# European Development Cooperation to 2010

July 2004


# Aid disbursement and effectiveness


*Sven Grimm*


## The picture in brief

The European Community has undertaken considerable – and necessary – reform of its aid programmes. The new Commission appointed in 1999 shuffled the portfolios, wrote a new overarching policy emphasising poverty reduction, created a single implementing agency (EuropeAid), and introduced a policy of 'deconcentration' of authority to field offices. Additionally, the EU Member States committed themselves at Monterrey to spend at least the current average of 0.33% of their GNP (by 2006) on official development assistance (ODA). This will lift the average ODA/GNP ratio to 0.39%.

## Issues and options

Six major issues remain on the agenda: the financial commitment to development cooperation and the channel chosen for its disbursement (the mix between bilateral and via the EC); the overall value-added of aid through Brussels compared to Member States' programmes; the regional balance of aid so as to have a maximum impact on poverty reduction; the priority setting in European development cooperation; and the effectiveness of aid interventions, including questions about conditionalities and assistance to weak states or in (post-)conflict situations. The possible integration of the European Development Fund (EDF) into the EC budget might have implications for the size and predictability of aid to poor countries; besides its potential impact on aid delivery, it also touches on institutional issues (see EDC Briefing *The institutional architecture*).

In a *minimum* scenario, the EC will act as a 26th European donor and thereby put additional strain on partner countries' administrative capacities. In this scenario, national interests of Member States will prevent the EC from defining areas of expertise and result in an over-freighting of the agenda. Rather than fighting poverty, the EU will concentrate more on strategically important states, i.e. predominantly the 'Wider Europe'; predictability of aid will suffer, as assistance depends on the EU's agenda and internal horse-trading.

In a *maximum* scenario, the EU as a whole will coordinate its assistance to third countries. In this scenario:

- areas where the EC can add value to Member States' aid will be identified and supported;
- the EU – i.e. the Commission and the Member States – will have a coherent approach to assistance, each doing what they can do best;
- aid will be targeted at the poorest countries;
- predictability of aid will allow long-term planning in partner countries and thereby enhance the effectiveness of aid programmes;
- sustainability will be improved by providing for coordinated participatory approaches and accountability to their citizens.

This series of Briefing Papers will identify the main issues in the debate about European Development Cooperation to 2010.

The EDC 2010 project has identified two main drivers of change with respect to European development cooperation. The first is the degree of commitment to Europe, the second the commitment to poverty reduction. The interaction of these two gives four possible European futures: at one extreme, a strong commitment both to coherent European action and to poverty reduction; at the other, a weak commitment to both Europe and poverty reduction; and, in between, two intermediate positions.

EDC 2010 is a project of the European Association of Development Research and Training Institutes (www.eadi.org/edc2010).

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ODI wishes to acknowledge the financial support from the UK Department for International Development towards this series. However, the opinions expressed are those of the authors.

## EU development aid

About €8 billion worth of aid a year is provided through Brussels, though only €6 billion count as official development assistance (ODA) to developing countries, with the rest going to accession states or other countries not eligible for ODA under OECD rules (Box 1).

The figure of €6 billion amounts to about one fifth of all ODA from EU Member States (22% in 2002), but with considerable variation between countries. Sweden, for example, only channels 4% of its aid through Brussels; the figure for Greece, on the other hand, is 45% (Table 1). The EU as a group accounts for more than half of worldwide ODA (51% in 2002), including roughly half of global humanitarian assistance. The ODA share administered by the European Commission has grown in size and importance: It now accounts for 11% of the global total.

In the 1960s, the EDF was the main external expenditure administered by the European Commission (see EDC Briefing *International development and foreign policy*). With the growth of other cooperation programmes, such as the Asia and Latin America Programme and aid to Central and Eastern Europe, the share of money for external actions administered through the budget has risen to 68% in 2000. Consequently, the EDF has lost importance as an EC instrument. It accounted for only 47% of all EC external expenditure in 1990 and less than one third of all EC external expenditure in 2000.

The sectoral focus of EC aid has also changed. In the 1980s, one third of EC aid was given as food aid. In 2002, the share decreased to around 7%. Spending on institutional capacity building, governance and civil society has seen a steep increase since the 1990s. In 1991 to 1995, only 0.96% of the EDF spending was dedicated to this sector. That figure is now about 15%. Transport remains one of the core areas for European cooperation. It accounted for one fifth of overall EC development assistance in 2002 (Box 2); the 9th EDF (2000 to 2005) commits 31% of the funds for this sector.

