

European Development Aid: How to be more effective without spending more?

Elena MUÑOZ GÁLVEZ

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Presentation of the project: “How to spend better together”

Eulalia Rubio, Senior Research Fellow at Notre Europe

The negotiations of the post-2013 EU Multi-Annual Financial Framework take place at the moment when many member states are making extraordinary efforts of fiscal consolidation. In these circumstances, it is not surprising that calls for “applying austerity” at the European level resurge with force. And yet, due to its limited size (1% of the EU GNP and 2.5% of European public spending), we cannot expect major savings from cutting spending at the EU-level. A more intelligent response to the austerity challenge is to look at what we spent in aggregate terms – that is, at both national and EU level – and to explore whether we can have efficiency gains by re-organising spending tasks or better coordinating national and EU spending.

This is the purpose of the series of publications that *Notre Europe* launches under the title “How to spend better together”. The analysis undertaken in these publications is original in at least three respects:

- First, the papers do not narrowly focus on what happens at the EU level but take into account what is spent in aggregate terms – that

is, at both national and EU level – and explore potential synergies between EU and national budgetary interventions;

- Second, each paper focuses on a particular policy domain and it is written by an expert of this policy domain;
- Finally, the analysis goes beyond the question of “spending more or less” to address the question of “spending better”. Thus, rather than focusing on the amount of euros spent or potentially saved, the authors reflect on the appropriate design of budgetary interventions in a given domain and the merits of public spending vis-a-vis other types of public interventions.

1. The aggregate approach: an intelligent response to the austerity challenge

As said above, one element that characterises these publications is the adoption of an aggregated approach to study ways of improving the efficiency of public finances in Europe. Thinking in aggregate terms means having a broad picture of how much is spent at the EU, national and sub-national levels in a given policy domain, as well as on how these different levels of spending interact with each other.

As explained by Amélie Barbier-Gauchard in her contribution to this project¹, adopting an aggregated vision of public finances in Europe has multiple advantages. In discussions about the EU budget, it is common to treat EU spending in a quasi-exclusive manner. Thus, it is for instance frequent to criticize the current profile of EU spending on the grounds that it does not adequately reflect the hierarchy of challenges and policy priorities set up by the EU authorities. These types of comments disregard the fact that EU spending represents only 2.5 percent of all public expendi-

1. Amélie Barbier-Gauchard, “Thinking the EU budget and public spending in Europe: the need to use an aggregate approach”, *Policy Brief No. 29, Notre Europe*, June 2011.

tures in Europe. As Amélie Barbier-Gauchard rightly points out, a broader picture allows us to make more well-founded judgements on the hierarchy of resources devoted to different policy priorities in Europe. It also enables us to compare the composition of public spending in Europe with that observed in other confederal or federal entities (such as the USA).

But the aggregate approach can be also very useful to improve the efficiency of public spending in Europe. As said above, the EU budget is very small. It amounts to 1 percent of the EU GDP, while national spending in the EU-27 account in average for 50 percent of national GDP. Reducing the EU budget will thus not be the “panacea” to redress national public finances. A more promising approach is to explore whether we can have efficiency gains by re-organising spending tasks between the EU and the national level or better coordinating national and EU budgetary actions.

Re-organising spending tasks is in fact about asking one of the eternal questions in EU budgetary debates: “who should do what?”. Many studies have addressed this question before. What distinguishes our exercise is that we focus on particular policy areas. Thus, rather than identifying the policy domains in which more supra-national action seems desirable, we try to identify, for one particular policy area (see §-2), which concrete spending tasks would be better carried out at the EU level than at the national level.

As concerning coordination, one should note that most EU spending is carried out in fields of competence “shared” with member states, and/or submitted to national co-financing. In these circumstances, improving the efficiency of EU spending depends very much on our capacity to organise in an efficient manner the overlapping involvement of EU and national spending action.

Finally, we believe there is a need for a serious reflection on ways to improve horizontal coordination between national budgetary actions. As pointed

out by Amélie Barbier-Gauchard, we frequently hear about the need to use the EU budget to implement the EU2020 strategy, but we should not forget that implementing this strategy is mostly a national responsibility. Until recently, national efforts to achieve the EU2020 goals have been coordinated through the so-called Open Method of Co-ordination, but it is time to incorporate more explicitly the spending element in these efforts of coordination, including the national one. Beyond the framework of EU2020, coordination of national spending actions might also provide important efficiency gains in other policy fields characterised by large cross-country externalities or economies of scale (i.e. security and defence, immigration).

2. The sectoral approach: bringing sectoral expertise into EU budget debates

Another characteristic of this project is the fact that each publication focuses on a specific policy area and is written by an expert on this policy area. Our choice for a sectoral approach is based on various considerations.

First of all, EU spending debates are too much focused on numbers and money and very few on the content and design of the policies financed at the EU level. By offering a sector-based analysis, we aim to reverse this logic, that is, to put more emphasis on the rationale, goal and design of public interventions at both the EU and national level, and less on how much do they cost. In other words, we want to move beyond the question of “spending more or less” to address the question of “how to spend better”. Notice that, by emphasizing the quality of spending over the amount of spending, we do not under-estimate the magnitude of the austerity challenge to which we are confronted. We see “better spending” as a more sustainable and sophisticated EU response to the “austerity challenge” than generalized cuts in EU finances. Unlike cuts, better public spending translates into better results in terms of growth, cohesion, security,

welfare... which eventually turns into less spending needs in the future and, therefore, more sustainable public finances.

Another reason why we privilege the sectoral approach is that we believe the assessment of the fiscal federalism criteria needs sectoral expertise. Identifying spillovers from policies or the existence of economies of scale is not easy. A good knowledge of the public challenges and the nature of public interventions in a given domain is required in order to assess whether there are cross-national challenges requiring action at the supra-national level, whether public interventions are characterized by increasing returns to scale or what is the degree of heterogeneity in policy preferences among member states.

Finally, while we think sectoral experts provide an interesting insight to debates on EU spending, we are also aware of the limits of their analysis. Policy experts are not necessarily versed in issues of public finance. They may not know in detail the functioning and outcomes of EU spending programmes. Our goal hence is not to finish with precise propositions for the forthcoming EU financial perspectives, but rather to provide some reflections and general recommendations which can differ from those that circulate among EU budgetary experts.

3. The enlarged approach: looking beyond the EU budget

Lastly, while the project aims to contribute to current debates on the post-2013 EU financial perspectives, the analysis is not confined to the EU budget. The latter is treated as one amongst a broad spectrum of policy instruments available at the EU level, including political and regulatory interventions but also other types of EU financial interventions taking place out of the budget.

Adopting an enlarged approach is important for two reasons.

First, we believe that there is a scope to improve the efficiency of national spending through EU non-budgetary interventions (i.e. by removing barriers to competition or by strengthening the coordination of national budgets). By including non-financial EU action into the analysis, the authors can reflect on these other ways of improving the efficiency of public spending.

Second, contrary to what many people think, the EU budget is far from being the only tool used to finance EU actions. A non-negligible part of EU-level spending takes place out of the EU budget, be in form of funds or programmes managed by EU institutions but not included into the EU budgetary process – such as the European Development Fund, providing assistance for the so-called ACP countries, or the Athena mechanism, financing joint military operations – or in form of programmes created by intergovernmental agreements – such as the OCCAR, an intergovernmental mechanism financing joint programmes on military research and equipment². To these various programmes and funds, one should add the use of other EU financial instruments, such as the loans provided by the European Investment Bank (which amounted to €72 billion in 2010) or the more recent “Marguerite Fund”, a pan-European equity fund launched in 2010 to finance long-term energy, climate change and infrastructure investments in Europe. To have a complete picture of these various ways of “pooling resources” at the European level is important, as each type of instrument might be more appropriate in different domains.

2. Amélie Barbier-Gauchard, Yves Bertoncini, “Les dépenses européennes et non communautaires : une réalité substantielle et en devenir ?”, *Note de veille n° 105*, Centre d’analyse stratégique, juillet 2008.

Executive summary



Development policy is one of the main instruments that the European Union has at its disposal to make its voice heard in the international arena. Indeed, official development assistance (ODA) with origin in the EU represents more than half of total aid spending worldwide. However, the EU is having a hard time to be seen as an influential global player and is involved in a process of adapting its structures and policies with the aim of having the strong voice that its economic and political power should bring.

In the field of development policy, three are the main challenges that the EU is facing:

- First, as development policy is a shared competence, European ODA has its origin in the 27 Member States plus the European institutions. This converts European development policy into a very fragmented area and difficult to be coordinated.
- Second, the EU has to face a changing development environment, due to the rise of emerging economies and the rise of new global

challenges such as climate change and food security.

- Third, the current financial and economic crisis is causing a wave of fiscal stringency throughout the Union that is seriously affecting budgets, and development spending is seeing serious cuts.

At a time when the next Multi-Annual Financial Framework (MFF) for the period 2014-2020 and the set of external financial instruments are being discussed, it is worth to review which are the main issues at debate in order to adapt to these challenges, making EU development policy more effective without spending more:

- Some of these issues are directly related to the EU budget, such as whether there is a need to “budgetise” the European Development Fund (currently placed outside the MFF) and how to reform the existing EU spending programmes on development so as to better target ODA to the poorest countries while forging new ways of cooperation with middle-income countries (MICs) and emerging economies.
- Others have to do with the question of whether we need to mobilise new EU-level resources for development (especially through the use of loan and grant blending mechanisms) and which are the advantages and risks of using these sort of instruments.
- A third field of issues stays outside the budgetary/financing domain, but has a direct effect on the effectiveness of development spending: how to improve the coordination among European donors as well as the coherence between all EU policies that might affect development countries.

