperation between the Central Asian republics.
- 71.** The Border Management Programme for Central Asia (BOMCA) provides an example of varying participation among recipient countries. BOMCA focuses on border management reform. With a total commitment of 33,7 million euro from 2003 until 2014, its long-term strategic goal is the adoption of EU standards and good practices in the field of integrated border management. BOMCA is implemented by the United Nations Development Programme, based in Bishkek with offices in each of the five republics.
- 72.** Kyrgyzstan and Tajikistan are relatively committed to participation in BOMCA. However, after almost 10 years of implementation, Uzbekistan and Turkmenistan participated selectively in the regional capacity-building activities, and were unwilling to share their professional experience with the other countries.

<sup>34</sup> RSP allocated 242 million euro to the regional cooperation.

## LEARNING FROM EXPERIENCE: SUCCESSES BUT ALSO MISSED OPPORTUNITIES

- 73.** In 2010 the Commission carried out a mid-term review (see paragraph 21) in order to assess whether the priorities and the delivery modes used during the first indicative programme 2007–10 were still appropriate. As a result of the mid-term review the 2011–13 indicative programme took into account new developments in the partner countries, such as the gradual development of civil society, the need for technical assistance programmes to be combined with budget support and institutional reform programmes, the requirement to support local production and infrastructure.
- 74.** The indicative programme also included some new types of programmes that had been tested in other geographical regions, such as the investment facility programme<sup>35</sup>. The Commission did not however take the opportunity to give higher priority to promoting twinning and secondment of staff between EU and Central Asian administrations, a priority identified in the Council's strategy for EU–Central Asian relations.
- 75.** The Commission made significant efforts to learn from experience and improve programmes during the period examined. The relative stability and continuity of the Commission's support in terms of priority sectors, delivery modes and programmes meant that lessons learnt could be taken into account. Bilateral programmes, such as the one to improve mother and child health services in Uzbekistan (see **Box 2**) and the second launch of the Institution Building and Partnership Programme improved from lessons learnt in previous phases. The Central Asia Drug Action Programme (CADAP) also provides an example of a regional programme in which lessons learnt led to improved alignment with the needs of the partner countries.
- 76.** On the other hand, two Results-Oriented Monitoring (ROM) reports, assessing the impact and sustainability of the BOMCA phase-7 programme, were made available only after the subsequent phase had been designed.

<sup>35</sup> Programmes initiated earlier in Africa (2007) and in Neighbourhood countries (2008).



**77.** The budget support programmes in Kyrgyzstan and Tajikistan followed earlier, comparable programmes in support of food security. The Commission reviewed experience of these earlier programmes in 2008 and made improvements in sector-specific areas and in the use of technical assistance to support the programmes. However the Commission did not take on board useful recommendations such as the following:

- to put the programmes on a multiannual basis, as 1 year is a very short period to allow for overall progress assessment and aid predictability;
- to define clearly the conditions for releasing payments;
- to focus on a few key areas, with two or three conditions spread across several years.

## BOX 2

### UZBEKISTAN

The **improvement of mother and child care services** is a programme which focuses on the achievement of Millennium Development Goal (MDG) 4 — Reduction of child mortality and MDG 5 — Improvement of maternal health. The programme started in 2007 with a budget of 3,5 million euros and is implemented by the United Nations Children's Fund (Unicef) with the cooperation of the Uzbek Ministry of Health. Following a positive assessment of the programme made in 2010, the Commission decided to finance the second phase of the programme with an additional budget of 7,2 million euros.

## REPORTING: ON ACTIVITY RATHER THAN RESULTS

- 78.** The Commission produces two key annual reports relevant to its development assistance. First, the Director-General of EuropeAid produces an annual activity report on the directorate-general's activities. Second, the Commission publishes an annual report on EU development and external assistance policies and their implementation. Both reports contain a chapter on development aid to Central Asia.
- 79.** The annual activity reports contain seven indicators for Central Asia<sup>36</sup>. Though of general relevance to the success of EU development assistance in Central Asia, these indicators are different from those set in the Regional Strategy Paper and the indicative programmes; nor are they directly linked to the intended results of the Council's new partnership strategy for Central Asia.
- 80.** The Central Asia section in each year's annual report on EU development and external assistance policies is narrative in style. Although it contains some examples, it provides little information on measurable results of EU activities and their impact on the population, does not present indicators relevant to the EU's activities and does not compare achievements with targets. The report generally avoids references to difficulties and obstacles to the implementation of the EU's objectives.
- 81.** None of the reports produced compares the distribution of spending with the distribution set out in the RSP (see paragraph 20) or provides information about administrative costs (see paragraphs 45 to 51).

<sup>36</sup> These indicators are:  
 (i) Partnership cooperation agreements: Number of PCAs ratified; (ii) Democratisation/ Rule of law — Number of countries moving towards elections up to OSCE norms and Council of Europe/Venice Commission standards; (iii) Education initiative for Central Asia: Number of CA countries associated with the Bologna process; (iv) Environment/water/energy: Countries adopting national climate change strategies and implementing the EU's; (v) MDG 1 — Percentage of Central Asia population under poverty level; (vi) MDG 4 — Infant mortality; (vii) MDG 6 — Combat against HIV/AIDS, malaria and other diseases.

