

**International Development Committee**

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**Inquiry on “EU development assistance”**

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\* Disclaimer: The views presented in this paper are those of the authors

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## Introduction

1. The International Development Committee's (IDC) inquiry into EU development assistance has come at a momentous time considering the new poverty landscape, changing economic and geopolitical dynamics in the world, the economic crisis, and the possible ramifications of EU treaty change. As the global development scene changes, the UK and the EU's approaches to development must also change.
2. DFID's Business Plan for 2011-2015 establishes a UK vision for international development cooperation based on "results, transparency and accountability".<sup>2</sup> Key priorities include: boosting wealth creation; combating climate change; strengthening governance and security in fragile and conflict affected states; improving the lives and women and girls; and improving transparency in aid. Combined with DFID's 2011 Bilateral and Multilateral Aid Reviews,<sup>3</sup> this establishes a new framework to guide the UK's approach.
3. Working with the EU can help the UK to achieve faster progress on a number of these goals. Key global challenges such as climate change and food security can be more effectively dealt with at regional level. Commission instruments to promote international political and economic partnerships, regional integration, aid for trade and the blending of grants and loans can help to promote growth and job creation.
4. At the same time, there is scope for further improvements in the way European Commission (EC) managed aid is provided.<sup>4</sup> The EC's new development strategy – 'An Agenda for Change', combined with the next Multi-Annual Financial Framework (MFF) (2014-2020) will bring in some important reforms. However, the UK needs to continue to press for further changes if the EC is to meet its full potential.
5. The terms of reference established for this inquiry by the IDC call for evidence regarding:<sup>5</sup> the EU's comparative advantage as a channel for UK development assistance, 'An Agenda for Change', future funding of EC development cooperation and progress towards policy coherence for development (PCD). These areas of inquiry ultimately lead to four key questions which this submission sets out to answer:
  - What development objectives can the UK better pursue through the EC than through bilateral means?
  - How much funding should be allocated to EC development assistance?
  - What countries and sectors should the EC concentrate its funds on?
  - How should these funds be managed?

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<sup>2</sup> DFID (2011) "DFID Business plan – Vision", <http://www.dfid.gov.uk/About-us/How-we-measure-progress/DFID-Business-plan-2011-2015/Vision-/>; and DFID (2011) "Business plan 2011 – 2015", <http://www.dfid.gov.uk/about-us/how-we-measure-progress/dfid-business-plan-2011-2015/>

<sup>3</sup> Further analysis of the MAR can be found in Annex 3

<sup>4</sup> In this submission, the 'EU' refers to the EU member states together, whereas the 'EC' refers to the European Commission's development programme, funded by the member states.

<sup>5</sup> Consult Annex 2 for the IDC enquiry terms of reference

## Background

6. There have been substantial improvements in EC development cooperation since reforms initiated in 2000. These have:
  - **Restored the political credibility for EC development aid.** There is now an EU development policy (The European Consensus on Development) based on common values, and a clear treaty commitment (Article 208 of the Lisbon Treaty) which enshrines poverty reduction as the “primary objective” of EU development cooperation;
  - **Radically improved management performance.** There is now an effective multi-annual programming system that sets out clear strategies, budget, expected results and guidelines for implementing aid;
  - **Reformed financial and administrative control mechanisms.** In 2006, the financial instruments were rationalised from more than 30 to 10 instruments;
  - **Speeded up disbursement.** There has been substantial decentralisation – improving the quality of aid and the speed of disbursement; and
  - **Made the EC a key donor in the world.** The EC disbursed around €11 billion in 2010 - approximately 18% of member states’ aid budget. Overall, including the aid programmes of member states, the EU provides 60% of all global development aid.
  
7. However, the EU has much to do if it is to fulfil its potential. The EU must further improve:
  - **Policy coherence for development (PCD)**, which has remained more of an aspiration than a reality;
  - **Funding**, which has fallen behind targets;
  - **Coordination** between member states;
  - **Focus.** The Commission is continually asked to take on new areas of work, resulting in mixed messages and lack of a clear strategic direction;
  - **Policy capacity.** The EC is poorly staffed in the policy area compared to its peer group among the large international donors. The EC’s weight and influence in global policy debates falls far behind either the World Bank or the UN.