After reviewing European Commission’s proposals for EU spending on development cooperation for the next 2014-2020 period, this paper highlights some elements for improving the coherence and effectiveness of EU development policy:

- First, it assesses the amounts proposed for development aid as ambitious and foresees possible options during the negotiation of the MFF. Maintaining the proposed amounts should be a priority.
- Second, although integrating all instruments for external action in the budget will redound in an efficiency gain, it agrees with the view that conditions for EDF budgetisation are not yet met, as this would increase the risk of reducing resources for development in the current situation.
- Third, it agrees with the Commission's proposed approach for differentiated partnerships towards MICs and emerging economies, but it is of the view that the criteria for excluding some countries from Development Cooperation Instrument (DCI) geographic programmes should be based on indicators that take into account inequalities and the degree of social cohesion, and proposes addressing income inequalities by exploring joint progressive phasing out strategies.
- Fourth, it recognises the role of loan and grant blending facilities to leverage further financing alongside grant-based aid, but it warns about the little existent evidence on its effects on development, highlights certain conditions to be met, and proposes some elements to guarantee they are properly used, such as an increased role of the Commission in screening projects against EU development policy. It recommends analysing the development aspects of the future proposal of an "EU Platform for External Cooperation and Development".
- Fifth, it insists on the need to make further efforts to improve donors' coordination and policy coherence for development. It remarks the role of the European Commission as main coordinator and makes some political and institutional recommendations to improve the coherence between the various EU policies affecting developing countries.

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Introduction



It is often said that the economic and political size of the EU, its wide geographical presence, the partnerships it develops with many countries and regions, and the fact that it is the first global donor, would make the EU an unmatched player in the global scene. However, the EU is hardly ever perceived as such and its position in the global stage remains below its potential. The European Union is struggling to remain a key player in a global context, where the balance of power is shifting towards emerging economies in Asia and Latin America. At the same time, globalisation is increasing the interdependence between states, making individual Member States' action against global challenges such as climate change, conflict, and terrorism, financial and economic crisis, no longer an option.

One of the purposes of the Lisbon Treaty, which came into force in December 2009, was to equip the European Union for this changing world by strengthening the coherence and effectiveness of EU external action. But institutional changes alone are not enough. Much EU external action

comes in form of financing. To make the most of the new institutional arrangements, they should be accompanied with reforms to improve the coherence and effectiveness of EU external financial instruments.

As part of the EU external action, it is of particular interest to focus on EU development policy, as more than half of development assistance worldwide has its origin in the EU. In the past years, the Commission has introduced various legal and institutional changes to improve the effectiveness of its action on development cooperation. The last relevant step has been the proposal of a strategic document for development cooperation, the Agenda for Change³, endorsed by the Council in May 2012⁴.

In the current difficult budgetary environment, when many Member States are forced to reduce their efforts on external aid, ensuring the maximum impact and added value from Europe's spending on development cooperation is more urgent than ever. This approach to financing development will have to be translated into the next multi-annual budget, the 2014-2020 EU Multi-Annual Financial Framework (MFF), which determines both the resources and instruments for the EU development policy for the next seven years.

At the moment when the EU is negotiating this new financial framework, it appears particularly relevant to discuss ways of rendering EU development spending more effective without spending more. The first part of this Policy Paper will make an overview of what European development policy means, its goals, aid spending levels and how the EU currently finances development. The second part will present different topics at debate on how to improve EU development spending. The Policy Paper will end with a review on how the proposal presented by the Commission tackles these issues and formulating some arguments for improvement.

3. European Commission, *Increasing the impact of EU Development Policy: an Agenda for Change*, COM(2011) 637 final, Brussels, 13.10.2011.

4. Council conclusions, "Increasing the Impact of EU Development Policy: an Agenda for Change", Brussels, 14 May 2012.

1. Overview of the European development policy

1.1. Development policy in Europe: a shared competence

When referring to European development policy, we have to keep in mind that this is made of twenty-seven policies carried out by Member States plus the one delivered by the European Commission, i.e. EU development policy “strictu sensu”. The European Union is then a unique actor in the development field, being both a bilateral donor, delivering aid directly to developing countries, and a multilateral organization coordinating national policies⁵. This is because development policy is a **shared competence** between Member States and the European Union.

The origins of EU development policy date back to the Treaty of Rome (1957). The setting up of the European Development Fund (EDF) in the late 1950s established the strategic links between Europe and its former

5. Carbone M., *The European Union and International Development. The politics of foreign aid*, UACES Contemporary European Studies, Routledge, 2007.

colonies in African, Caribbean and Pacific (ACP) countries⁶. Since then, the presence of the EU as a donor has increased to the point of being nowadays active in all regions of the developing world. However, it was not until the Maastricht Treaty (1992) that development policy became a **Community policy** that had to be complementary to that of Member States.

A historic landmark in EU development policy came with the adoption of the **European Consensus on Development** (2005)⁷. The EU and the Member States made commitments in the form of shared values, goals and principles in the implementation of their development policies. For the first time a common EU vision on development based on more aid, better aid, improved policy coherence and a focus on Africa was set out. According to the Consensus on Development, “the primary and overarching objective of EU development cooperation is the **eradication of poverty** in the context of sustainable development, including pursuit of the Millennium Development Goals”.

With the Lisbon Treaty (2009), development policy is incorporated to the external action of the Union and **poverty eradication** is, for the first time, one of the general objectives of EU external action. Furthermore, the role of the EU is strengthened, as it is now on an equal footing to Member States’ bilateral policies, having to **complement and reinforce each other**, and the European Commission is designated as the main coordinator.

It is worth to mention that **humanitarian aid** is treated separately from development policy. The former is a response to humanitarian crisis caused by natural disasters or by human activity, whose primary goal is to save lives, alleviate suffering and maintain human dignity and it is meant to be a

6. *Ibid.*

7. European Parliament, Council and European Commission, “[The European Consensus on Development](#)”, 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, *Official Journal of the European Union*, 24.2.2006 C 46/1.

short-term assistance. The latter, by contrast, has a long-term horizon and aims to alleviating poverty and supporting development. Humanitarian assistance in the EU is based on the European Consensus on Humanitarian Aid (2007) and it is managed by the Commission's European Community Humanitarian Office (ECHO).

1.2. The diversity of Member States' development policies

Even if reducing poverty is the main goal of development policy (as stated in the European Consensus for Development and agreed by all Member States), in many countries development aid has also traditionally been a tool to promote their **strategic interests** in the international scene.

The importance of national strategic interests becomes clear when looking into the **geographical pattern of Member States' spending on development aid**. Former European colonies tend to be privileged by some Member States such as France, UK, Belgium, Spain, Portugal, Italy and Netherlands (e.g. Spain privileges its relations with Latin America and France with Western Africa)⁸, as maintaining historical and cultural links is a priority for them⁹. Southern and Eastern Member States focus their aid on neighbouring countries, mainly for migration or security concerns (e.g. Italy privileges the Mediterranean area, Greece the Balkan region and EU12 countries focus on Eastern Europe and Central Asia)¹⁰. Nordic countries and Luxemburg do not have the burden of colonialism¹¹ and consider themselves as exemplary among donors, seeking to keep the visibility of their development policies¹².

8. Muñoz Gálvez E., "La cooperación europea al desarrollo: oportunidades de coordinación tras la entrada en vigor del Tratado de Lisboa", *Documento de Trabajo 61/2011, OPEX*, Fundación Alternativas, 2011.

9. Balleix C. (2005), "La politique européenne de coopération au développement", *Note n° 29 de la Fondation Robert Schuman*, Août 2005.

10. Muñoz Gálvez, *op. cit.*

11. Carbone M., *op. cit.*

12. Balleix C., *op. cit.*

Therefore, European donors spending vary depending on historical, security, commercial or neighbouring factors and this is one of the reasons why it is difficult to build up a unified EU policy on development aid. Maintaining a **visible bilateral development policy** is for many Member States a tool to promote its national interests. This diversity of interests is holding back the coordination needed between European donors. However, this diversity can also be converted into an advantage if the process of coordination is flexible enough to allow each donor to make use of its comparative advantage in certain regions or sectors.

1.3. Development aid spending: the EU as the first global donor

The development agenda gained momentum in international affairs when in 2000 the international community endorsed the commitment to attain the Millennium Development Goals (MDG) by 2015. This list of eight goals¹³ meant an incentive to push for the goal of 0.7% of GNI dedicated to Official Development Aid (ODA) which has been affirmed in many international agreements over the years, including in the 2002 Monterrey Consensus, where international community agreed to increase its funding for development. At the EU level, Member States committed in 2005¹⁴ to achieve a collective ODA level of 0.7% of GNI by 2015 with an interim target of 0.56% by 2010.

13. 1. Eradicate extreme poverty and hunger. 2. Achieve universal primary education. 3. Promote gender equality and empower women. 4. Reduce child mortality. 5. Improve maternal health. 6. Combat HIV/AIDS, malaria and other diseases. 7. Ensure environmental sustainability. 8. Develop a global partnership for development. <http://www.undp.org/content/undp/en/home/mdgoverview.html>

14. European Council, *Conclusions*, 18 June 2005, Doc. 10255/05 Conc. 2.

Box 1: WHAT IS OFFICIAL DEVELOPMENT ASSISTANCE (ODA)?