## CONCLUSIONS

- 82.** The Commission and the EEAS made serious efforts, in challenging circumstances, to plan and put into effect the programme of EU development assistance to Central Asia set out in the Regional Strategy Paper of April 2007. Planning and allocation of assistance were generally satisfactory. Implementation was less so.
- 83.** The Commission discussed priorities with partner countries and sought to align its spending plans with their national priorities. The geographical distribution of aid took account of relative prosperity. Projects chosen for EU support all contributed towards meeting the broad objectives set out in the Regional Strategy Paper. However, the Commission provided assistance to a larger number of sectors than is consistent with best practice.
- 84.** The Commission made use of a variety of delivery modes in implementing its plans. It included a large number of small projects, which placed a greater administrative burden on delegations. Managing the programme was also made more difficult by the wide range of financial instruments involved and multiple lines of reporting, which makes it difficult to establish how much the EU has spent per sector and per country in Central Asia. The Commission has not attempted to assess the overall administrative costs of its development assistance programme in Central Asia.
- 85.** The Commission could and should have been more rigorous in managing its budget support programmes in Tajikistan and Kyrgyzstan and tied it to specific anti-corruption measures. Disbursement decisions were based on partner countries' commitments to reform rather than on progress achieved.
- 86.** Implementation was slow overall, though with some significant variations. The regional programmes did not achieve a genuine regional dimension; a significant share consisted merely of 'multi-country' facilities available to each partner country individually. The Commission set up arrangements to enable it to learn from experience and improve its programmes over time. This process yielded useful results, although in some cases they were not always available on time, and in others useful recommendations were not taken on board. Its reports focused on activity rather than results.

## RECOMMENDATIONS

**87.** Assuming that European Union development assistance programmes in Central Asia will continue<sup>37</sup>, the Court recommends that in planning and implementing the future development assistance the Commission and EEAS should draw on experience from the 2007–12 period. In particular, the Commission and EEAS should:

- design any future regional programmes so that they are likely to achieve a genuine regional dimension;
- concentrate all assistance provided on a small number of sectors;
- set up a system for calculating and reporting on the overall administrative cost involved in delivering its development assistance;
- define and apply robust and objectively verifiable conditions for any continuing budget support programmes, in particular giving sufficient attention to support for anti-corruption mechanisms;
- improve programme design and delivery in the light of lessons learnt and changing circumstances;
- report on results and impact in a way that allows comparison with plans and objectives.

<sup>37</sup> COM(2011) 840 final of 7 December 2011.

This Report was adopted by Chamber III, headed by Mr Karel PINXTEN, Member of the Court of Auditors, in Luxembourg at its meeting of 15 October 2013.

*For the Court of Auditors*



Vítor Manuel da SILVA CALDEIRA  
*President*

## GENERAL INFORMATION ABOUT THE CENTRAL ASIAN REPUBLICS

Country	Kazakhstan	Kyrgystan	Tajikistan	Turkmenistan	Uzbekistan	Source
<b>General</b>						
Area ('000 sq.km.)	2 725	200	143	488	447	1
Population (in '000, July 2013 estimate)	17 736	5 548	7 910	5 055	28 661	1
Population growth (July 2013 estimate)	1,20 %	0,97 %	1,79 %	1,15 %	0,94 %	1
<b>Economy</b>						
GDP (PPP in billion US dollar, 2012 estimate)	231,3	13,47	17,72	47,55	104,7	1
GDP per capita (PPP in US dollar)	13 040	2 430	2 240	9 410	3 650	1
GDP growth, 2011	7,5 %	5,7 %	7,4 %	14,7 %	8,3 %	2
<b>Official development assistance (ODA)</b>						
ODA received per capita (in US dollar)	18	65	55	7	7	3
EU ODA per capita (in US dollar)	1,0	5,6	4,0	1,9	0,4	4
<b>Corruption and institutional reforms</b>						
Corruption Perceptions Index (0 worst to 100 best)	28	24	22	17	17	5
Civil society (1 best to 7 worst)	6,00	4,75	6,00	7,00	7,00	6
Judicial framework and independence (1 best to 7 worst)	6,50	6,25	6,25	7,00	7,00	6
Democracy score (1 best to 7 worst)	6,54	6,00	6,18	6,93	6,93	6

## Sources:

- 1 The World Fact Book, Central Intelligence Agency, updated 2013.
- 2 European bank for Reconstruction and Development (EBRD), Transition Indicators 2012.
- 3 World Bank 2012, annual average based on data for 2008, 2009 and 2010.
- 4 Court's estimate based on the average annual disbursements from 2007 to 2012 from the CRIS database (the regional programmes are evenly distributed among the partner countries).
- 5 Transparency International, Corruption Perception Index, 2012.
- 6 Freedom house, Nations in Transit, 2012.