## The Comparative Advantage of the EC as a channel for UK development and humanitarian assistance

8. When the EC works together with member states, it brings comparative advantage, by means of:
- **Shared values** and a **commitment to poverty reduction**, enshrined in the Lisbon Treaty;
  - **Shared approaches in development policy**, laid out in the European Consensus on Development, and the potential for greater coherence with other policy areas;
  - New structures which at least potentially facilitate **joined-up engagement in international development**, particularly the new High Representative for Foreign Affairs and Security Policy, leading the European External Action Service, and a team of Commissioners in development, humanitarian aid and crisis response, trade, and enlargement and neighbourhood policy;
  - **International political and economic partnerships**, with African, Caribbean and Pacific (ACP) countries, through the Cotonou Partnership Agreement, and also with Asia, Latin America and the Neighbourhood;
  - **Economies of scale in funding instruments**, which allows the UK to be involved in around 90 country programmes, many of which are HMG priorities but do not receive UK aid.
  - **Ability to tackle Global Public Goods**. The EU's size, in relation to member states, makes it better able to tackle problems which need addressing at global level.<sup>6</sup>
9. The EC itself has demonstrated specific expertise in the following areas:
- **Regional integration and cooperation**, with a focus on institution and capacity-building, infrastructure in terms of cross-border transport systems. There is a clear value added in terms of historical experience, lessons learnt and expertise.<sup>7</sup>
  - **Food security**, stemming from its critical mass in financial terms, experience in the field<sup>8</sup> and its focus on a regional approach to food security.
  - **Trade**. The EC has exclusive competence for trade policy and the EU is developing countries' largest trading partner.<sup>9</sup>
  - **Institutional capacity-building, good governance, democracy and rule of law**. A key focus of EC assistance in all areas of the world.
  - **Rights and justice**, as European values underpin a welfarist approach to poverty reduction with respect for civil and political, as well as economic and social rights.

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<sup>6</sup> An ODI facilitated e-discussion between the EU 'Change-Makers' group in 2009, highlighted that "The EU's influence and capacity to promote a global vision and its approach toward a multilateral world economy hinges on its ability to play a leading role in promoting collective action. Development aid is one of the rare tools available to actually cement that collective action on global public goods". The report can be accessed here:

<http://www.odi.org.uk/resources/docs/5846.pdf>

<sup>7</sup> For more information on the EC's experience, see: Meyn, M. and Te Velde, D. W. (2008), "Literature survey on the state of regional integration in ACP", Study for DG Development, [http://ec.europa.eu/development/icenter/repository/Regional-Integration-Report-18-09-2008\\_en.pdf](http://ec.europa.eu/development/icenter/repository/Regional-Integration-Report-18-09-2008_en.pdf); te Velde, D.W. (2008) Regional Integration and Growth, analytical tools <http://www.odi.org.uk/resources/download/2498.pdf> and te Velde, D. W. (2007) "Regional Integration, Growth and Concentration", <http://siteresources.worldbank.org/INTWDR2009/Resources/4231006-1204741572978/Velde.pdf>

<sup>8</sup> For example, the EC's €1 billion 'Food Facility' initiative which ran from 2009-2011

<sup>9</sup> Cali, M., and te Velde, D. W. (2009) "Does Aid for Trade Really Improve Trade Performance?" [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1430492](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1430492),

## The proposals set out in the “Agenda for Change” and the EC’s new proposal on budget support

10. The EC’s proposed ‘Agenda for Change’ builds on the 2005 European Consensus on Development, and introduces three changes<sup>10</sup> designed to ensure the EC’s limited resources are used in a way which fosters value for money:

- The **concentration** of EU activities on two broad priorities: (a) good governance and human rights, linked to greater conditionality; (b) growth, with a strong focus on leveraging in private sector money;
- The introduction of the concept of **differentiated development partnerships**, with new allocation criteria for aid; and
- An attempt to boost EU **joint work**.

11. **Concentration.** We welcome the proposal to concentrate on fewer sectors where the EU has clear comparative advantages, as highlighted in the previous section. This is an improvement on the broad nine priority themes identified by the European Consensus on Development.

- **Governance.** While we welcome the focus on good governance and human rights, we have concerns regarding conditionality. Using aid conditionality to further fundamental values (democracy, human rights and rule of law) seems ill-advised given the weak evidence-base surrounding the effectiveness of conditionality.<sup>11</sup>
- **Growth.** We support the proposed focus on growth, a key UK priority. The EC has a particular comparative advantage in responding to crises effectively and at scale, helping to promote growth and resilience in developing countries. This was demonstrated particularly by the €500 million EC ‘V-FLEX initiative’.<sup>12</sup> The EC is also the world leader in providing aid for trade,<sup>13</sup> and has historically provided high levels of support for large-scale infrastructure projects, a key priority for developing countries and an area shown to help export promotion.<sup>14</sup>
- However, we do not support the proposal, made in the Agenda for Change, to spend 20% of development aid on health and education in order to promote ‘inclusive and sustainable growth’. Setting such arbitrary targets can reduce flexibility in responding to country driven priorities and nationally owned development strategies.<sup>15</sup>

12. **Differentiation.** We support the Commission’s intention to reassess aid to middle income countries (MICs) (so-called ‘differentiation’) and to focus its efforts on countries that need aid the most. However, with three caveats:

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<sup>10</sup> Gavas, M, Herbert, S and Maxwell, S. (2011) “An Agenda for Change for EU Development Policy”, ODI blog, [http://blogs.odi.org.uk/blogs/main/archive/2011/10/17/EU\\_development\\_policy\\_an\\_agenda\\_for\\_change.aspx](http://blogs.odi.org.uk/blogs/main/archive/2011/10/17/EU_development_policy_an_agenda_for_change.aspx)

<sup>11</sup> Tavakoli, H. and Smith, G. (2011) “Insights from recent evidence on some critical issues for Budget Support design”, ODI Background Note, <http://www.odi.org.uk/resources/details.asp?id=5445&title=budget-support-design-evidence-pfm-public-financial-management>