ODA IS DEFINED BY THE **DEVELOPMENT ASSISTANCE COMMITTEE (DAC)** OF THE **OECD** AND FRAMES WHAT **MEMBER STATES** REPORT YEARLY AS DEVELOPMENT ASSISTANCE. IT IS DEFINED AS FLOWS OF OFFICIAL FINANCING THAT HAVE AS MAIN OBJECTIVE THE PROMOTION OF THE ECONOMIC DEVELOPMENT AND WELFARE OF DEVELOPING COUNTRIES¹⁴, AND WHICH ARE CONCESSIONAL IN CHARACTER (IF A LOAN, HAVING A GRANT ELEMENT OF AT LEAST 25 PERCENT AND BELOW MARKET INTEREST RATES). ODA FLOWS COMPRISE CONTRIBUTIONS OF DONOR GOVERNMENT AGENCIES, AT ALL LEVELS, TO DEVELOPING COUNTRIES (**BILATERAL ODA**) AND TO MULTILATERAL INSTITUTIONS (**MULTILATERAL ODA**). A **DAC LIST OF ODA RECIPIENTS** CONTAINS THE COUNTRIES THAT ARE ODA ELIGIBLE. IN ORDER TO REDUCE THE SCOPE FOR SUBJECTIVE INTERPRETATIONS AND ALLOW COMPARABLE REPORTING, SOME LIMITS TO WHICH AID IS REPORTABLE AS ODA HAS BEEN ESTABLISHED IN THE FOLLOWING FIELDS: MILITARY AID, PEACEKEEPING, CIVIL POLICE WORK, NUCLEAR ENERGY, CULTURAL PROGRAMMES, ASSISTANCE TO REFUGEES, RESEARCH AND ANTI-TERRORISM.

SOURCE: OECD, “**Is it ODA?**”, *FACTSHEET*, NOVEMBER 2008.

The EU as a whole, i.e. Member States and European institutions, is the first global donor, providing more than half of development aid worldwide. After growing for three consecutive years despite the financial and economic crisis, EU official aid declined in 2011 by about €500 million compared to 2010, dropping from 0.44% of GNI in 2010 to 0.42% in 2011 (see table 1). Even if it is lagging behind its collective commitment to reach 0.56% of GNI by 2010, the EU is still spending more aid for development than any other donor. In 2011, Canada, USA and Japan spent 0.31%, 0.20% and 0.18% GNI in development aid respectively¹⁶.

1.3.1. Aid spending by Member States

However, disaggregate data show very different spending behaviors among Member States (see table 1).

15. In DAC reporting, humanitarian aid is a sector of ODA that aims specifically to save lives, alleviate suffering and maintain and protect human dignity during and in the aftermath of emergencies.

16. DAC/OECD, *Net Official Development Assistance from DAC and other OECD members in 2011, Preliminary data for 2011*, 4 April 2012.

TABLE 1: EU ODA VOLUMES AND AS % OF GNI

	2009		2010		2011	
	ODA MILLION €	ODA IN % OF GNI	ODA MILLION €	ODA IN % OF GNI	ODA MILLION €	ODA IN % OF GNI
AUSTRIA	820	0.3	912	0.32	794	0.27
BELGIUM	1,874	0.55	2,268	0.64	2,014	0.53
BULGARIA	12	0.04	31	0.09	35	0.09
CYPRUS	33	0.2	34	0.23	28	0.16
CZECH REPUBLIC	154	0.12	172	0.13	184	0.13
DENMARK	2,018	0.88	2,168	0.91	2,114	0.86
ESTONIA	13	0.1	14	0.1	18	0.12
FINLAND	926	0.54	1,006	0.55	1,013	0.52
FRANCE	9,048	0.47	9,751	0.5	9,345	0.46
GERMANY	8,674	0.35	9,804	0.39	10,452	0.4
GREECE	436	0.19	383	0.17	238	0.11
HUNGARY	84	0.1	86	0.09	101	0.11
IRELAND	722	0.54	676	0.52	650	0.52
ITALY	2,368	0.16	2,268	0.15	3,050	0.19
LATVIA	15	0.08	12	0.06	14	0.07
LITHUANIA	26	0.11	28	0.1	38	0.13
LUXEMBURG	298	1.04	304	1.05	297	0.99
MALTA	10	0.18	10	0.18	15	0.26
NETHERLANDS	4,615	0.82	4,800	0.81	4,548	0.75
POLAND	269	0.09	285	0.08	300	0.08
PORTUGAL	368	0.23	490	0.29	481	0.29
ROMANIA	110	0.08	86	0.07	118	0.09
SLOVAK REPUBLIC	54	0.09	56	0.09	62	0.09
SLOVENIA	51	0.15	44	0.13	45	0.13
SPAIN	4,728	0.46	4,492	0.43	3,067	0.29
SWEDEN	3,266	1.12	3,423	0.97	4,032	1.02
UNITED KINGDOM	8,102	0.51	9,855	0.57	9,881	0.56
EU 15	48,264	0.44	52,594	0.46	52,009	0.45
EU 12	831	0.1	863	0.09	957	0.1
EU 27	49,094	0.42	53,457	0.44	52,966	0.42

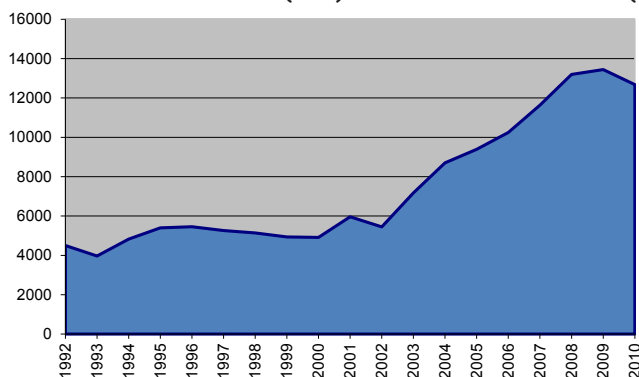
SOURCE: EUROPEAN COMMISSION, *PUBLICATION OF PRELIMINARY DATA ON OFFICIAL DEVELOPMENT ASSISTANCE, 2011*, 4 APRIL 2012, MEMO/12/243.

Some countries like Luxemburg, Sweden, Denmark and the Netherlands are ahead of the collective target for 2015 of 0.7% of GNI while others such as Greece and Italy are the worst performers among EU15 countries, with an aid spending under 0.20% of GNI. Similarly, EU 12 countries have an aid spending under 0.20% GNI, mainly explained by their recently entry into the development community. At a time of heavy budgetary constraints, some Member States have seen severe declines in aid, like Spain (-32.7%) and Greece (-39.3%) due to severe cuts in bilateral aid.

1.3.2. Aid spending by the European institutions

Aid levels managed by the European institutions¹⁷ remained low (less than €4 billion per year) until the reform undertaken by the European Commission in 2000¹⁸. In 2010, EU institutions managed €9.5 billion, representing nowadays around 20% of total EU ODA¹⁹.

FIGURE 1. OFFICIAL DEVELOPMENT AID (ODA) MANAGED BY THE EU INSTITUTIONS (M\$)



SOURCE: DAC/OECD, *EU DAC PEER REVIEW 2012*.

17. It is mainly the European Commission who managed ODA, but a number of other institutions also spend small volumes that qualify as EU ODA, such as the European Investment Bank and the European External Action Service.
18. The Commission started a reform process in May 2000. Some main changes resulted in the creation of a single body for managing its development programmes (EuropeAid Cooperation Office) and the reduction of instruments to finance development activities within the Financial Perspectives for 2007-2013. Since then, the reputation of the Commission started to improve.
19. European Commission, *Increasing the impact of EU Development Policy: an Agenda for Change*, COM(2011) 637 final, Brussels, 13.10.2011.

TABLE 2: AID SPENDING AT NATIONAL AND EU LEVEL (2010)

	AID SPENDING (M€)	% OF TOTAL AID SPENDING
MEMBER STATES	43,957	82%
EU INSTITUTIONS	9,500	18%
TOTAL EU ODA	53,457	100%

SOURCE: DAC/OECD, *NET OFFICIAL DEVELOPMENT ASSISTANCE FROM DAC AND OTHER OECD MEMBERS IN 2011, PRELIMINARY DATA FOR 2011*, 4 APRIL 2012.

A comparative advantage of the Commission is the size of its programme and its reach, with EU institutions providing aid to about 130 countries in 2009-2010. This coverage is significantly broader than that of the individual Member States' development programmes²⁰. The EU aid is mainly focused on Sub-Saharan Africa (37% of its ODA) and its neighbourhood (13% to the Mediterranean area and 16% to its Eastern countries), while only 9% is devoted to Latin America²¹.

Box 2: THE ADDED VALUE OF EU DEVELOPMENT POLICY

IN A PUBLIC CONSULTATION BY THE EC ON THE EXTERNAL ACTION FINANCIAL INSTRUMENTS FOR THE NEXT 2014-2020 MULTIANNUAL FINANCIAL FRAMEWORK²¹, A MAJORITY OF RESPONDENTS (AROUND 70%) STATE THAT EU FINANCIAL INTERVENTION PROVIDES A SUBSTANTIAL ADDED VALUE IN THE FIELD OF EXTERNAL ACTION, BEING AROUND 75% OF RESPONDENT IN THE CASE OF REDUCING POVERTY. MANY RESPONDENTS CONSIDER EU ADDED VALUE AS THE MAIN DRIVER FOR THE FUTURE EU ACTION ON DEVELOPMENT. PRACTITIONERS, THINK TANKS²² AND POLICY-DECISION MAKERS POINT OUT A NUMBER OF ELEMENTS OF COMPARATIVE ADVANTAGE THAT THE EU SHOULD EXPLOIT FURTHER. THESE ARE BASED ON ITS GLOBAL FIELD PRESENCE, ITS WIDE-RANGING EXPERTISE, ITS RECOGNISED ADDED VALUE IN SUPPORTING REGIONAL INTEGRATION BASED ON ITS OWN EXPERIENCE, THE FACT OF HOLDING THE EXCLUSIVE COMPETENCE ON POLICY DOMAINS HAVING A CLEAR INCIDENCE ON DEVELOPMENT (SUCH AS TRADE OR AGRICULTURE), THUS PLACING THE EU INTO A BETTER POSITION TO PROMOTE POLICY COHERENCE, ITS ROLE AS FACILITATOR OF COORDINATION, AND ITS CAPACITY TO ACHIEVE ECONOMIES OF SCALE IN FUNDING²³.