## ANNEX II

## PROGRAMMES EXAMINED

Instrument	Decision number	Programme	Amount committed (in thousand euro)
<b>Kyrgyzstan</b>			
DCI -ASIE	19225	Support to Economic Diversification in Kyrgyzstan, Agroprocessing	1 600
DCI -ASIE	19222	Support to Prison Reform in Kyrgyzstan	3 000
DCI -ASIE	19241	Support to the Kyrgyz Education Sector	5 500
DCI -ASIE	19237	Sector Policy Support Programme — Social Protection and PFM — Kyrgyzstan 2007/09	9 000
DCI -ASIE	21363	Sector Policy Support Programme — Social Protection and PFM — Kyrgyz Republic 2007–09 — 3 <sup>rd</sup> allocation	9 000
DCI -ASIE	20590	Operationalising good governance for social justice	3 000
DCI -ASIE	22484	Sector Policy Support Programme, Social Sector — Kyrgyzstan 2010	13 000
DCI -ASIE	21058	Border Management in Central Asia — Phase 8 (BOMCA 8)	8 000
DCI -ASIE	19812	Central Asia Drug Action Programme Phase 5 (CADAP 5)	5 000
DCI -FOOD	19169	Sector Policy Support Programme — Social Protection and PFM — Kyrgyzstan 2007/09	9 000
DCI -FOOD	21863	Support to the Improvement of a Food Security Information System in the Kyrgyz Republic	2 000
<b>Total</b>			<b>68 100</b>
<b>Tajikistan</b>			
DCI-ASIE	21994	Human Development Support Programme	26 000
DCI-ASIE	19236	Sector Policy Support Programme — Social Protection, Tajikistan 2007/09	9 000
DCI-ASIE	19667	Technical Assistance to Support the Social Sector Policy in Tajikistan	5 000
DCI-ASIE	20325	Public Finance Management Modernisation Project	2 000
DCI-FOOD	19168	Food Security Programme — Tajikistan — 2007	9 000
DCI-FOOD	21365	Support to the Social Safety Nets — Global Food Facility Programme (Tajikistan)	7 750
<b>Total</b>			<b>58 750</b>
<b>Uzbekistan</b>			
DCI -ASIE	20509	Support to Criminal Judicial Reforms in Uzbekistan	10 000
DCI -ASIE	22308	Institution Building and Partnership Programme	2 200
DCI -ASIE	22311	Strengthening the Bi-cameral Parliamentary System and Networking with Regional Authorities	2 000
DCI -ASIE	22373	Improvement of the Mother and Child Health Services in Uzbekistan — Phase II	6 700
<b>Total</b>			<b>20 900</b>

Source: EuropeAid's CRIS Data Warehouse.

## COMMISSION ADMINISTRATIVE COSTS

### INTRODUCTION

1. The Court estimated the administrative costs incurred by the Commission in disbursing aid in Central Asia.
2. The Court took into account the following cost elements:
  - staff costs: salaries, allowances and pensions of Commission officials, contract staff and local staff working on Central Asia development assistance, both at headquarters and in the EU delegations;
  - office, equipment and other running costs associated with those staff in headquarters and in the delegations;
  - support expenditure related to Central Asia development assistance incurred by the Commission for its own purposes (rather than those of the recipient country), including consultancy work to support the identification and formulation of projects, result-oriented monitoring and evaluation and also costs related to Europa Houses<sup>1</sup>.

### SOURCES AND CALCULATION METHOD

3. The Court identified the following annual costs:

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<sup>1</sup> Costs relating to technical assistance associated with the implementation of specific projects in partner countries are not included.

## ANNEX III

### ESTIMATED ADMINISTRATIVE COST OF THE PLANNING AND IMPLEMENTATION OF EU DEVELOPMENT ASSISTANCE TO CENTRAL ASIA

Description	Thousand euro	Source/comment
Administrative cost at headquarters (Cost attributed to development assistance)	1 786	Figure for 2011 <sup>1</sup>
Administrative cost of delegations (Cost attributed to development assistance)	6 611	Figure for 2011 <sup>2</sup>
<b>Sub-total</b>	<b>8 397</b>	
Support expenditure		Annual averages calculated by the audit team, based on CRIS data for contracts since 2007 (for ROM 2008–11).
— Europa Houses	700	
— Identification and formulation of projects	560	
— Results-oriented monitoring	700	
— Evaluations	145	
<b>Sub-total</b>	<b>2 105</b>	
<b>Total</b>	<b>10 502</b>	

<sup>1</sup> Based on the standard cost of employing officials as used in legislative financial statements. The standard cost is provided by the Commission's Directorate-General for the Budget and comprises salaries and allowances together with office and equipment costs.

<sup>2</sup> For officials and contractual agents the cost is based on an average for those stationed in delegations. For local agents and local running costs it is the real costs recharged by EEAS which are used.

### LIMITATIONS

4. Some administrative expenditure is not included; employer's pension costs are included only for local staff in delegations and not for officials and contract staff.
5. No amounts are included for support provided by other Commission units (administration, training, IT, etc.) or the EEAS.
6. The figures are for the year 2011. The delegations in Kazakhstan, Kyrgyzstan and Tajikistan were fully operational during that year. There were Europa Houses in both Uzbekistan and Turkmenistan.



## REPLY OF THE COMMISSION AND THE EEAS

### EXECUTIVE SUMMARY

#### II.

The Commission and EEAS would like to underline that the objective difficulties of Central Asian countries to advance with the reform agenda and their institutional framework are among the main limiting factors for the implementation of development cooperation.

#### III.

The Commission and the EEAS undertook specific efforts, notably for MIP 2011–13, to concentrate the areas of intervention for bilateral assistance. The additional sectors stem from the regional and thematic components: these are an integral part of the DCI Regulation, which the Commission has to fully implement.

#### IV.

The Commission and the EEAS would like to recall the following:

- the decision of the modality of implementation is the result of a specific analysis and integrated evaluation for each programme, and it includes a consultation and quality scrutiny process;
- the Commission is working to reduce the number of small-size projects, which originate mainly from the thematic programmes, where the actions have intrinsic limited dimensions;
- the financial instruments stem from the established legal basis; reporting on the implementation necessarily involves different geographic and thematic services at headquarters;
- the information on spending for different programmes and instruments is available;
- the Commission is already using different tools to evaluate the administrative costs involved with development cooperation.

#### V.

The Commission and the EEAS would like to underline that ongoing budget support programmes are linked to specific corruption prevention measures.

## REPLY OF THE COMMISSION AND THE EEAS

### INTRODUCTION

Eligibility criteria for budget support require a holistic approach based on credibility and positive implementation which are by nature general. Satisfactory progress should be based on a dynamic approach, looking at past and recent policy performance benchmarked against reform expectations, but allowing for shocks and corrective measures and refining the objectives and targets if necessary.

#### VI.

The Commission and the EEAS would like to underline that the objective difficulties of Central Asian countries to advance with the reform agenda and their institutional and political framework are among the main limiting factors for the implementation of development cooperation.