<sup>12</sup> The Vulnerability FLEX (V-FLEX) was an ad hoc and rapid, counter-cyclical financing instrument to mitigate the social consequences of the economic downturn in the worst hit countries. It was limited to the ACP region. The funding was sourced from the reserves of the national and regional indicative programmes under the 10th EDF. For more info see: <http://www.odi.org.uk/resources/docs/5811.pdf>

<sup>13</sup> For the rationale for regional aid for trade, see: [http://www.odi.org.uk/iedg/Projects/Aid4trade\\_files/nab12\\_regional\\_aid\\_for\\_trade\\_jan\\_07%5B1%5D.pdf](http://www.odi.org.uk/iedg/Projects/Aid4trade_files/nab12_regional_aid_for_trade_jan_07%5B1%5D.pdf)

<sup>14</sup> Cali, M., and te Velde, D. W. (2009) “Does Aid for Trade Really Improve Trade Performance?” World Development, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1430492](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1430492)

<sup>15</sup> The 20% target first appeared in the DCI regulation in 2007, however, since then the target has never been met

- Aid allocation decisions should not be based on per capita income alone. Now home to nearly one in five of the world's poor, fragile MICs are of critical importance to global poverty reduction. Many are also important for strategic geopolitical purposes.
- For those countries which will no longer receive EC aid, this must be phased out rather than cut suddenly.
- The EC must find ways of continuing to work with important emerging countries to address global public goods (GPGs), even when it no longer provides aid.<sup>16</sup> The Agenda for Change needs to shift from being purely an 'aid strategy', to one which addresses GPGs challenges, which in many cases have a greater impact on development prospects than aid.

13. **Joint work.** The European Consensus on Development provides a framework within which EU countries can work together in delivering development cooperation. Operationally, a key milestone was the EU Code of Conduct on Complementarity and Division of Labour, approved in May 2007. This is intended to reduce overlap, cut transactions costs, and ensure more efficient aid. However, progress is slow - everybody wants to coordinate, but no one wants to be coordinated..<sup>17</sup> The Agenda for Change gives a new impetus to this with its proposals for joint programming. We welcome this move, but recognise its limitations, considering that it is a highly contentious issue with member states.

14. The Agenda for Change also calls on the EU to invest more in **sustainable agriculture and efficient renewable energy**. This echoes with emerging findings from the European Report on Development (ERD) 2011/2012 on 'Confronting scarcity: managing water, energy and land for inclusive and sustainable growth',<sup>18</sup> which ODI is leading for the European Commission and 7 member states. The preparations for the ERD<sup>19</sup> suggest that the EU could use its comparative advantage to promote improved management for three resources that are crucial for development by: increasing investments in renewable energy partnerships to tackle scarcity of carbon space (bundling support in areas such as technology, blended loan and grant resources, and technical assistance for regulatory reform); using its own internal policies, trade and investment policies, development co-operation and its position globally to tackle pressures on land and water; and, promoting innovation in sustainable agriculture. Furthermore, in order to promote development and global food security, the EU should implement meaningful reforms to the Common Agriculture Policy, in a bid to reduce damaging distortions<sup>20</sup>, and redouble its efforts to invest in R&D in poorer countries.

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<sup>16</sup> Koch, S. Gavas, M. and Furness, M. (2011) "EU development policy: ambitious agenda for change or the same old story?", DIE Blog, [http://www.die-gdi.de/CMS-Homepage/openwebcms3\\_e.nsf/%28ynDK\\_contentByKey%29/MRUR-8MXHBG](http://www.die-gdi.de/CMS-Homepage/openwebcms3_e.nsf/%28ynDK_contentByKey%29/MRUR-8MXHBG)

<sup>17</sup> European Think Tanks Group (2010) "New Challenges, New Beginnings: Next Steps in European Development Cooperation", <http://www.odi.org.uk/resources/docs/5811.pdf>

<sup>18</sup> More details on the ERD can be found at: <http://www.odi.org.uk/work/projects/events.asp?id=2323&title=erd-20112012-european-report-development>

<sup>19</sup> Faure, R. (2011) "Key elements emerging from the ERD panels at the EADI/DSA conference in York", ERD blog, <http://www.erd-blog.eu/blog/key-elements-emerging-erd-panels-eadidsa-conference-york>

<sup>20</sup> Cantore, N., Page, S and te Velde, D. W. (2011) "Making the EU's Common Agricultural Policy coherent with development goals", ODI Briefing Paper, <http://www.odi.org.uk/resources/details.asp?id=5937&title=common-agricultural-policy-development-agriculture-eu>

15. A leading position for the EU in the above areas ahead of the Rio+20 conference in June 2012 is welcome. The EU can lead such negotiations and, when it does, the outcome can be a force for good. The Copenhagen climate change negotiations failed, with the EU<sup>21</sup> being on sidelines, whilst the Durban UNFCCC negotiations produced an outcome document pushed strongly by Europe.
16. In addition to the 'Agenda for Change', the EC published a new proposal on the use of **budget support**, in October 2011. We welcome the EC's commitment to maintain support for budget support.<sup>22</sup> There are four commendable features of the new approach:<sup>23</sup> (1) It reconfirms commitment to aid effectiveness principles; (2) It allows flexibility; (3) It strengthens the EC's risk management framework for budget support; and (4) it responds to growing concerns about establishing appropriate exit strategies. However, as mentioned, we are cautious regarding the use of conditionality related to political governance, for the following reasons:<sup>24</sup>
- Unless such fundamental principles are prioritised by government and society, evidence suggests that their achievement through budget support is unlikely to be successful. A significant body of research shows that conditionality cannot buy reform;<sup>25</sup>
  - Experience discussed at the ODI meeting series on budget support<sup>26</sup> suggests that as a modality it already serves many purposes and this overburdening has hindered its performance;
  - If such an approach is implemented, a better understanding of the process of arriving at conditionalities is required to facilitate a process where recipient government and donor preferences are really aligned.