20. DAC/OECD, *EU DAC Peer review 2012*.

21. Muñoz Gálvez E., *op. cit.*

22. European Commission and EEAS, *What Funding for EU external action after 2013?*, Report of the Public Consultation, 2011.

23. Gavas M. et al., "The EU's Multi-Annual Financial Framework post-2013: Options for EU development cooperation", *Briefing paper*, European Think-Tanks Group, June 2011.

24. Some examples of this added value can be found in: European Commission, *The added value of the EU budget*, Commission Staff Working Paper, SEC (2011) 867 final, Brussels, 29.6.2011.

1.4. EU architecture for financing development

The European institutions manage around 20% of total ODA originated in the EU, converting EU institutions into the third largest donor among DAC members²⁵. The Commission's ODA is all in form of grant aid. It is financed by the European Union budget and the European Development Fund. Although ODA is the best known indicator of official donors' performance, it is not the only source of funds mobilised for development. In this respect, it is important to note that the EU has set up in the past few years a number of loan and grant blending facilities.

1.4.1. EU budget

In the current 2007-2013 financial framework, ODA is under budget heading 4, "The EU as a global partner", which represents around 5.7% of the EU's total financial framework. Heading 4 includes a total of nine EU's external action instruments: four "geographic" instruments (the Development Cooperation Instrument, the European Neighbourhood Partnership Instrument, the Instrument for Pre-accession and the Instrument for Cooperation with Industrialised Countries) and five "thematic" instruments (the European Instrument for Democracy and Human Rights, the Instrument for Stability, the Instrument for Humanitarian Aid, the Macro-Financial Assistance Instrument and the Instrument for Nuclear Safety Co-operation). Not all these instruments are related to development assistance. Those more directly related to development policy are two geographic instruments, the Development Cooperation Instrument (DCI) and the European Neighbourhood and Partnership Instrument (ENPI).

- **The Development Cooperation Instrument (DCI)** provides development assistance to countries in Asia, Central Asia, South America,

25. DAC/OECD, *EU DAC Peer review 2012*.

the Middle East and South Africa. It covers both country-specific programmes and regional programmes. The DCI also includes thematic programmes providing support for Non-State Actors, food security, human development, etc. that benefit all developing countries, including those covered by the European Neighbourhood and Partnership Instrument (ENPI) and the European Development Fund (EDF). Country and regional programmes are required to be 100% ODA while thematic programmes must be 90% ODA. For 2007-2013 the financial envelope for the DCI, including thematic programmes, is €16.9 billion.

- **The European Neighbourhood and Partnership Instrument (ENPI)** covers Eastern Europe, the South Caucasus, the near Middle East (including the Middle East Peace Process), the Palestinian territories and North Africa. It is designed to support the implementation of the European Neighbourhood Policy. Activities must be 95% ODA. Around 90% of ENPI funds are used for bilateral actions, i.e. country-specific initiatives, and for regional actions. The remaining 10% are reserved for specific areas of joint activity, namely cross-border cooperation, and specific initiatives like the Neighbourhood Investment Facility. For 2007-2013 the financial envelope for ENPI is €11.3 billion.

Unlike the geographic instruments – which in principle, are supposed to be based on shared analyses of local needs and conditions and joint response strategies – the thematic instruments are based on the EU’s own strategic considerations and priorities²⁶.

26. Gavas M., “[Financing European development cooperation: the Financial Perspectives 2014-2020](#)”, *Background note*, Overseas Development Institute (ODI), November 2010.

1.4.2. European Development Fund (EDF)

Created in 1957 by the Treaty of Rome, and first launched in 1959, the European Development Fund (EDF) is the main instrument for delivering EU development assistance to the African, Caribbean and Pacific Group of States (ACP) and the Overseas Countries and Territories (OCTs). The ACP group consists of 79 countries: 48 African states, covering all of Sub-Saharan Africa, 15 States in the Caribbean and 15 in the Pacific. The EDF is funded outside the EU budget by ad-hoc contributions from the Member States on the basis of financial payments related to specific contribution shares, or “keys”²⁷. It accounts for about 30 percent of EU’s development aid²⁸. The EDF is concluded for a multi-annual period (usually 5 years) and is implemented within the framework of an international agreement between the European Community and the partner countries. The 10th EDF is governed by the ACP-EC partnership agreement (Cotonou Agreement), signed in 2000 and revised in 2005, and covers the period from 2008 to 2013 with an overall budget of €22.7 billion.

1.4.3. European Investment Bank (EIB)

The EU aid architecture also includes the European Investment Bank (EIB). The EIB provides long-term finance in support of EU external cooperation and development objectives in over 150 countries outside the EU. Most of the EIB’s financing operations outside the Union are carried out under an EU budget guarantee, which is set out in the external mandate for EIB activities in different regions of the world. The EIB operates in the regions covered by the current external mandate²⁹: Pre-accession countries, Southern and Eastern neighbours and Partnership countries in Asia, Latin America and South Africa.

27. Kilnes U., Keijzer N., van Seters J. and Sherriff A., “More or less? A financial analysis of the proposed 11th European Development Fund”, *Briefing note No. 29*, Maastricht ECDPM, March 2012.

28. Kitt F., *EU Aid Architecture, Recent Trends and Policy Directions*, The World Bank Group, January 2010.

29. Council, *Council Decision 2006/1016/EC of 19 December 2006 granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community*.

After a mid-term review, the EIB external mandate to operate in these regions was renewed³⁰ until 2013 and its geographic scope was extended to cover Iceland, Libya, Iraq and Cambodia. To allow the EIB to maintain its level of operations, the general mandate ceiling was increased by €1.6 billion to more than €29bn (2007-2013). This includes an additional €2 billion devoted to lending for climate action, as well as to support Southern Mediterranean countries in order to reward political reforms in the wake of the Arab Spring.

The lending mandate for the African, Caribbean and Pacific (ACP) countries and Overseas Countries and Territories (OCTs) comes under the Cotonou Agreement, which establishes the EU's relations with its partner countries in this region. Financing in this framework is provided from EU Member States' budgets through the European Development Fund, alongside EIB own resources.

1.4.4. EU loan and grant blending facilities

EU blending mechanisms are new financing instruments for operations outside the EU that associate grants (from the EU budget, the EDF or voluntary additional contributions from Member States) with loans (from multilateral European development banks like the European Investment Bank -EIB-, the European Bank for Reconstruction and Development -EBRD-, the Nordic Investment Bank -NIB- and the Council of Europe Development Bank -CEB-, or from national development banks or agencies). Depending on the regions, EU blending mechanisms can take different forms, including direct investment grants, loan-guarantee mechanisms, risk-capital and structured finance, technical assistance and preparatory studies and interest-rate subsidies³¹.

30. European Parliament and Council, *Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision no. 633/2009/EC.*

31. European Commission, *Annual Report 2011 on the European Union's development and external assistance policies and their implementation in 2010*, Commission Staff Working Document, SEC(2011) 880 final, Brussels, 6.7.2011.

Since 2007, four blending facilities have been launched: the EU-Africa Infrastructure Trust Fund (ITF), the Neighbourhood Investment Facility (NIF), the Latin America Investment Facility (LAIF) and the Investment Facility for Central Asia (IFCA)³²:

- **EU-Africa Infrastructure Trust Fund (ITF)**. Launched in 2007, the ITF intends to facilitate the blending of grant resources from the European Commission and Member States with the lending and technical capacity of the EIB and Member State development financiers. The Trust Fund benefits cross-border and regional infrastructure projects in Sub-Saharan Africa. The target infrastructure sectors are energy, water, transport and telecommunications. Since its launch, the ITF has been endowed with grant resources worth nearly €393 million (€308.7 million from the EDF and €84 million from the Member States). The EIB is the manager of this fund.
- **Neighbourhood Investment Facility (NIF)**. Launched in 2008, the NIF targets countries eligible for the European Neighbourhood and Partnership Instrument (ENPI) and provides funding to infrastructure investment in transport, energy, water and sanitation, environment and social sectors, as well as to the financial and private sectors, with a focus on SMEs. The Facility brings together grants from the European Commission and the EU Member States with loans from European public finance institutions, as well as own contributions from partner countries. Since its creation to 2013, the European Commission has earmarked €745 million for the NIF, topped up with €62.95 million by Member States. These resources are kept in a trust fund managed by the European Investment Bank.
- **Latin America Investment Facility (LAIF)**. Created in 2010, LAIF aims to promote essential investments among beneficiary governments and public institutions in Latin America, with a focus on sustainable energy and the fight against climate change. The LAIF has received

32. *Ibid.*

nearly €35 million from the EU budget and additional funding of €100 million is programmed for 2011-2013. It mixes grants from the European Commission and other donors with loans of multilateral or bilateral public European development finance institutions and Regional Latin American Banks.

- **Investment Facility for Central Asia (IFCA)**. Launched in 2010 to support the regional strategies of the EU with a focus on sustainable energy and the fight against climate change, it aims to blend EU budget grant funding with loans by the financial institutions for five countries in Central Asia (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan). The IFCA has received €20 million funds from the EU budget in 2010 and additional funding of €45 million is provided for the period 2011-2013.