The Commission and the EEAS recall the peculiarity of Central Asia regional programmes, which provided opportunities for dialogue and promote good neighbourhood relations and regional cooperation. A genuine regional dimension is not always feasible in the given present Central Asia political conditions.

The Commission, whenever relevant, has always taken on board the recommendations resulting from the implementation of the programmes.

#### VII.

The Commission and the EEAS will devote specific attention to the Court's recommendations and follow them up for future cooperation actions in all cases in which this is relevant and feasible.

#### 13.

The Council's recommendations, that EU efforts should become more targeted and should contribute to the visibility and impact of the EU actions in Central Asia, have been duly acknowledged. Actions include an EU lead role on flagship initiatives taken by EU Member States themselves — France and Germany for Rule of Law, Italy and Romania for Environment and Water, with Finland taking an active supportive role.

EU impact and visibility are also enhanced when entrusting the implementation of EU assistance programmes directly to consortia of EU Member States or EU agencies — for instance in rule of law, border management and fight against drugs, education and environment, and for investment facilities through EU financing institutions (EBRD, European Investment Bank, Kreditanstalt für Wiederaufbau, Agence Française de Développement).

#### 14.

With a view to the European Parliament's conclusions, the Commission and the EEAS recall that the country allocations derive from the EU Budget Authorities' final decisions, while policy priorities are ultimately decided by the EU Council.

The development and cooperation framework is not intended to cover all the policy components of the EU Central Asia Strategy. Development cooperation is focused on supporting the implementation of the strategy in selected areas, namely Rule of Law, Education and Environment/Water.

The EU Central Asia Strategy establishes a joint agenda for enhanced cooperation, followed up by regular sector policy dialogue. Priority areas have been agreed with EU Member States and Central Asian countries and they do include rule of Law, Democracy and Human rights.

In 2012, the Commission adopted a new set of budget support guidelines, which include specific requirements to improve the reporting standards and it also addresses concerns of corruption. A regular evaluation of budget support operations is carried out in the context of each disbursement request for Tajikistan and Kyrgyzstan. This documentation is available to the Parliament.

## REPLY OF THE COMMISSION AND THE EEAS

### OBSERVATIONS

#### 23.

The Court criticises that the Regional Strategy Paper and indicative programmes provide only limited justification for the Commission's detailed choice of spending priorities, both in terms of choice of focal sectors and of how much should be spent on regional and how much on bilateral programmes. While this might not be spelled out in detail in the policy documents, these choices have been made carefully and in line with the relevant programming and strategy papers.

The choice of allocating financial resources to different sectors is a fine balancing exercise between focusing on fewer sectors and evaluating the risk of concentrating aid funds on too narrow a range of sectors. These decisions are dynamic in their nature and have evolved along the programming period 2007–13. Moreover, the key principle for programming the regional-bilateral mix has been the complementarity between policy goals, more specific at country level — e.g. poverty alleviation, social services delivery, local development — and more cross-cutting issues of regional nature. During the programming period, the prominence of the bilateral envelopes over the regional one has always been recognised. Building on experience from previous programmes, the Commission discussed aid priorities with the governments of the recipient countries and sought to align its cooperation framework with national plans, where they were available.

It is correct that continuity of support, where relevant, was an important factor in this exercise since it is one of the key objectives to ensure the sustainability of reforms. The sector-wide approach chosen by the EU to promote reforms requires a degree of continuity in its own engagement and support.

It has to be underlined that the programming exercise was carried out in spite of objective constraints in Central Asia; notably the fact that the majority of Central Asian countries do not have elaborated national development strategies nor do they adhere to the framework for development and cooperation (Paris Declaration).

#### 30.

The Court's observation reflects the overall difficult political and institutional context in Uzbekistan. Despite the difficulties generated by periods of political tensions between the EU and Uzbekistan, the structural limitations of the country's approach to development cooperation, and the absence of an EU Delegation on the ground, EU development cooperation has nevertheless been able to implement concrete actions in Uzbekistan in the period 2005–12.

Specific efforts have been made in recent years to increase the degree of ownership by the Uzbek authorities on cooperation programmes, and this has resulted in innovative operations such as Judicial Reform and Sustainable Rural Development.

#### 32.

Please see reply to paragraph 34.

#### 34.

The Commission fully agrees with the aid effectiveness principle of focusing aid efforts on a maximum of three sectors in programming its assistance to each partner country. It undertook all efforts to comply with this and other aid effectiveness principles during the programming period 2007–13.

For Kyrgyzstan, the MIP 2011–13 identifies Education, Rule of Law and Social Protection/Income Generation as focal sectors for bilateral cooperation. As support for reform of the state benefit system is directly linked to support to income generation for the poor, the projects in this area are considered to cover the same sector. Projects in other sectors correspond to MIPs from earlier periods.

For Tajikistan, the MIP 2011–13 identifies PFM, social sectors (Health and Social protection), and Private Sector Development as the focal sectors for intervention. Since PFM is treated as a cross-cutting issue, there are de facto three focal sectors. Projects in other sectors correspond to MIPs from earlier periods.

## REPLY OF THE COMMISSION AND THE EEAS

For Uzbekistan, the MIP I for 2007–10 defines two focal sectors: Increasing Living Standards through Rural and Local Development Schemes and Good Governance/Rule of Law. MIP II 2011–13 identifies three focal sectors: Raising Living Standards through Rural and Local Development Schemes; Rule of Law and Justice Reform; Enhancing Trade, Business Climate, and SMEs. Thus, both MIPs have covered de facto the same two areas, namely: Increasing Living Standards through Rural and Local Development schemes; and Governance and Rule of Law.