### The proposals for future funding of EC development cooperation

17. The next Multi-Annual Financial Framework (MFF) for the period 2014-2020 offers opportunities to address challenges with the EU aid budget. The right priorities for EU external action need to be identified, and the instruments need to be designed accordingly.

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<sup>21</sup> Keane, J. and D.W. te Velde (2011) "The new landscape of global economic governance. Strengthening the role of emerging economies", EDC 2020 working paper. [http://www.edc2020.eu/fileadmin/publications/EDC\\_2020\\_-\\_Working\\_Paper\\_no\\_13\\_-\\_The\\_New\\_Landscape\\_Of\\_Economic\\_Governance\\_-\\_Strengthening\\_the\\_Role\\_of\\_Emerging\\_Economies\\_v3.pdf](http://www.edc2020.eu/fileadmin/publications/EDC_2020_-_Working_Paper_no_13_-_The_New_Landscape_Of_Economic_Governance_-_Strengthening_the_Role_of_Emerging_Economies_v3.pdf)

<sup>22</sup> Maxwell, S. (2011) "Budget support is becoming an endangered species: what Busan must do to save it", EDCSP blog, <http://internationaldevelopmenteu.files.wordpress.com/2011/08/edcsp-opinion-12.pdf>

<sup>23</sup> Tavakoli, H. (2011) "EU budget support: both a 'name changer' and a 'game changer'", ODI blog, [http://blogs.odi.org.uk/blogs/main/archive/2011/10/19/budget\\_support\\_european\\_commission\\_new\\_approach\\_heidi\\_tavakoli.aspx](http://blogs.odi.org.uk/blogs/main/archive/2011/10/19/budget_support_european_commission_new_approach_heidi_tavakoli.aspx)

<sup>24</sup> Tavakoli, H. and Smith, G. (2011) "Insights from recent evidence on some critical issues for Budget Support design", <http://www.odi.org.uk/resources/details.asp?id=5445&title=budget-support-design-evidence-pfm-public-financial-management>

<sup>25</sup> Dollar et al., 1998; Killick et al., 1998; World Bank 1998; Caputo et al., 2011

<sup>26</sup> ODI (2011) "Long-term research perspectives on budget support", ODI Workshop Series, <http://www.odi.org.uk/events/details.asp?id=2647&title=budget-support>

18. The EU budget is divided into five 'headings', EU development assistance comes from 'Heading 4' 'Europe as a Global Player'. EU development assistance is resourced from both the EU budget – around 76% - and the European Development Fund (EDF) – around 24%. The management of the EDF and its resources are not the same as for the EU budget, where the European Parliament has a co-decision role together with the Council.

19. Figure 1 lists the financial instruments for EU external action for the current period (2007-2013).<sup>27</sup>

20. In June 2011, the EC adopted a proposal for the next MFF<sup>28</sup> - "A Budget for Europe 2020".<sup>29</sup> The proposals would see a 25% increase for 'Heading 4', in the next MFF taking the budget from €56 billion to €70 billion; and a 34% increase for the EDF, taking the budget from €22.7 billion to €34.3 billion.<sup>30</sup>

21. The proposal sets out the EC's objectives, focussing on value-added and results, with a concentration on:

- Poverty reduction, and assistance to following disasters;
- Stability and prosperity in the neighbourhood;
- Peace, security and crisis prevention and response, notably in most unstable countries;
- EU values (human rights and democracy, multilateral governance system).

22. The EC has also proposed:

### Figure 1: The financial instruments for EU external action

#### Budget:

##### Geographic:

- Development Cooperation Instrument (DCI, €16.9 billion, 2007-2013): Asia, Latin America, Central Asia, the Middle East and South Africa. This instrument also contains thematic programmes covering specific activities in all developing countries.
- European Neighbourhood and Partnership Instrument (ENPI, €11.2 bn, 2007-2013): European neighbourhood and Russian Federation.
- Instrument for Pre-Accession (IPA, €11.5 bn, 2007-2013): EU accession countries.
- Instrument for Cooperation with Industrialised Countries (ICI, €172 million, 2007-2013).

##### Thematic:

- Common Foreign and Security Policy (CFSP, €2 bn, 2007-2013).
- European Instrument for Democracy and Human Rights (EIDHR, €1.1 bn, 2007-2013): promoting democracy and human rights worldwide.
- Food Facility Instrument (FFI, €1 bn, 2009-2011): enabling a response to problems caused by soaring food prices in developing countries.
- Humanitarian Aid Instrument (HAI, €5.6 bn, 2007-2013): providing funding for emergency and humanitarian aid relief and food aid.
- Instrument for Nuclear Safety (INS, €524 m., 2007-2013): ensuring nuclear safety.
- Instrument for Stability (IfS, €2.1 bn, 2007-2013): tackling crises and instability in third countries and trans-border threats.
- Macro-Financial Assistance (MFA, €791 m., 2007-2013): promoting macroeconomic stabilisation and structural reforms.