In addition to these facilities, two blending tools, the “pooling mechanisms”, have been set up under the ACP-EU energy and water facilities, with a grant contribution from the EDF of €40 million each³³.

33. *Ibid.*

2. Improving EU spending on development: main issues at debate

At a time when the next Multi-Annual Financial Framework for the period 2014-2020 and the set of EU external financial instruments are being discussed, it is worth to review the main issues at debate in order to adapt EU development policy to the new challenges and to make it more effective. Four issues are at the centre of debate. We will discuss them separately.

2.1. Budgetisation of the European Development Fund

The debate on whether the EDF should become part of the EU budget (EDF budgetisation) or remain outside as it stands has once more resurfaced in the run up to the new Multi-Annual Financial Perspectives. Now that the reference to the EDF has been eliminated from the Cotonou Agreement and the EU Treaties, the inclusion of the EDF into the EU budget could be decided through a unilateral decision of the Council. A decision to incorporate the EDF into the budget would entail the inclusion of the totality of expenditure for development cooperation into the new financial perspectives.

The European Commission and the European Parliament have long argued for the budgetisation of the EDF. Arguments in favour of this position are improving effectiveness, enhanced accountability, more transparency and a real independence from national interests of EU-ACP relationship:

- **Improving effectiveness.** Simplifying procedures would lead to greater cost effectiveness. The unification of rules, decision-making structures and procedures would remove a certain amount of duplication and reduce administrative burden.
- **Enhanced accountability.** The EDF is currently the only EU expenditure in the realm of development aid that is not subject to authorisation by the European Parliament. Bringing it into the EU budget would enhance accountability, as it would be bound by the regulations and procedures governing the EU budget. Commitments and spending of EU aid to ACP countries would be subject to the same control mechanisms as the EU budget, with the participation of the European Parliament in the scrutiny process.
- **More transparency.** A single EU budget including all external aid expenditures would offer the possibility of providing a global picture of the EU's external assistance and of EU development policy, in terms of both size and geographical distribution. It is not easy to discuss the allocation of external affairs funding when a significant amount of money is kept outside the discussion.
- **Independence from national interests.** The financing of EU-ACP cooperation would gain independence from voluntary contributions determined as a result of national viewpoints and would present better prospects for continuity. This means that financial cooperation with the ACP would be genuinely placed at the EU level.

Against this position, many Member States prefer the EDF to remain outside the budget, as they have more influence on EDF decision making than on EU budget development cooperation. Even more, for some Member States

(such as the UK, Germany and Spain³⁴) it would mean an extra cost, as the contribution to the EDF is determined by a different distribution key and calculation than the contribution to the EU budget (based on a percentage of GNI). Thus, for some Member States the integration of the EDF into the EU budget would increase the contribution that they are required to make, while for others it would diminish it.

2.2. Rethinking assistance towards MICs and emerging economies

The international context has changed. With the emergence of **new global economic powers** – such as Brazil, China, India, South Africa and Russia – , the development landscape is increasingly heterogeneous, with more poor people now living in middle-income countries (MICs) than in low-income countries (LICs)³⁵. At the same time, **development challenges** have change in nature, with the emergence of new global challenges such as climate change, peace and stability, migration, financial stability and food security are showing. This changing development environment requires for the EU to rethink its development assistance towards these countries.

The EU needs to forge new forms of cooperation with emerging countries and MICs, based on tackling global challenges of mutual interest, without losing the perspective of eradicating poverty. Maintaining a correct balance between both objectives (tackling global challenges and eradicating poverty) is however difficult. It requires the adoption of a **differentiated approach to partnerships** that takes account of the different needs and situations on a case-by-case basis.

34. Gavas M. *et al.*, “The EU’s Multi-Annual Financial Framework post-2013: Options for EU development cooperation”, *Briefing paper*, European Think-Tanks Group, June 2011.

35. Five large countries have been graduated to middle-income status since 1999: China, India, Indonesia, Nigeria and Pakistan. See Glennie J., “The role of aid to middle-income countries: a contribution to evolving EU development policy”, *Working Paper 331*, Overseas Development Institute (ODI), June 2011.

A central issue at debate is whether emerging economies and MICs should continue to receive EU development aid and how to engage them in the promotion of global public goods. Ideally, cooperation to tackle global challenges should imply non-ODA resources whereas ODA should be maintained in emerging economies and MICs only for actions targeted to the neediest populations³⁶.

The Development Cooperation Instrument, as it stands, does not allow practicing this sort of differentiations between MICs and development countries, as it requires all measures of its country and regional programmes to be financed with 100% ODA. This problem was put forward by the mid-term review of this instrument in 2009³⁷ and it resulted in an extension of the Instrument for Cooperation with Industrialised Countries (ICI) in the form of an “ICI+”. This amended ICI regulation allows the EU to cooperate with developing countries covered by the DCI in activities which do not fulfil the criteria of ODA.

In the forthcoming financial perspectives, there is a need for a **new financial instrument**, or a modification of the current DCI, in order to better engage emerging economies and MICs in the promotion of global public goods. The second option – modification of the current DCI – would allow more flexibility but it would risk the diversion of funds from poverty reduction objectives. The first one – a new financial instrument – would allow the DCI to focus on poverty reduction while providing additional funds for tackling global challenges³⁸.

36. Gavas M. *et al.*, “The EU’s Multi-Annual Financial Framework post-2013: Options for EU development cooperation”, *Briefing paper*, European Think-Tanks Group, June 2011.

37. European Commission, *Report Evaluating the Implementation of the Financial Instruments for External Actions*, Commission Staff Working Document, SEC(2009) 530, Brussels, 21.4.2009.

38. Gavas M. *et al.*, “The EU’s Multi-Annual Financial Framework post-2013: Options for EU development cooperation”, *Briefing paper*, European Think-Tanks Group, June 2011.

2.3. Innovative financing mechanisms for development: blending grants and loans

Even if achieving ODA commitments by donor countries is a critical element, the international donor community is also aware of the need to mobilise new sources to supplement conventional ODA. The limits of traditional ODA were highlighted during the UN Conference of Monterrey (2002) on developing financing, and since then innovative financing is essential in international debates on how to achieve poverty reduction and conservation of global public goods. In 2006, the Leading Group on Innovative Finance for Development³⁹ was created and most of EU Member States and the European Commission are part of it.

One main innovative financing mechanism relates to the blending of loans and grants. Historically, grants and loans have been both used to finance development. Loans were the primary instrument until the 1980s, when development countries entered into a debt crisis that made this pattern change, shifting from loans to grants⁴⁰. Now, with the global financial and economic crisis, and global challenges like climate change increasingly demanding more funds for development, there is a need to find new alternatives to increase resources for financing development without hampering debt sustainability. Further use of **loans and grants blending mechanisms** based on existing experience seems to be one of the responses.

With this aim, development agencies are increasingly including ODA-eligible funds into special facilities or trust funds which provide subsidised (concessional) loans by blending grants and loans. These facilities are jointly set up and managed by financial institutions such as the EIB

39. <http://www.leadinggroup.org/>

40. Gavas M. *et al.*, "EU Blending Facilities: Implications for Future Governance Options", European Think-Tanks Group, January 2011.

rather than by the development agency (EuropeAid) itself, which does not have the mandate or technical capacity to undertake lending activities⁴¹.

The recently created EU grant and loan blending facilities offer new opportunities for EU development policy⁴²:

- **Leverage private flows.** EU grant support for development funding can attract additional funding to combine with the grant in order to achieve larger development objectives.
- **Increase aid effectiveness.** Blending facilities can facilitate the pooling of development expertise and resources between public and private donors. They can also improve coordination and collaboration among financing institutions.
- **Better allocation of funds.** Blending would allow reallocating grant-based resources to those countries that need it most while the more advanced countries could receive more loans. Furthermore, it would allow a better division of projects into those that can only be financed by grants and those that are bankable.
- **Critical mass.** Improved coordination and pooled resources would allow for large-scale development programmes to develop which one single donor or financier alone would not be capable of financing and implementing. They can enable projects and sector investment programmes to take off which would not have taken place without the blending facility.

41. Eurodad, “Development funds for the private interest? 10 Frequently Asked Questions”, *Eurodad briefing*, European network on debt and development, March 2011.

42. Núñez Ferrer J. and Behrens A., “Innovative Approaches to EU Blending Mechanisms for Development Finance”, *CEPS Special Report*, 18 May 2011.

2.4. Beyond financing: coordination and coherence

2.4.1. Improving donors' coordination

Apart from the debates on how to better target ODA and on how to raise further resources for development, one key element to improve the efficiency of Europe's development aid spending is the coordination between Member States' development policies and the one carried out by the European Commission. Ideally, the EU development policy and national policies should form a coherent whole. The fact that development policy is a shared competence and the different views and practices among European donors make it difficult any attempt to "Europeanise" this policy. In practice, the debate has evolved around coordination between the EU development policy and the Member States' own development policies.

A recent study funded by the European Commission⁴³ finds that the total benefits of acting together could amount to €5 billion a year, or almost 6% of EU aid. Potential benefits would be reduced management costs, better distribution of aid among and within partner countries and, in the end, more effectiveness of European development aid.

The EU has already taken some initiatives to improve donors' coordination. They can be grouped in three related categories: actions to improve the division of labour on the ground, actions aimed at promoting joint programming and the use of the so-called "budget support" instruments.