## EC development policy in crisis and recovery

A series of critical evaluations in the mid-1990s revealed incoherent leadership, poor policy and often dreadful implementation. The main measures taken to reverse this situation have been:

- Within the College of Commissioners, those for external relations and for development policy now have more clearly shaped portfolios (see EDC Briefing *Institutional architecture*).
- A new policy paper on development policy, published in 2000 and providing for six priority areas for EC cooperation (see Box 3).
- At the country level, EC assistance is now given direction by Country Strategy Papers (CSPs).
- Within the Commission, an inter-service Quality Support Group (iQSG) has been established to coordinate the activities of different Directorates-General of the External Relations group ('coherence' of EC external actions). The iQSG played a major role in the elaboration of CSPs.
- In 2001, EuropeAid was created. This agency identifies, appraises, implements, monitors, and evaluates all EU external assistance programmes and projects.
- Deconcentration of aid decisions to the Commission's delegations in third countries was concluded in 2003. Thematic cooperation programmes will follow, beginning in 2004.

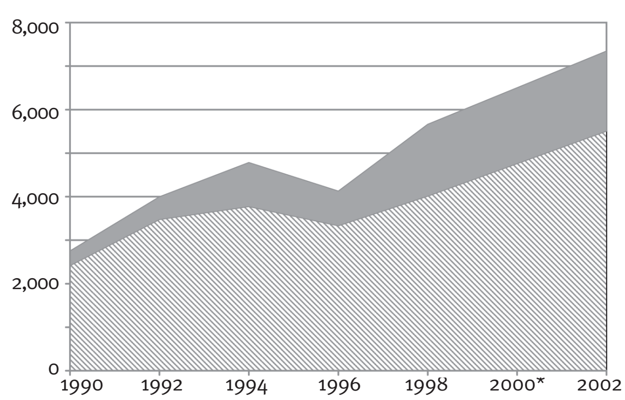
The outcomes of these reform processes have largely been favourable. As one example, there has been a positive impact on the backlog of money committed and not spent, the so called RAL (reste à liquider). This had been a serious problem. Previously, the overall financing period of EDFs used to be open-ended; the fund was open until the last money was paid. In the case of the 6th EDF (1985 to 1990), the last payment was made in 2002, 16 years after it had been signed. In 2003, the EC introduced a 'sunset clause n+3': all contracts (excluding audit and evaluation measures) have to be signed at the latest three years after the date of adoption of the budgetary commitment. With the 9th EDF, a general sunset clause for the entire fund will have to be decided upon before 2007.

## Issues for the future

Important decisions will be taken in 2004–5 about the future of European development cooperation. These include: the appointment and distribution of functions of a new Commission, which will greatly affect the relationship between aid and foreign policy; the overall decision on the EU budget, which will affect the amount available for development cooperation; the decision (or not) to 'budgetise' the European Development Fund, which

**Box 1: Official development assistance (ODA) and official assistance (OA) from the EC**

**(Disbursements in million Euro (constant prices of 2001)**




*Source*: Cox/Chapman 1999 and EU Commission 2003 (DAC 2004 for deflators and exchange rates).
*data unavailable for 2000

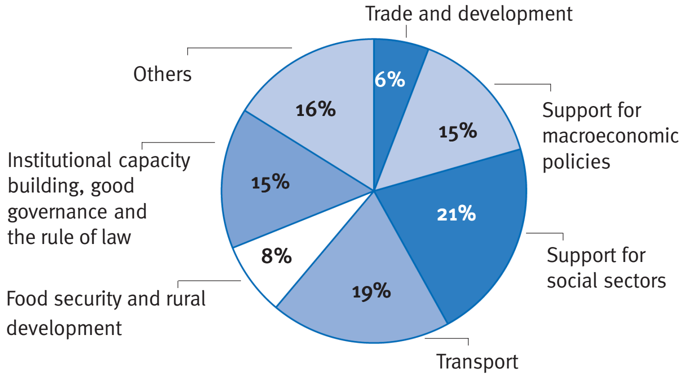
**Box 2: Percentage of EU Member State aid allocated through the Commission**

| | 1992 % | 2002 % |
|---|---|---|
| Austria | – | 19 |
| Belgium | 19 | 19 |
| Denmark | 6 | 7 |
| Finland | – | 14 |
| France | 11 | 23 |
| Germany | 16 | 24 |
| Greece | – | 45 |
| Ireland | 42 | 16 |
| Italy | 14 | 33 |
| Luxembourg | – | 10 |
| Netherlands | 9 | 6 |
| Portugal | 16 | 23 |
| Spain | 23 | 24 |
| Sweden | – | 4 |
| UK | 21 | 19 |