#### Non-EU budget:

- European Development Fund (EDF, €22.7 bn, 2008-2013): Africa, Caribbean and Pacific and Overseas Countries and Territories.

Source: Gavás, M (2010)

<sup>27</sup> Gavás, M. (2010) "Financing European development cooperation: the Financial Perspectives, 2014-2020", ODI Background Note, <http://internationaldevelopmenteu.files.wordpress.com/2010/11/background-note-on-fp.pdf>

<sup>28</sup> For more details see this presentation by the European Think-Tanks group (2011) "The Multi-Annual Financial Framework 2014-2020: Implications for Development Cooperation" <http://internationaldevelopmenteu.files.wordpress.com/2011/12/european-think-tanks-group-presentation-29-nov111.pdf>

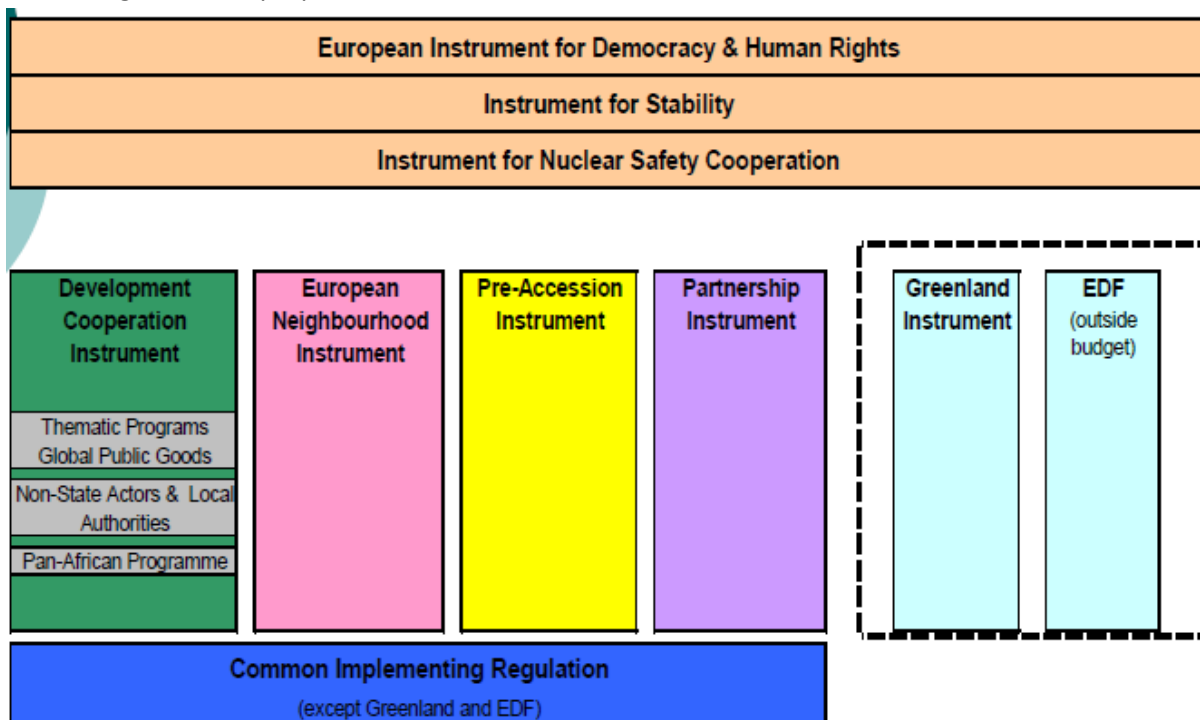
<sup>29</sup> European Commission (2011) "A Budget For Europe 2020 - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions", [http://ec.europa.eu/budget/biblio/documents/fin\\_fw1420/fin\\_fw1420\\_en.cfm#doc1](http://ec.europa.eu/budget/biblio/documents/fin_fw1420/fin_fw1420_en.cfm#doc1)

<sup>30</sup> European Commission (2011) "Strengthening Europe's place in the world: An external budget for 2014-2020 to respect EU commitments and promote shared values", <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1510&format=HTML&aged=0&language=EN&guiLanguage=en>



- Almost all expenditure under the DCI instrument be classified as ODA;
- Geographic cooperation will focus on poverty reduction in all developing countries outside the Neighbourhood and the ACP (i.e. no more grant aid for wealthier developing countries);
- A thematic envelope for GPGs and challenges;
- An envelope for non state actors and local authorities;
- A pan-African financial mechanism; and
- That the EDF remain outside of the MFF.