- **Division of Labour (DoL)**⁴⁴ actions intend to address the management problems that the increasing number of actors, channels and activities in the international aid architecture create for both partner countries (fragmentation) and donors (proliferation). Two

43. Bigsten A., Platteau J.P. and Tengstam S., *The Aid Effectiveness Agenda: The benefits of going ahead*, Final Report, September 2011, Project funded by the European Commission.

44. The EU and its Member States have engaged in the form of a Code of Conduct on Complementarity and the Division of Labour in Development Policy (2007) and an Operational Framework on Aid Effectiveness (2009), which aim to deepen coordination among donors.

main dimensions can be distinguished: in-country and cross-country. In-country division of labour aims to ensure a balanced funding between sectors within a country, while cross-country division of labour intends to ensure that the EU is equally present in all developing countries – that is, avoiding aid “darlings” and “orphans”. At present, in-country division of labour and complementarity is being promoted through a Fast Track Initiative, launched in 2008, which covers a selected group of partner countries.

- **Joint programming** aims to coordinate donors’ in-country work under a common framework of support in order to ensure that each donor specialises in its own particular strengths. In practice, adopting joint programming would entail the establishment of a single joint programming document indicating the sectoral division of labour and financial allocations per sector and donor. Various EU commitments on joint programming have been made over the past decade but, to date, these have not been converted into synchronisation on the ground.
- **Budget support** is an aid modality which consists in providing direct transfers to the treasuries of the recipient countries and allowing the latter to implement its own budget according to its own procedures and policy priorities. General budget support covers the whole area of government action whereas sectoral budget support just one or more sectors. To ensure the effectiveness of the aid provided, the transfer of resources is complemented with policy dialogue, performance assessment and capacity-building. Funding for budget support to a given country can come from the EU and from some Member States, therefore enhancing coordination. With this aim, and based on some existing experience, the European Commission is taking steps to develop an “EU single budget support contract”.

2.4.2. Promoting coherence

Another important element affecting the effectiveness of EU development policy is the degree of coherence of EU policies with development purposes. In the EU jargon, this is known as the “**Policy Coherence for Development**” (PCD).

PCD became an obligation for the EU under the Lisbon Treaty. The Treaty stipulates that any policy with potential effects for development should take into account the impact that it has on development countries⁴⁵. Trade, security, agriculture, fisheries, environment and migration policies are good examples of policies submitted to the PCD obligation. The efforts that the EU development community is doing to increase aid effectiveness would be useless if other policies are undermining development. Many of these policies are EU competences; therefore, it is at European level where donors should work on PCD.

The **Commission’s work programme on PCD**⁴⁶ for the period 2010-2013 reduced from twelve to five the areas covered: trade and finance, food security, climate change, migration and security. This programme is meant to be a tool for EU institutions and Member States. The Commission makes use of inter-service consultation and impact assessments (IA) for a large number of legislative proposals to try to ensure that development objectives are taken into account.

The EU has taken a lead role in promoting policy coherence for development internally and externally, but not all Member States have been equally proactive in promoting PCD. Indeed, the extent to which Member States use the EU framework in their own domestic policy making is uneven, as the

45. “The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries.” (Art. 208 TFEU)

46. European Commission, *Policy Coherence for Development Work Programme 2010-2013*, Commission Staff Working Document, SEC(2010) 421 final, 21.4.2010.

EU **biennial reports on PCD** have shown⁴⁷. This pattern results from highly differing degrees of political importance attached to development cooperation in general and PCD in particular across the different Member States.

47. The last one dates from 2011: European Commission, *EU 2011 Report on Policy Coherence for Development*, Commission Staff Working Paper, SEC(2011) 1627 final, Brussels, 15.12.2011.

3. Increasing efficiency of EU development spending current proposals and prospects for the future

3.1. The Commission's proposal on development financing for 2014-2020

In its proposal for the next Multi-Annual Financial Framework⁴⁸, the European Commission calls for a 25% increase of the EU spending for external actions (heading 4, “Global Europe”). If this proposal is accepted, the share of the EU budget devoted to external action will raise from 5.7% in 2007-2013 to 6.8% in 2014-2020. In real terms, this would mean an increase from €56 billion to €70 billion. The Commission also proposes an increase by 13% of the EDF (from €26.92 to €30.32 billion).

In addition to the general proposal for the 2014-2020 Multi-Annual Financial Framework (MFF), the European Commission has submitted a package of legislative proposals detailing the amounts and type of EU spending

48. European Commission, *A Budget for Europe 2020, Part II: Policy fiches*, COM(2011) 500 final, Brussels, 29.6.2011.

for each policy area. In the area of EU external action, the Commission proposes to keep the five thematic instruments and to increase from four to five the number of geographic instruments (six including the EDF), with the creation of a new instrument for Greenland, mainly related to EU fishing rights and raw materials. The main change compared to the previous 2007-2013 MFF is the replacement of the Instrument for Cooperation with Industrialised Countries (ICI) by a Partnership Instrument. All these instruments, except the European Development Fund, are part of Heading 4 “Global Europe” under the EU budget.

TABLE 2: PROPOSED EXTERNAL ACTION INSTRUMENTS 2014-2020

INSTRUMENT	PROPOSED BUDGET (CONSTANT 2011 PRICES)	REGIONAL/THEMATIC COVERAGE
GEOGRAPHIC		
EUROPEAN DEVELOPMENT FUND (OUTSIDE BUDGET)	€30.3 BILLION	AFRICA, CARIBBEAN AND PACIFIC
DEVELOPMENT COOPERATION INSTRUMENT	€20.6 BILLION	ASIA, CENTRAL ASIA, LATIN AMERICA AND THE MIDDLE EAST AS WELL AS 2 THEMATIC AND A PAN-AFRICAN PROGRAMMES
EUROPEAN NEIGHBOURHOOD INSTRUMENT	€16.1 BILLION	NEIGHBOURING COUNTRIES IN THE EASTERN AND SOUTHERN MEDITERRANEAN
PRE-ACCESSION INSTRUMENT	€12.5 BILLION	SOUTHERN BALKANS, TURKEY AND ICELAND
PARTNERSHIP INSTRUMENT	€1 BILLION	GLOBAL REACH BUT WITH A FOCUS ON STRATEGIC PARTNERS AND EMERGING ECONOMIES
EU-GREENLAND PARTNERSHIP	€0.22 BILLION	GREENLAND
THEMATIC		
EUROPEAN INSTRUMENT FOR DEMOCRACY AND HUMAN RIGHTS	€1.4 BILLION	HUMAN RIGHTS PROTECTION AND PROMOTION, DEMOCRATISATION, ELECTIONS MONITORING
INSTRUMENT FOR STABILITY	€2.5 BILLION	CRISIS RESPONSE, CRISIS PREPAREDNESS, CONFLICT PREVENTION, GLOBAL AND TRANS- REGIONAL SECURITY THREATS
HUMANITARIAN AID	€6.4 BILLION	RESPONSE TO NATURAL AND MAN-MADE DISASTERS
MACRO FINANCIAL ASSISTANCE	€0.6 BILLION	GRANT FINANCIAL ASSISTANCE TO THIRD COUNTRIES AFFECTED BY TEMPORARY BALANCE OF PAYMENTS DIFFICULTIES
NUCLEAR SAFETY	€0.56 BILLION	ALL THIRD COUNTRIES, BUT PRIORITY FOR PRE- ACCESSION AND NEIGHBOURING COUNTRIES

SOURCES: COM (2011) 500 FINAL, COM (2011) 865 FINAL, COM(2011) 846 FINAL.

3.1.1. Development Cooperation Instrument (DCI)

In the Commission's proposal, a renewed Development Cooperation Instrument continues to cover developing countries in Asia, Central Asia, Latin America, the Middle East and South Africa. It increases 19% compared to the period 2007-2013⁴⁹ (from €17.25 to €20.6 billion) and it keeps its focus on combating poverty.

The main innovation of this new DCI is the differentiated approach. The Commission proposes to exclude from the geographic programmes 19 countries⁵⁰ that represent more than 1% of the world's GDP or are upper-middle-income countries according to the OECD/DAC⁵¹. These 19 countries will continue to be eligible for aid under the thematic programmes and regional investment facilities, as well as the new Partnership Instrument in order to forge differentiated development partnerships with those countries.

As with the current DCI, the Commission proposes to maintain the obligation for geographic programmes to be 100% eligible for ODA while thematic programmes have 10% flexibility for non-ODA expenditure⁵². Two new thematic programmes (Global Public Goods and Challenges, and Civil Society Organisations and Local Authorities) substitute the existing five from the current DCI. Finally, a new pan-African programme is created to support the objectives of the Joint Africa-EU Strategy.

49. Gavas M., "The European Commission's legislative proposals for financing EU Development Cooperation", *Background Note*, Overseas Development Institute (ODI), February 2012.

50. The countries affected are: Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, India, Indonesia, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay.

51. These countries are still ODA-eligible according to the DAC list (see Box 1).

52. European Commission, *Proposal for a Regulation of the European Parliament and of the Council establishing a financing instrument for development cooperation*, COM(2011) 840 final, Brussels, 7.12.2011.

3.1.2. Partnership Instrument

The Partnership Instrument⁵³ replaces the Instrument for Cooperation with Industrialised Countries (ICI). It is not to be considered a development instrument, as it has a global reach and the main purpose is to promote EU and mutual interests and to address major global challenges. It seeks to develop broad based agreements with key partners and emerging economies and intends to pursue agendas beyond development cooperation with global players, including countries excluded from the geographic programmes under the DCI. There is no mandatory classification of expenditure as ODA.