The mention of Environment, Energy and Education refers to areas which are mainly dealt with through actions at regional Central Asia level for all five countries.

### 35.

The Commission has striven to provide complementary assistance in areas of high priority for the partner countries, so as to enhance impact and results.

The specific regional and thematic components are an integral part of the DCI Regulation, which the Commission has to fully apply. The sectors covered under the regional programme are part of the Central Asia programming document and follow a comprehensive policy approach in line with Central Asia partner countries' needs. Human rights issues are dealt with under the EIDHR.

### 41.

The 56 reported contracts include not only the mainstream cooperation programmes (>1 000 000 euro), but also ancillary service contracts such as Short-term Technical Assistance (STTA), Audit, etc. for a maximum of 200 000 euro each. They also include contracts under financial instruments other than the DCI, i.e. EIDHR, IfS, Nuclear Safety and others.

The Commission would also like to underline two additional important structural features: many actions (STTA, monitoring, evaluation, and others) can be carried out only through service contracts following tenders under competition rules in line with the EU Financial Regulation. Furthermore, NGO grants/thematic programmes, also with civil society and local actors, receive limited amounts of funding by definition and are by nature of small size.

Many of the 99 contracts identified by the Court at the time of its audit, only require limited and sporadic feed-back from the Delegation in Bishkek, being often of global coverage.

### 43.

Regarding the Court's assessment on the panoply of sources of finance (see also point 84), the Commission notes that the number of instruments employed is justified by their nature, since under the DCI it is mandatory to concentrate only on a limited number of sectors which require long-term strategic cooperation. Thematic instruments and specific instruments, such as IfS, allow for the possibility to tackle other issues, requiring immediate action but outside the limited scope of the key sectors selected.

The reporting line is unique and it is only through the External Assistance Management Report to EuropeAid.

### 44. First indent

Concerning the Court's remarks about national spending within a regional programme, the Commission would like to underline that the logic of a regional programme is precisely aimed at avoiding a mere addition of country parts, and therefore no country-based breakdown of budget is provided for reasons of principle, neither in the formulation nor during implementation. This is in fact what Central Asian countries request and to which the Commission has always resisted in view of the intrinsic nature of regional programmes, i.e. a project that invests resources into joint activities and exchange of experiences to facilitate integration.

## REPLY OF THE COMMISSION AND THE EEAS

### 44. Second indent

Regarding the Court's findings, the Commission comments that, once contracted, CRIS can extract the information (without prejudice to the points presented above). Before contracting, breakdowns are indicative. CRIS therefore has the information regarding the country component of programmes following a global call, with the exception of regional contracts for the reason indicated above.

### 44. Third indent

In recent years, the framework for regional cooperation with Central Asian countries was further consolidated through their participation in the European Neighbourhood Regional Programme (East) supporting reforms and modernisation in core sectors of their development agenda where they face similar challenges, notably education, energy, transport, environment, water, fight against drugs, or for improving business climate and attracting EU investments. These provided a stimulus for strengthening the impact of EU cooperation and delivering concrete results.

The Court's report is relevant for ENPI countries (under the responsibility of Directorate F in DEVCO) as concerns the two programmes Inogate and Traceca which are the only two programmes to cover the ENPI region and are extended over Central Asia. While the sectoral focus of these two programmes is extremely clear, the Commission agrees that, the regional initiatives organised being shared over all the participating countries, it is not possible to identify exactly how much funding goes to each country without a time-consuming and tedious analysis of project activities and related costs. In addition, the nature and spirit of regional programmes is to promote collaboration on a multi-country level and not to have allocations to individual countries that might result in competition spirit rather than cooperation.

### 45.

The decision on where and how to spend development budgets depends on multiple criteria (political considerations, geopolitics, needs in a specific countries, security, reliability of beneficiary countries and implementing partners, etc.) and should not be examined only in the light of administrative costs in a specific region or country.

If the Commission decisions were only guided by the level of administrative costs, it would need to refrain from developing aid through the comparatively most expensive modalities of aid, such as through NGOs organisations, and from assisting the least-developed countries, which would be contrary to the purpose of our policy.

### 46.

The Commission monitors closely its administrative costs and undertakes efforts to reduce them whenever possible (MFF, budgetary reductions in chapter V, regular workload assessments, revised staff regulation, performance monitoring, etc).

A system for calculating and assessing costs relating to policies exists at the level of the EU institutions, within the ABB framework. For reasons of coherence, if the Court of Auditors wants to question this system, which was agreed by the budgetary authority, this should be done at an institutional level and not in the context of an individual policy.

### 47.

See reply to point 45.

### 48.

See reply to point 45.

### 49.

The Commission considers that as a result of the definition used, the level of administrative costs evaluated by the Court of Auditors is overestimated. Indeed, the Court includes in its calculation costs that are part of the actions, such as the technical assistance related to the identification, formulation and evaluation of projects and the aggregation of results (ROM), which are not considered administrative cost but part of the project implementation cycle.

### 50.

See reply to point 45.

### 51.

See reply to points 45 and 46.

## REPLY OF THE COMMISSION AND THE EEAS

### 52.

In its new programmes, the Commission aims to further remediate this weakness as data collection and statistical systems in the partner countries have improved.

#### 52. First indent

Given the absence of an official PFM strategy at that specific moment and the ongoing work on it, as well as the uncertainty due to the freezing of the Budget Support programme owing to the misreporting on the international reserve use by the National Bank of Tajikistan and the stop of the IMF programme in 2008, broader objectives were identified.

Thus, the Commission had to ensure its flexibility in responding adequately to these difficulties. This allowed a margin of manoeuvre and space to include technical assistance to support to reform groundwork, especially in social reforms and PFM.