23. Figure 2: The proposed instruments for the MFF, 2014-2020



Source: European Commission (2011)<sup>31</sup>

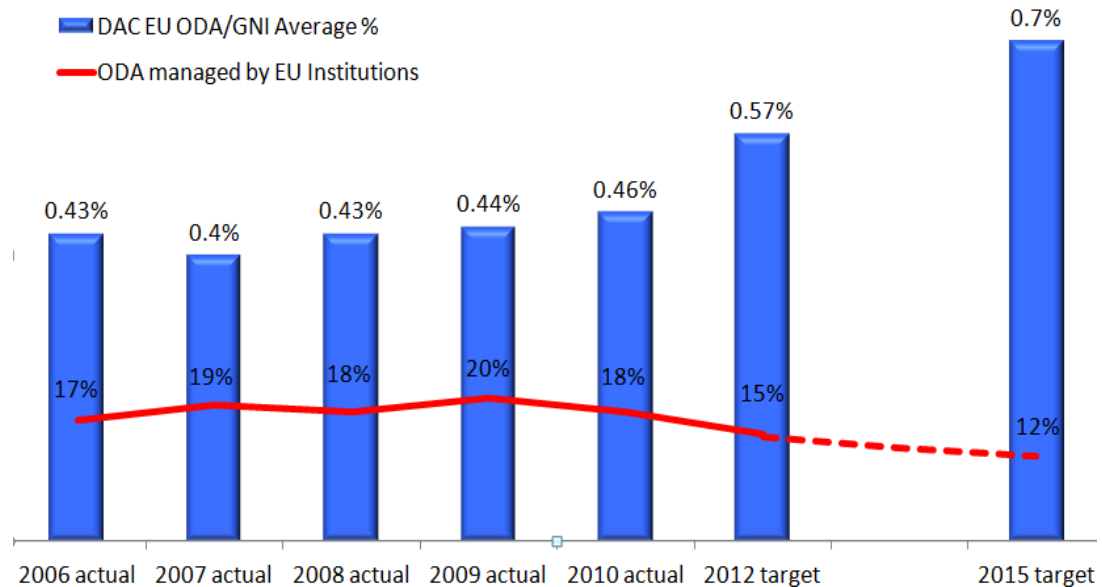
24. With regards to financing, if EU member states meet the pledges they have made for 2015,<sup>32</sup> then aid will roughly double. Figure 3 shows the declining market share of EC aid over the next years, as member state aid increases. This is due to the lack of EU channels for increasing EC aid. Funding for the MFF (fixed for the period 2007-2013) and the EDF (fixed for the period 2008-2013) mean that the real share of the EC's contribution to the EU's collective ODA will decrease to less than 15%, if member states meet their ODA targets. For the next period, if the EC is to maintain its market share at around 20%, funding would need to double and continue increasing throughout the period of the MFF.<sup>33</sup> The bigger the EC's market share, the more influence it has, compared to other donors.

<sup>31</sup> European Commission (2011) "Multiannual Financial Framework 2014-2020: Heading IV - External relations "The EU as a global player", [http://ec.europa.eu/commission\\_2010-2014/piebalgs/multimedia/pdf/20111208\\_mff\\_extrel\\_technical\\_briefing\\_en.pdf](http://ec.europa.eu/commission_2010-2014/piebalgs/multimedia/pdf/20111208_mff_extrel_technical_briefing_en.pdf)

<sup>32</sup> 0.7% of GNI for the EU-15, 0.33% for the EU-12

<sup>33</sup> For detailed analysis of development funding in the next MFF, see: Gavvas, M. (2010) "Financing European development cooperation: the Financial Perspectives, 2014-2020", ODI Background Note, <http://internationaldevelopmenteu.files.wordpress.com/2010/11/background-note-on-fp.pdf>

25. **Figure 3: Market share of EC aid** (ODA as a percentage of total DAC EU GNI and percentage of total DAC EU ODA managed by EC compared)



Source: Gavvas, M. (2011)

26. There are three key challenges that need to be addressed in the next MFF:<sup>34</sup>

27. **Rethinking priorities and assistance towards MICs.** The EC has proposed applying ‘differentiation’ to countries covered by the DCI and ENI instruments. Under the DCI it is proposed that 17 Upper-MICs<sup>35</sup> and 2 large Lower-MICs whose GDP is larger than 1% of global GDP<sup>36</sup> graduate to new partnerships that are not based on bilateral aid.<sup>37</sup>

28. The EC has also proposed replacing the Industrialised Countries Instrument (ICI) with the Partnership Instrument (PI) to fund cooperation with MICs. However, the focus of PI seems to be on promoting EU economic interests and business opportunities abroad – not really on partnership and not on tackling the provision of GPGs where MICs are key.