*Sources* : ICVA/EUROSTEP/ActionAid 1994; DAC 2004

**Box 3: Funding for EC 'priority areas' from Country Strategy Papers in 2002**

**EU Priority Sector – Share of total resource allocation**




*Source*: Annual Report on the EC development policy and the implementation of external assistance 2003.

will affect the allocation and accountability of aid; the possibility of a revision to the EU development policy of 2000; and a series of reviews of individual programmes, including a review of the European Development Fund in 2004. There are six key issues.

### *Financial commitment to development cooperation*

The financial perspectives for the years 2007 to 2013 will determine the financial framework for EC action in all policy areas. With regard to external relations, an increase in spending has been proposed. However, the emphasis in discussion has been on security policy rather than poverty reduction. The Commission's overall proposal to increase spending to 1.24% of GNP has been criticised by the six net contributors to the EU budget: Austria, Germany, France, the Netherlands, Sweden and the UK have all insisted that the EU budget should be capped at 1% of GNP.

Aid via the Commission, however, accounts for only one fifth of EU assistance. The remaining two-thirds are given via the bilateral programmes of the EU Member States. At their Barcelona summit in 2002, preparing for the Monterrey conference, the EU Member States committed themselves to increase their development expenditure. So as to raise the average of ODA/GDP to 0.39% by 2006, all EU Member States below the EU average pledged to raise their ratio to the current average of at least 0.33% by 2006. This still remains below the 0.7% target endorsed by the UN General Assembly in 1970, and reconfirmed by the EU Member States in Barcelona. Only four Member states currently reach this target: Denmark, Sweden, the Netherlands and Luxembourg. Ireland has pledged to reach 0.7% ODA/GDP in 2007, while France has set an intermediary goal of reaching 0.4% ODA/GDP by 2006. Most big member states – among them Germany, Italy and the UK – have no timelines for reaching the 0.7% target.

The new Member States are understandably far from reaching any of these ratios. In their nascent bilateral programmes, they focus on their immediate neighbourhood. Even if financial contributions are negligible, the new Member States' political contributions have to be taken into account when considering pending issues on the reform agenda.

### *The comparative advantage of the EU*

Should aid be disbursed bilaterally, through the EU, or through the UN, the World Bank, and the rest of the multilateral system? The 2000 policy paper was clear that the EU had a comparative advantage with respect to both Member States and the multilateral system. For the former, the values of the EU came into play, along with the EU's experience of regional integration and the range, volume and quality of development cooperation instruments. For the multilaterals, a key advantage was the web of political relationships associated with development cooperation, along with the size and grant nature of aid.

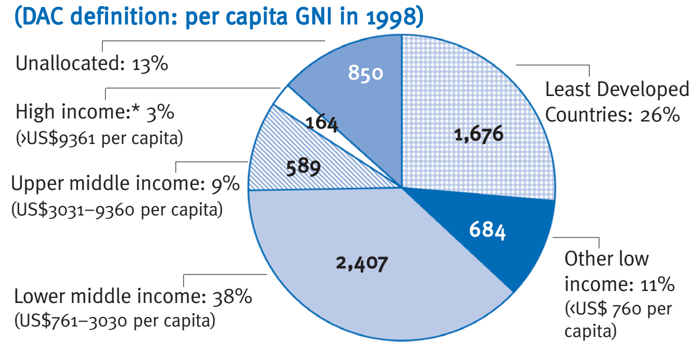
It will be necessary to explore comparative advantage in more detail, especially if the 2000 policy statement is revised. Some of the perceived advantages of the EU depend on the size of the Member State's programme. Even with respect to small programmes, however, the claimed economies of scale need to be demonstrated. However, some policy areas with an impact on developing countries, such as trade and agriculture, are largely 'communitised', i.e. are the remit of the European institutions and require an involvement of the EC. With respect to the multilaterals, the EU sometimes claims to have a distinctive voice; this could be developed. There is also a significant advantage in the area of political relationships with other regions. A key question follows, however: can relationships be preserved if the regional grouping begins to fray? (see EDC Briefing *Political partnership with the South*).