#### 52. Second indent

With a view to supporting further overall reforms in the food security sector, the indicators remained relatively vague. However, due in part to this flexibility, the programme could help pave the way for important reforms in areas such as the household surveys, the information collection system on food prices and the training of data collectors.

#### 52. Third indent

The nature of the sampled projects and the Uzbek environment makes it difficult to determine solid baselines. However, indicators have been made as specific as possible. The Commission would like also to underline that in the specific Uzbek conditions a sector policy approach is not feasible. Therefore, there are clear limitations in terms of the possibility to predefine benchmarks and baselines in a broad and long-term perspective.

### 54.

To be eligible for budget support, a country must reply to four criteria:

- a well-defined national or sectoral development or reform policy,
- a stable macroeconomic framework,
- good public financial management or a credible and relevant programme to improve it,
- transparency and oversight of the budget (budget information must be made publicly available). The fourth eligibility criterion has been introduced in 2012.

### 57.

A distinction must be made, on the one hand, between the eligibility criteria for budget support, which require a holistic approach based on credibility and positive implementation and which are by nature general, and, on the other hand, the specific conditions, attached to variable tranches, which must indeed be clear and specific. Eligibility criteria must be met before and during the programme, while conditions need to be fulfilled before payments are made.

Satisfactory progress should be based on a dynamic approach, looking at past and recent policy performance benchmarked against reform expectations, but allowing for shocks and corrective measures and refining the objectives and targets if necessary. For some criteria (notably PFM), progress against initial reform milestones is particularly important; for others (macroeconomic, for example), maintaining stability-oriented policies is sufficient to confirm eligibility. Donors must acknowledge the complexity of reforms and define targets that are more reasonable and better sequenced. For example, progress in PFM reform in both countries receiving Budget Support has been slower than expected. Indeed PFM reform plans, initially largely prepared by external donors, were far too ambitious and underestimated the local capacities to implement them. To remedy this, PFM reforms and action plans were revised to be more realistic and additional Technical Assistance was provided.

## REPLY OF THE COMMISSION AND THE EEAS

The annual Budget Support reviews, the joint Donor-Government working groups and the external monitoring are additional tools put in place to better promote and monitor progress.

### 58.

Indeed earlier programmes were not very strict in terms of deadlines by which the government had to comply with the conditions, and it is clear that the floating tranche mechanisms should be avoided. This has been remedied in new programme design, through the scheduling of strict timetables for the reviews and time-bound indicators.

### 60.

The Commission is fully aware of the corruption problem in Central Asia and it is addressing it from the perspective of the different sectoral programmes, with a specific emphasis on transparency, accountability and efficient management of public finance. It is clear that Development and Cooperation cannot 'per se' eradicate habits and cultural attitudes, which are deeply rooted in the social behaviour.

### 61.

The steady improvement in financial control and public procurement systems pursued in the context of budget support programmes effectively reduces the scope for corruption. Corruption and fraud are continuously monitored through the risk assessment framework introduced through the 2012 EU Budget Support Guidelines.

In response to a key recommendation from the Court, the Commission has developed an improved risk management framework. The framework aims at identifying and managing in a structured way the specific risks related to budget support. The framework is to be updated at least annually and used continuously during the programme cycle. It is a central tool in the new budget support governance structures. Risks levels determine referral to the Budget Support Steering Committee, chaired by the Director-General, and the risk framework is a key input in the decision-making process.

A new format for Delegations' Public Finance Management Annual Monitoring Reports, including a new assessment scheme for PFM reform progress, was introduced in June 2010. The comparison of achievements with clear and realistic priority objectives for the short (next 12 months) and medium term (next three years) by the recipient government promotes structured and formalised assessment.

In the new 2012 Budget Support Guidelines, the Commission has introduced a more rigorous assessment of the three current eligibility criteria covering a stable macro-economic framework (with a stronger focus on domestic resource mobilisation), national/sector policy and reform, and public financial management (with provision to require short-term measures before starting budget support operations where PFM is weak). It has also introduced a more rigorous approach to selecting and defining performance indicators with an emphasis on the use of results-oriented indicators that reflect recognised principles of best practice.

### 62.

The Commission would like to stress that ongoing programmes are linked to specific corruption prevention measures, for example: contributing to payroll automation as part of the overall PFM reform which contributes to end the habit of 'ghost employees' in the public sector. Such measures contribute directly to the prevention of corruption and the strengthening of public institutions' accountability. Moreover, the PEFA report of 2012 credited explicitly the social sector reforms with direct reduction of corruption levels, and support to these reforms is the focus of the EU intervention in Tajikistan. Donors are also coordinating their efforts (division of labour) contributing to different reforms fighting corruption, in particular to support of the development of internal and external audit: DFID/WB concentrated on external audit (twinning agreement with UK external audit office) and the EU on Public Internal Financial Control (PIFC).

## REPLY OF THE COMMISSION AND THE EEAS

### 64.

The Commission and the EEAS would like to underline that all first level commitments will be fully finalised by end of 2013, according to the full amounts as planned in MIP. Contracting and payments will follow in due course.

### 65.

The Commission and the EEAS recall that the procedures for the preparation and approval of development cooperation are fixed in the established EU legal basis and the Financial Regulation. The Commission underlines that two milestones depend directly on the Uzbek authorities, i.e. the counter-signature of the Financing Agreement (overall political approval) and the approval of the Terms of Reference (technical approval). Both are essential requirements subject to specific time constraints, which need to be taken into account. In the project sample, the Court has selected programmes (Parliament and IBPP) which were already defined in 2008, but then Uzbekistan refused to countersign the AAP 2008. The programmes were then represented with updates and fine-tuning for financing under the 2010 APP and budget. The time elapsed — more than two years — between the earlier preparation (in 2008) and the final re-presentation and approval (in 2010) cannot be added up.