29. Research by the European Think-Tanks Group (ETTg) recommends that the EU needs a more comprehensive strategy to protect GPGs.<sup>38</sup> The EC has proposed funding GPGs through a thematic envelope in the DCI, but the DCI does not allow for a more elaborate policy-mix, as ODA must account for 100% of the geographical programmes and 90% of the thematic programmes. This makes it difficult for the EC to fund economic activities and activities of

<sup>34</sup> Ibid. and European Think-Tanks Group (2011) “The EU’s Multi-Annual Financial Framework post-2013: Options for EU development cooperation”, <http://www.odi.org.uk/resources/docs/7164.pdf>

<sup>35</sup> Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay

<sup>36</sup> India and Indonesia

<sup>37</sup> European Commission (2011) “Strengthening Europe’s place in the world: An external budget for 2014-2020 to respect EU commitments and promote shared values”, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1510&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>38</sup> European Think-Tanks Group (2011) “The EU’s Multi-Annual Financial Framework post-2013: Options for EU development cooperation”, <http://www.odi.org.uk/resources/docs/7164.pdf>

mutual interest, especially in MICs. The ETTG report notes that the PI would have been the right instrument to fund GPGs had its focus been on tackling regional and global problems in partnership with emerging economies and MICs.<sup>39</sup> The EU's size, compared to member states, means it has a greater potential to play a leading role in promoting collective action on GPGs.<sup>40</sup>

30. **Dealing with climate finance.** The EC proposes three methods to address climate finance: mainstreaming climate policy; creating a thematic envelope in DCI for GPGs (with at least 25% for climate change and environmental objectives); or considering a special fund off-budget.
31. Mainstreaming will require considerable strengthening of key elements, particularly transparency, effectiveness and delivery. Mainstreaming needs to be made more explicit, with the establishment of clear criteria, targets, indicators and monitoring systems and concrete provisions to ring-fence dedicated funding that targets climate change mitigation and adaptation measures directly.
32. In addition to scaling up the support for climate change measures in the next MFF, existing spending in other areas needs to be scrutinised to ensure that it is not counter-productive to climate mitigation efforts.
33. **EDF budgetisation.** Changes brought about by the Lisbon Treaty mean that the EDF can be incorporated into the EU budget by a simple decision of the Council. For the first time, the EC has proposed keeping the EDF outside of the budget. The key reason is, given funding pressures, budgetisation would risk a decrease of funds for the ACP.
34. However, a number of member states would like to put EDF budgetisation back on the agenda. The EC has instead proposed that the EDF contribution key is aligned to the key used for the EU budget, and to increase European Parliamentary involvement in the EDF.
35. A move to budgetise the EDF in 2014, six years before the expiry of the Cotonou Agreement, could warrant a much higher political cost compared to budgetisation post-2020, particularly in the absence of an in-depth discussion on the future of EU-ACP relations. Therefore, we recommend that the EDF is kept outside of the budget.

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<sup>39</sup> Ibid.

<sup>40</sup> Gavas, M. (2009) "The Future of EU Development Cooperation", Report of an e-discussion by the EU Change-Makers Group, September 2009 to December 2009, <http://www.odi.org.uk/resources/docs/5846.pdf>

## Progress towards policy coherence for development (PCD)

36. PCD has been strengthened by Article 208 of the Lisbon Treaty, which formalises the EU's commitment.
37. However, while recent policy discussions do recognise the need to improve the results-orientation of PCD, there is no clear 'baseline' for it, and it is difficult to measure.
38. The Lisbon Treaty provides a good framework for progress on PCD. The priorities identified are the right ones. Nonetheless, they are diverse, and are in the hands of different institutions, using multiple instruments. The challenge lies in the implementation of the Treaty, and in the means and tools that the EC uses to ensure progress on policy coherence. PCD can only really be fostered if all the actors concerned work together, both at technical and political levels.
39. Putting PCD into practice is a formidable task. The EU Council adopted a set of statements in 2009 that set out the future of the EU's efforts on PCD, with five broad priority areas: (a) trade and finance, (b) addressing climate change, (c) ensuring global food security, (d) migration, and (e) security. This list of issues is an ambitious one, and the inclusion of finance goes beyond the 2005 mandate of the Consensus. In 2010, the Commission presented the Policy Coherence for Development Work Programme 2010-2013, structured according to these five priority areas. Progress will be reported at the end of 2011 in the EU Report on Policy Coherence for Development. In 2010, a permanent position of European Parliament Standing Rapporteur on PCD was created - raising the profile of PCD issues in the European Parliament..
40. The objectives and scope of the 2010-2013 PCD work programme go much further than the previous work plan, among other issues by stressing results-orientation, developing indicators to track progress and facilitating dialogue on PCD with developing countries.
41. There are three issues in particular which hamper progress on PCD in Europe:
  - **The lack of results-orientation:** Although this might be perceived as a technical issue, it is essentially about clarifying and making explicit one's ambition for change. Existing experiences show how being more specific on the goals to be reached may render institutional coordination and joint action on PCD more effective;
  - **The lack of solid research** on the impact on partner countries of EU policy incoherence ;
  - **The lack of a clear southern voice:** Even where an accountability mechanism exists such as Article 12 of the Cotonou Partnership Agreement, its use is so far only sporadic.