3.1.3. European Neighbourhood Instrument (ENI)

The European Neighbourhood Instrument (ENI) covers 16 countries from the East and South neighbourhood⁵⁴, all of them being eligible for bilateral cooperation. The Commission proposes to increase its spending by 23%, from €13.07 billion in the previous period to €16.1 billion. In contrast to the DCI, in the case of ENI the differentiation will be based on political criteria, according to the level of ambition of the country's partnership with the EU regarding the jointly agreed values and objectives, notably on democracy and shared prosperity⁵⁵, in line with the new vision outlined by the European Union⁵⁶ in response to the so-called "Arab spring".

3.1.4. European Development Fund (EDF)

Outside the EU budget remains the European Development Fund (EDF), which covers 78 countries of Africa, the Caribbean and the Pacific. As said

53. European Commission, *Proposal for a Regulation of the European Parliament and of the Council establishing a Partnership Instrument for cooperation with third countries*, COM(2011) 843 final, Brussels, 7.12.2011.

54. Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, the Republic of Moldova, Morocco, the occupied Palestinian territory, Syria, Tunisia and Ukraine.

55. European Commission, *Proposal for a Regulation of the European Parliament and of the Council establishing a European Neighbourhood Instrument*, COM(2011) 839 final, Brussels, 7.12.2011.

56. European Commission and EEAS, *A new response to a changing neighbourhood*, Joint communication of the High Representative of the EU for Foreign Affairs and Security Policy and the European Commission, Brussels, 25 May 2011.

above, the Commission proposes to increase its funding by 13% compared to the 2008-2013 period⁵⁷ (from €26.92 to €30.32 billion). It also proposes a new “contribution key” to finance the EDF, which would be closer to the key used for the EU budget⁵⁸. If this new “contribution key” is accepted, the EU12 would see substantial increases in their contribution shares while other countries such as Austria, Denmark, France, Italy, Luxembourg and the UK would see slight decreases in their contribution shares⁵⁹.

According to some sources, ACP countries will see less radical differentiation. For instance, South Africa is an upper-middle-income country forming part of the BRICS⁶⁰ and the G20, and will not see its bilateral aid reduced. As for the neighbouring countries, differentiation among ACP countries will be based more on political than economic criteria.

3.2. Maintaining the amounts for EU development spending

With several Member States planning to scale down their budgets as a result of the fiscal crunch, the proposed 25% increase for Heading 4 and a 13% increase for the EDF imply a significant improvement, showing an ambition to step up spending on EU external action in general, and development cooperation in particular. However, this **ambition** shown by the European Commission would have to be tested against the intentions by some Member States to reduce the overall size of the EU budget⁶¹.

57. The EDF is usually programmed for a six-year period and the current 10th EDF covers the period 2008-2013. The last EDF under the Cotonou Agreement (the 11th) has been proposed to expire with agreement itself in 2020.

58. European Commission, *Preparation of the multiannual financial framework regarding the financing of EU cooperation for African, Caribbean and Pacific States and Overseas Countries and Territories for the 2014-2020 period (11th European Development Fund)*, COM(2011) 837 final, Brussels, 7.12.2011.

59. Gavas M., “The European Commission’s legislative proposals for financing EU Development Cooperation”, *Background Note*, Overseas Development Institute (ODI), February 2012.

60. South Africa became a member of the BRIC grouping on December 24, 2010. The bloc was then renamed as BRICS.

61. Gavas M., “The European Commission’s legislative proposals for financing EU Development Cooperation”, *Background Note*, Overseas Development Institute (ODI), February 2012.

The legislative acts on the financial instruments have to be adopted before the end of 2013 in order to start the new programming cycle in 2014. However, they cannot be adopted before the existence of a final agreement on the **overall size and structure of the 2014-2020 budget**, as the latter determine the total amount devoted to EU development spending.

In principle, the final agreement on the MFF is expected at the end of 2012. Due to the complicated nature of discussions, some sources say that it is unlikely that an agreement is reached in 2012 and that the negotiations will probably continue in 2013. The agreement on the overall Multi-Annual Financial Framework is subject to a unanimity vote by the Council and the consent by the EP.

The **negotiations within the Council**⁶² will therefore be crucial to maintain the level of spending for external action, including development cooperation, proposed by the Commission. Even if some Member States are advocating for a reduced budget, some elements could help the **acceptance of an increased budget for external action**:

- The “Global Europe” heading would only represent **6.8% of the overall budget**.
- The new orientations of EU external actions support **EU interests** and the EU 2020 strategy.
- Increasing ODA share in the EU budget will help Member States meeting their own **ODA commitments** without having to disburse more money.

62. Some sources claim that the Council might try to negotiate, under the ongoing discussions on the MFF (consent procedure) the legislative proposals for specific policy areas, such as the EU external financial instruments. The latter are indeed subject to a co-decision procedure and will have to be negotiated between the Council and the EP (except the EDF, which remains intergovernmental). The European Parliament is strongly opposing this possibility and tries to influence the MFF framework.

3.3. Including the European Development Fund into the EU budget?

The practical reasons for keeping the EDF outside the EU budget are that it is the last EDF under the Cotonou Agreement (expires in 2020) and that a consensus between Member States in favour of “budgetising” the instrument is unlikely to be found. However, the proposed new “contribution keys” would create a **perspective of future inclusion**.

The **main risk of “budgetising”** identified by many stakeholders is that resources to development cooperation would reduce in the absence of a clear commitment by Member States to increase the overall budget. This concern becomes more important than ever in the current context of fiscal stringency.

Therefore, even if budgetisation of the EDF would bring efficiency gains to the management of the whole EU external action spending, it should only be considered if some **conditions** are met:

- There is a clear commitment from the Council to **increasing the overall size of the EU budget and aid spending** by the EU institutions remains constant as a share of total EU spending. Budgetisation should not encourage Member States to diminish their contribution to European development assistance.
- The poverty focus of aid spending towards the ACP countries, as stated in the Cotonou Agreement, is maintained. Integrating the EDF in the budget would put at risk funds with this purpose, as they could be captured by different priorities such as security or migration issues.

3.4. Prospects for differentiated partnerships

Reassessing aid to countries that seem wealthy enough to fund their own development is a move in the right direction. By excluding upper middle income countries from the DCI geographic programmes, the Commission's proposal intends to target grant-based resources to the poorest countries while devoting other financing instruments for middle-income countries. This idea would mean that grant aid is mainly targeted to countries more in need, therefore improving effectiveness of aid in terms of reducing poverty. However, it is important to keep in mind that more poor people now live in middle than in low income countries (LICs). The following are the main points of concern regarding the Commission's proposal:

- **Criteria for “graduation”.** The EC proposes to use income status of a country as the basis for the decision whether it should continue receiving aid under the DCI geographic programmes or must “graduate”. However, good economic performance in a period can be the result of short or medium term factors and the risk of reversing developments has historically been the case for many developing countries⁶³. Further, the fact that MICs are very heterogeneous and that there are large income inequalities within them does not make either the GNI criteria very appropriate. The **list of criteria** to determine aid allocation must include other indicators such as income per capita, aid dependency, the Human Development Index and the Economic Vulnerability Index.
- **Addressing income inequalities.** Large income disparities and poverty pockets within a country are a serious challenge to social cohesion. Building the institutional capacity needed to **support redistributive development policies** is a cornerstone for MICs and emerging countries and may require significant support from the development community. Cooperation with MICs, whether in the

63. According to the World Bank, the present financial crisis is expected to have an impact in these countries: World Bank, “[Global Economic Prospects: Uncertainties and Vulnerabilities](#)”, Volume 4, January 2012.

framework of the new Partnership Instrument or in joint phasing out strategy from the DCI, should focus on fighting poverty by targeting aid by sector, activities, beneficiaries or specific geographic areas in a country, and combating inequalities by helping to build the institutional capacity needed to design and implement redistributive policies. However:

- The focus of the **Partnership Instrument**, as proposed, is clearly on cooperation with EU strategic partners to promote mutual interests and give the “Europe 2020” strategy a global reach. Moreover, the focus is clearly on strategic partners and it is not certain that all 19 countries graduating from bilateral aid will be considered as such. In the regulation of this instrument, a clear reference about the goal of fighting income inequality when cooperating with MICs and emerging economies must be introduced.
- The European Commission does not envisage any “transition” period for those countries that will not receive further aid under the DCI geographic programmes. If phasing out of aid for some countries is appropriate, it must be phased out **progressively** over the period of the next MFF and taking into account division of labour between European donors to avoid donors’ flight from a given country. **Joint phasing out strategies** focused on the common objective of fighting poverty and inequality will be needed.

3.5. Towards an EU platform of blending mechanisms

The Commission proposes to make more use of blending loans and grants to mobilise additional funding to cover the investment needs of partner countries, including those MICs and emerging economies excluded from the DCI geographic programmes. The EU has set up several blending facilities (*see § 1.3*) and is planning to build on these experiences to expand the

use of these instruments. However, while blending has a large potential on leveraging further resources for development, there is still **limited evidence** on the benefits of using blending in the field of development⁶⁴. In addition to that, there are some risks involved in using this type of instruments for development purpose. To avoid these risks, the use of ODA resources as loan guarantee has to be subject to certain **conditions**:

- **Grants vs. loans.** There is a risk that blending leads to reduced levels of grants for developing countries. These mechanisms cannot substitute grant aid, instead they must ensure that loan elements complement grant-based aid where they can improve development interventions. There is a need for transparency of all grant elements.
- **Development objectives.** Profit objectives of the private sector must not overcome the development mandate of public development resources. Therefore, there is a need to ensure that any grant request is screened against the goals of EU development policy. The Commission must have a key role in screening projects and facilitating project preparation at the level of financiers, as these blending facilities are part of the EU policy.
- **Debt sustainability.** There is a risk of indebtedness of beneficiary countries when the loan element is introduced in development funding. There must be a closely monitoring of debt sustainability.
- **Monitoring.** Investment project supported by EU mechanisms for blending grants and loans should go hand-in-hand with a mechanism that guarantees a positive impact on development and must be subject to monitoring of their implementation and impact studies.