### 66.

The analysis of project implementation in Uzbekistan should take into account the overall difficult context. Despite the difficulties generated by periods of political tensions between the EU and Uzbekistan, the structural limitations of the country's approach to development cooperation, and the absence of an EU Delegation on the ground, the EU development cooperation has been able to plan and implement concrete actions in Uzbekistan in the period 2005–12.

In Turkmenistan, heavy administrative and approval procedures often hamper speedy programme definition and implementation.

### 68.

Concerning the Court's assessment on regional programmes, the Commission and the EEAS would like to underline that the EU political objectives are to encourage good neighbourly relations between partner countries in a region fraught with tensions, and to provide a common reference framework for policy reform agenda in key sectors.

The degree of political commitment to regional programmes varies greatly from country to country and from programme to programme, making it difficult to make generalisations or draw conclusions valid for all five countries.

Although regional programmes cannot avoid the propensity for their 'nationalisation' by each beneficiary country, the different fora, training opportunities and seminars are the best means available to promote good neighbourhood relations and regional cooperation.

The complex regional political dynamics (rivalries among countries, etc.) should also be taken into consideration as a factor influencing genuine regional integration. Uzbekistan's selective participation/commitment, for example, is based on the politically sensitiveness of its relations with its neighbours, like Tajikistan, regardless of the technical nature of the programme.

### 70.

Despite the fact that multi-country programmes such as Erasmus, Tempus and the Investment Facility for Central Asia (IFCA) replicate similar activities in more than one beneficiary country, these programmes provide a basis for positive benchmarks and emulation among the countries of the region, where results and achievements serve as basis for further progress on the different sector reform agenda, e.g. water, environment, energy, knowledge exchange. Concerning Tempus, the Commission and the EEAS are of the view that the programme does promote inter-regional cooperation. There are several projects with Central Asian universities' participation from more than one country.



## REPLY OF THE COMMISSION AND THE EEAS

### Common reply to paragraph 71 and 72

The Commission and the EEAS can confirm a high participation of all Central Asian countries in regional forums and dialogues, workshops, joint study visits, etc., which shows that there is initial willingness of regional cooperation and dialogue. Clear examples of that are the Central Asia Border Security Initiative meetings (led by Austria) and the Issyk-Kul border management initiative (even Turkmenistan participated in the last meeting), as well as Central Asia Regional Information and Coordination Centre. In fact, the Commission considers that the commitment of beneficiary countries to CADAP is even higher than to BOMCA (ROM 2012 on CADAP in which Kazakhstan was graded even 'A' on impact prospects due to its high commitment).

The cautious attitude from Turkmenistan and Uzbekistan concerning border-related regional activities is partly due to the specific programme components supporting countries with the highest needs for support, i.e. Tajikistan and Kyrgyzstan. For example, in the case of component four of the current BOMCA 8, only Tajikistan and Kyrgyzstan receive material infrastructure support, as the other three countries are fully capable of providing for their own infrastructure. Some special components, such as the one on Tajik-Afghan border under BOMCA 7, was designed logically only for Tajikistan. All the countries are participating in the other components, notably training and capacity building sector. Some absences from Turkmenistan participants are mainly due to the difficult and long bureaucratic process of authorisation for travel abroad.

### 74.

The Strategy's Third Progress report highlighted that EU Member States' involvement in the implementation of EU assistance brings much higher impact and results. In fact, this is a development already taking place for several programmes and countries in Central Asia, as specifically promoted by the Commission during the last years.

The implementation via consortium Member States can represent indeed the best way to transfer the EU value added and know-how. 'Twining'-like operations may also be targeted in the next programming period. However, such an instrument cannot just be copied for a different region but would need to be specifically adapted to the Central Asian partner countries.

### 76.

The Commission agrees that the comprehensive analysis of lessons learned is essential for constant improvement of operations. This is precisely why the Commission is currently developing an IT platform, which will give access to operational information (including ROM, project and programme evaluation) over the whole project cycle. In particular, this will considerably facilitate the incorporation of ROM conclusions into the Quality Support Group process.

### 77. First indent

The Commission has already incorporated longer durations into new programme design. However, it should be noted that, while earlier programmes were funded through annual commitments, they contributed effectively to the same programme objectives and results.

### 77. Second indent

The general conditions for budget support correspond to processes which cannot be fully predetermined, whereas the special conditions for the release of payments need to be specific and clear. In the new programmes, the Commission is addressing this issue, in parallel with the improvement of data collection and statistical systems in the partner countries.

### 77. Third indent

The Commission is already focusing on a reduced number of areas and conditions in programmes covering longer periods.

### 79.

The indicators selected for the annual activity report (as per footnote 36) cover, to the extent possible, both overall policy and development cooperation-related objectives. Because of the annual evaluation; they cannot be seen as a mere replication of the indicators presented in the long-term strategic documents. Nonetheless, some of them refer to overarching development objectives, ref. to MDGs targets (Indicators v,vi,vii). Moreover, these indicators are linked with the EU Central Asia Strategy: Indicators (ii), (iii) and (iv) are directly reflecting the three policy initiatives of the Central Asia Strategy. Indicator (i) on PCA refers to the key document at the core of the contractual relations with the partner countries.

## REPLY OF THE COMMISSION AND THE EEAS

### CONCLUSIONS

#### 80.

The preparation of the Annual Report on the European Community's Development and External Assistance Policies and their Implementation is a legal obligation; the report is adopted by the College. The Council issues conclusions on it every year, on which the Commission then bases its report of the following year. In recent years, the Council has acknowledged the Commission's efforts towards an increasing focus on results. In 2012, the Council commended the Commission for its efforts to achieve the objectives of strengthening accountability and transparency, and a results-oriented EU development policy and external assistance.