## Conclusion

42. From a UK perspective, the EC offers many distinct comparative advantages as a channel for UK aid and as a means to securing UK development objectives. Economies of scale in funding instruments reduce administration costs and allow the UK to be involved in many more countries than its priority<sup>27</sup>. Key global challenges, such as food security, are more efficiently approached at a regional level, and the EU has revealed expertise in this area. Both DFID and the EC highlight private sector growth as key to future development assistance, but only the EU has the variety of instruments allowing for international political and economic partnerships, aid for trade expertise and the blending of grants and loans. Meanwhile, the EC's experience in regional integration and cooperation, and institutional capacity-building, offer the EC a political weight that the UK cannot match.
43. To maintain the EU's global presence and influence, the EC's market share of EU ODA will need to be protected, which necessitates an increase in funds allocated to 'Heading 4' for the next MFF.
44. The Agenda for Change establishes a clear framework for the EC to concentrate its resources on fewer sectors and countries, thus enabling it to make better use of its comparative advantages. This focus should be protected, however the EC must address concerns over how to deal with MICs, GPGs and climate finance.
45. DFID's MAR notes that, "Within the Commission there is a strong track record of delivering change, and there is an EU-wide interest in further reform".<sup>41</sup> With rapidly changing contexts both at home and abroad, the EU, now more than ever, needs to be innovative and show leadership in building an EU development strategy fit to confront future global challenges.

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<sup>41</sup> DFID (2011) "Multilateral Aid Review: Assessment of European Commission Budget", <http://www.dfid.gov.uk/Documents/publications1/mar/ecbudg.pdf>

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## Annex 2

### International Development Committee inquiry – Terms of Reference

#### NEW INQUIRY: EU DEVELOPMENT ASSISTANCE

Total EC external assistance in 2010 was €11.1 billion. The UK share of this was approximately €1.66 billion or 15% of the UK aid budget. In combination with member states' own aid budgets the EU as a whole provides 60% of global Official Development Assistance (ODA) making it the largest donor.

Despite some improvements, concerns have been expressed about the effectiveness of EC development assistance, the failure to meet funding targets, the slow disbursement of aid, the geographical distribution of EC aid, and poor coordination between member states.

A new Commission policy paper, "An Agenda for Change" was published in October 2011 for approval by the Council in May 2012. At the same time, negotiations are proceeding for the Multi-Annual Financial Framework, and the replenishment of the European Development Fund. Together these will set the parameters for EC development aid from 2014-2020.

The Committee is to begin an inquiry into the comparative advantage of EC development assistance. This will build on the analysis contained in DFID's Multilateral Aid Review and examine the benefits of disbursing UK aid through EC institutions. The Committee invites evidence on:

- The comparative advantage of the EU as a channel for UK development and humanitarian assistance and the UK's ability to influence EU development policy;
- The proposals set out in the "Agenda for Change";
- The proposals for future funding of EC development cooperation;
- Progress towards policy coherence for development in climate change, global food security, migration, intellectual property rights and security. The five priority areas identified by the Commission for meeting the MDGs

### Annex 3

In DFID's Multilateral Aid Review (MAR) in 2011, aid channelled through the EU budget was rated "weak" in its contribution to UK development objectives, "satisfactory" in its organisational strengths and "likely" in regards to its capacity for positive change.<sup>42</sup> Meanwhile, the European Development Fund was rated "strong" in its contribution to UK development objectives, "strong" in its organisational strengths and "likely" in regards to its capacity for positive change.<sup>43</sup>

The MAR notes specifically, on:

- **Results:** The EU budget suffers from weaknesses in its results reporting. The EDF fared reasonably well against the criteria;
- **Innovation:** The EC is seen as innovating for results with the MDG contracts. The MDG contracts offer long-term, predictable budget support with a variable performance tranche to low income countries, mainly in sub-Saharan Africa. The aim is to accelerate real improvements in reaching the MDGs by 2015. The MDG Contracts clearly link EDF funding to results;
- **Financial Resource Management:** Financial resource management is satisfactory in the EDF, but weak in the EU budget instruments. Both have strong financial accountability processes, and clear and transparent resource allocation procedures based on need and performance, although the EU budget instruments' regional envelopes are broadly influenced by political considerations. Long programming cycles offer high predictability and there is a full range of instruments on offer. Funds are generally released on schedule, and this continues to improve. But there is limited flexibility to re-programme funds away from poorly performing projects, or to respond rapidly to changing needs, and continued complaints of cumbersome procedures.
- **Administrative Costs:** The EC has moderate to low administrative costs in delivering development assistance and good internal systems to ensure economy in project and programme implementation. However, some of these systems, such as the strict procurement rules designed to finance only the most cost-efficient tenders, may be delivering economy but slowing down implementation. The Commission is starting to develop a broader vision of value for money, including through assessing the potential efficiency savings that could be generated by implementing a Europe-wide aid effectiveness agenda, and its size and attention to harmonisation and alignment helps to reduce transaction costs for developing country partners.
- **Aid Effectiveness:** The EC performed particularly well on partnership behaviour. It is strongly committed to the Paris agenda. It has a good record of aligning with country priorities and systems to reinforce the country led approach. It shows good leadership on donor co-ordination. Its budget support is not tied to policy conditionalities, and it can engage in joint co-financing arrangements with other donors. The EDF also benefits from

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<sup>42</sup> DFID (2011) "Multilateral Aid Review: Assessment of European Commission Budget", <http://www.dfid.gov.uk/Documents/publications1/mar/ecbudg.pdf>

<sup>43</sup> DFID (2011) "Multilateral Aid Review: Assessment of the European Development Fund (EDF)" <http://www.dfid.gov.uk/Documents/publications1/mar/edf.pdf>

a legal framework that includes joint (with developing countries) parliamentary oversight structures, joint Ministerial meetings, and joint reporting.