For EU blending mechanisms to contribute to development policy it would also be necessary an efficient **coordination** across these facilities. The Commission, in line with the recommendations of the mid-term review

64. Gavas M. *et al.*, "EU Blending Facilities: Implications for Future Governance Options", European Think-Tanks Group, January 2011.

of the EIB external mandate operations⁶⁵, has proposed to establish an **“EU platform for External Cooperation and Development”** where the Commission, Member States and European financial institutions are represented and can collaborate. After a public consultation period, a recommendation by a Group of Experts⁶⁶ is expected by mid-2012. A throughout analysis on the development aspects of the proposal will then be needed.

3.6. Improving coordination and coherence

3.6.1. Donors’ coordination

Regardless of the coordination attempts by the European Commission, the political will of many European donors to engage in further cooperation is reduced by perceived costs such as a diminish political visibility of bilateral donors in partner countries as well as security or commercial concerns. Apart from this resistance by some Member States, there is also an operational side of coordination that can be improved, as for instance, the availability of information about other donors’ activities. Therefore, there is room for improvement both at a political level and an operational level. Some further action in this field can be proposed:

- **Public consultation.** The European Commission could lead the process and open a public consultation to establish the next steps in the field of European donor coordination and complementarity.
- **Council meetings.** The average rate of over twenty ministerial absences from the Council meetings is a sign of low political commitment to cooperation. Member States must do an effort to closely follow this matter in Council meetings.
- **Cross-country DoL.** Many Member States are reducing the number of countries in which they work, though these efforts are not co-

65. Steering Committee of “wise persons”, *European Investment Bank’s external mandate 2007-2013. Mid-Term Review*, Report and recommendations of the Steering Committee of “wise persons”, February 2010.

66. European Commission, Group of Expert on the EU Platform for External Cooperation and Development, *Terms of Reference*, December 2011.

ordinated and are based on political choices rather than on comparative advantages. The main difficulty consists on the lack of transparent mechanisms to evaluate these comparative advantages of Member States on a given country. Imposing a mechanism would never be accepted but a voluntary coordinated approach involving informal negotiations at political level is to be recommended.

- **In-country DoL.** On the ground, the EU is still seen as a donor with considerable weight, but not so much a coordinating body. Heads of the EU Delegations, now chairing the EU Heads of Mission meetings, must bring to these meetings development issues together with the political matters that tend to dominate the discussions. EU Delegations, tasked with programming and implementing development assistance, are expected to facilitate coordination among EU Member States.
- **Joint programming.** The Commission is doing efforts to develop joint Country Strategy documents to achieve better coordination among European donors. A particular window of opportunity opened in 2011 with the establishment of the European External Action Service. The EEAS, composed by officials of the Commission and of the EU Member States, has the potential to provide the practical structure needed to convert joint European commitments in capitals into joint European action on the ground.
- **Budget support.** Coordinating the use of the “budget support” modality of action would increase leverage on political and policy dialogue between the EU and the partner country and would enhance aid effectiveness. The EU should work with Member States towards a single “EU budget support contract” where all European donors are represented against the partner country.

3.6.2. Policy Coherence for Development

Even though efforts have been made in the area of Policy Coherence for Development, the degree in which it is implemented at EU and at Member State level varies enormously, and this regardless of the obligation imposed by the EU Treaties. Further efforts to promote policy coherence for development are needed at European level. Again, one of the main elements is political will, but operational improvements related to the new institutional setup after the Lisbon Treaty can be proposed.

- **Council.** The Council should further engage in promoting PCD. In particular, the Council Presidency should ensure more systematic follow-up of policy coherence for development issues to give them sufficient weight in EU decision making. Reinforcing existing mechanisms and involving the Committee of Permanent Representatives further could help.
- **European External Action Service.** Policy coherence has hardly been a priority in the first months of the service and this is rather seen as a long-term project. Support from the highest level of the service would help raise awareness and incentives to promote it. The Agenda for Change could be the basis for a new European Consensus for Development that includes the High Representative and the EEAS as signatories.
- **Commission.** As PCD is not dealt with in a separate organizational unit within DG DEVCO, it has lost some visibility. It might be useful to specify in the job descriptions of staff in thematic units what and how they are expected to work on PCD, for instance, by engaging with other DGs.
- **EU Delegations.** The Commission should appoint PCD focal points in each Delegation to monitor the impact of EU policy at partner-country level and follow-up mechanisms in this area.
- **European Parliament.** EP's standing Rapporteur for PCD could point out incoherencies in EU policies, and ensure that the effects of new European legislation on developing countries are taken into account during the legislation process.

- **Impact assessments.** According to a recent study on Impact Assessments⁶⁷, most of them do not actually look at all at the impact on developing countries and those who did do not assess how it is affecting developing countries. These are a key policy instrument to promote PCD that should be reinforced by filling gaps on capacity and political will.
- **New financial perspectives.** It is important to reinforce the principle and mention Policy Coherence for Development in all the regulations of the external actions instruments, including for the Partnership Instrument. The inter-institutional negotiation of the MFF must allow a screening on how PCD is mentioned in the regulations for internal policies.

67. CONCORD, *Spotlight on EU Policy Coherence for Development*, Report 2011, CONCORD, European NGO Confederation for Relief and Development, 2011.

Conclusion

Development policy is one of the main instruments that the European Union has at its disposal to make its voice heard in the international arena. Indeed, official development assistance (ODA) with origin in the EU represents more than half of total aid spending worldwide. However, the EU is having a hard time to be seen as an influential global player and is involved in a process of adapting its structures and policies to have the strong voice that its economic and political power should bring. In the field of development policy, three are the main challenges that the EU is facing: the fragmentation of European ODA, the changing development environment and the current fiscal stringency.

This Policy Paper has tried to point out some elements that could help the EU to face these challenges and make EU development policy more effective without spending more. The main issues at debate are the “budgetisation” of the European Development Fund, the need to rethink development policy towards MICs and emerging economies, how to mobilise

further resources for financing development, the coordination among European donors and the coherence of policies that can have an impact on development. After reviewing what the European Commission is proposing in the field of development cooperation for the next 2014-2020 period, and in relation to the main issues at debate, this Policy Paper has highlighted some elements for improving EU development policy.

Concerning the Commission's proposals, we consider that the Commission is ambitious regarding the proposed amounts but that level will not probably be matched by Member States, and some options for the negotiation are offered. As for the decision to not "budgetise" the EDF, we agree with the fact that conditions are not yet met. The differentiated partnerships approach with MICs and emerging economies is a move in the right direction, but the proposed criteria and instruments need to be fine-tuned in order to take into account the heterogeneity of these countries. Related to the proposal, the Commission has the intention to make further use of loan and grant blending facilities to leverage financing alongside grant-based aid. We agree with the need to explore the use of these facilities, but we warn on the fact that the development component must be guaranteed and recommend an analysis on the development aspects of the future "EU platform for External Cooperation and Development". This Policy Paper also states that there is room for improvement in the field of donors' coordination and policy coherence for development, and the European Commission should reinforce its role for promoting coordination and coherence.

In the end, all these elements will be subject to the political will of main European actors. However, these should keep in mind that development policy is an important component of EU external action. The current economic situation cannot be a reason to set aside development policy and the European Union with its Member States must continue working in the direction of improving spending in this field.

Abbreviations

ACP: African, Caribbean and Pacific countries

CEB: Council of Europe Development Bank

DAC: Development Assistance Committee

DCI: Development Cooperation Instrument

DoL: Division of Labour

EBRD: European Bank for Reconstruction and Development

ECHO: European Community Humanitarian Office

EDF: European Development Fund

EIB: European Investment Bank

ENPI: European Neighbourhood and Partnership Instrument

GNI: Gross National Income

IA: Impact Assessments

ICI: Instrument for Cooperation with Industrialised Countries

IFCA: Investment Facility for Central Asia

ITF: EU-Africa Infrastructure Trust Fund

LAIF: Latin America Investment Facility

LIC: Low-Income Countries

MDG: Millennium Development Goals

MFF: Multi-Annual Financial Framework

MIC: Middle-Income Country

NIB: Nordic Investment Bank

NIF: Neighbourhood Investment Facility

OCTs: Overseas Countries and Territories

ODA: Official Development Assistance/Aid

OECD: Organisation for Economic Co-operation and Development

PCD: Policy Coherence for Development

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Competition, Cooperation, Solidarity

European Development Aid: How to be more effective without spending more?

Development policy is one of the main instruments that the European Union has at its disposal to make its voice heard in the international arena. Indeed, official development assistance (ODA) with origin in the EU represents more than half total aid spending worldwide. However, the EU is having a hard time to be seen as an influential global player and is involved in a process of adapting its structures and policies to have the strong voice that its economic and political power should bring.

In the field of development policy, three are the main challenges that the EU is facing: the fragmentation of European development aid (with 27+1 European donors that do not fully coordinate their actions); the changing development environment resulting from the rise of emerging economies; finally, the current fiscal stringency (which translates into a need to mobilize new sources to supplement conventional ODA).

This Policy Paper by Elena Muñoz Gálvez discusses ways of enhancing the efficiency and coherence of EU development aid. After presenting the major issues at debate on how to improve EU development spending, the author evaluates how the Commission's proposal on development financing for 2014-2020 ranks along these issues, and formulates some proposals for improvement.

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