The Commission understands that in the next DCI Regulation there probably will be an increased focus on results.

#### 81.

The Annual Report is meant for information to the public with a user friendly and concise format; therefore, it is not the appropriate place for detailed administrative and financial reporting.

#### 82.

The Commission and the EEAS would like to underline that the objective difficulties of Central Asian countries to advance with the reform agenda and their institutional framework are among the main limiting factors for the implementation of development cooperation.

#### 83.

The Commission and the EEAS undertook specific efforts, notably for MIP 2011–13, to concentrate the areas of intervention for bilateral assistance. The additional sectors stem from the regional and thematic components: these are an integral part of the DCI Regulation, which the Commission has to fully implement.

#### 84.

The Commission and the EEAS would like to recall the following:

- the decision of the modality of implementation is the result of a specific analysis and integrated evaluation for each programme, and it includes a consultation and quality scrutiny process,
- the Commission is working to reduce the number of small-size projects, which originate mainly from the thematic programmes, where the actions have intrinsic limited dimensions,
- the financial instruments stem from the established legal basis; reporting on the implementation necessarily involves different geographic and thematic services at HQ,
- the information on spending for different programmes and instruments is available,
- the Commission is already using different tools to evaluate the administrative costs involved with development cooperation.

#### 85.

The Commission and the EEAS would like to underline that ongoing budget support programmes are linked to specific corruption prevention measures.

## REPLY OF THE COMMISSION AND THE EEAS

### RECOMMENDATIONS

Eligibility criteria for budget support require a holistic approach based on credibility and positive implementation which are by nature general. Satisfactory progress should be based on a dynamic approach, looking at past and recent policy performance benchmarked against reform expectations, but allowing for shocks and corrective measures and refining the objectives and targets if necessary.

#### 86.

The Commission and the EEAS would like to underline that the objective difficulties of Central Asian countries to advance with the reform agenda and their institutional and political framework are among the main limiting factors for the implementation of development cooperation.

The Commission and the EEAS recall the peculiarity of Central Asia regional programmes, which provided opportunities for dialogue and promote good neighbourhood relations and regional cooperation. A genuine regional dimension is not always feasible in the given present Central Asia political conditions.

The Commission, whenever relevant, has always taken on board the recommendations resulting from the implementation of the programmes.

#### 87. First indent

The Commission and the EEAS will implement the recommendation to the extent possible in Central Asia, provided that the individual countries can agree on joint objectives and programmes (e.g. BOMCA, CADAP). Regional funds remain also useful to support multi-country activities in a more efficient way, e.g. for blending purposes or academic mobility.

#### 87. Second indent

The Commission and the EEAS are already concentrating assistance for each country programme and the regional programmes under the DCI instrument. This is without prejudice to the specific nature of thematic instruments, which have been designed with specific objectives by the budgetary authority.

#### 87. Third indent

The Commission and the EEAS do not accept the recommendation. The Commission and the EEAS consider that setting up a new system for calculating and reporting on the overall administrative cost involved in delivering its development assistance is not necessary. Indeed, the Commission and the EEAS would refer to the existing ABB system, which already contains information about administrative costs. Any change to it should be tackled at an institutional level and agreed with the budgetary authority.

#### 87. Fourth indent

The Commission and the EEAS are already applying robust and objectively verifiable conditions for budget support programmes as foreseen in the new budget support guidelines.

#### 87. Fifth indent

The Commission and the EEAS take into account experience to improve programme design and delivery on a continuing basis through the Quality Support Group reviews and on the basis of the feedback received from monitoring and evaluation results.

## REPLY OF THE COMMISSION AND THE EEAS

### **87. Sixth indent**

The Commission and the EEAS are already devoting specific attention to the overall results and impact of development cooperation with more targeted and sustainable interventions, linked to the advancement of the policy dialogue and an effective transfer of relevant EU know-how and policy advice. However, the Commission and the EEAS consider that there is room for improvement and shall strive to enhance reporting on results and impact in the future, following the announced trend for the new DCI regulation.

European Court of Auditors

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THE COURT EXAMINED HOW THE EUROPEAN COMMISSION (EC) AND THE EUROPEAN EXTERNAL ACTION SERVICE (EEAS) PLANNED AND MANAGED DEVELOPMENT ASSISTANCE TO THE CENTRAL ASIAN REPUBLICS (KAZAKHSTAN, KYRGYZSTAN, TAJIKISTAN, TURKMENISTAN AND UZBEKISTAN) IN THE PERIOD 2007–12. IN CHALLENGING CIRCUMSTANCES, PLANNING AND ALLOCATION OF ASSISTANCE WERE GENERALLY SATISFACTORY. IMPLEMENTATION WAS LESS SO. THE COURT MAKES A NUMBER OF RECOMMENDATIONS. THE EC AND THE EEAS SHOULD DESIGN ANY FUTURE REGIONAL PROGRAMMES SO THAT THEY ARE LIKELY TO ACHIEVE A GENUINE REGIONAL DIMENSION. THEY SHOULD CONCENTRATE ALL ASSISTANCE PROVIDED ON A SMALL NUMBER OF SECTORS. FOR ANY CONTINUING BUDGET SUPPORT PROGRAMMES, THEY SHOULD DEFINE AND APPLY ROBUST AND OBJECTIVELY VERIFIABLE CONDITIONS, IN PARTICULAR GIVING SUFFICIENT ATTENTION TO SUPPORT FOR ANTI-CORRUPTION MECHANISMS.



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