### *The regional balance of aid*

The regional balance of EC cooperation is heavily influenced by foreign policy goals. Assistance programmes to Central and Eastern Europe have inflated the budget for external assistance in the last decade, to a level which is now about one tenth of the EU budget (see EDC Briefing *International development and foreign policy*). Compared to bilateral programmes, European external assistance is under-performing with regard to the share allocated to least developed countries (LDCs) (see Box 4). In 2001/02, only one LDC, Mauritania, was among the top 10 ODA recipients from the EC.

**Box 4: Aid by income group in 2002**

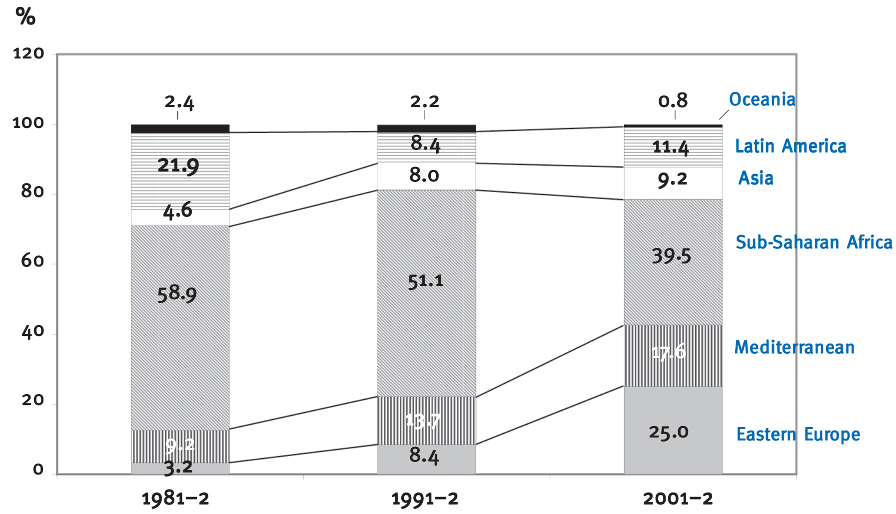
**ODA received from EC in 2002 (in million US$) by Income group (DAC definition: per capita GNI in 1998)**




*Source:* DAC Development Cooperation Report 2003.

* Malta and Slovenia: both were transferred to the OA category with effect of 1 January 2003.

Box 5: Regional disbursement of ODA by the EC (%)




*Source*: OECD/DAC 2004. The figures include EU support via the EC budget and the EDF.

In the late 1980s, aid to ACP countries – mainly former colonies in Africa, the Caribbean and the Pacific – via the European Development Fund amounted to more than half of the EC's external assistance programmes (which included e.g. food aid). Since the 1990s, the relative volume of EC aid to ACP countries has declined considerably (see Box 5), whereas the absolute amount from the EC for ACP countries has remained stable (€12.97bn in 1996–2000 to €13.5bn for 2000–2005). The absolute figure, however, does not take inflation into account, nor does it consider welfare gains in donor countries (as does the ODA/GDP ratio) and it does not break down aid per capita for recipient countries. EC aid to the Mediterranean is at US$ 98 per capita, whereas Asia – with enormous numbers of poor people – receives only US$ 0.5 per capita.

## *Priority setting in European development cooperation*

In a political system like the EU, which favours consensus decisions, focusing actions is a challenge, particularly so in distributive policies. Since 2001, the European Commission has drawn up Country Strategy Papers (CSPs) for all partner countries as an exercise to foster coherence in the relationship with these countries. The General Affairs and External Relations Council (GAERC) in March 2003 recommended 'considering' the integration of additional areas into CSPs; the challenge remains to focus the country strategies.

European donors do not set up their Country Strategy Papers in parallel. Commission CSPs thus have different scheduling and direction to strategy papers of EU Member States – as do the Member States' papers among each others; both coherence within the EU and integration of partner countries (governments and the non-state actors) are difficult to achieve in this setting.

## *Effectiveness of interventions*

The EC claims to add particular value in the area of budget support, as it is able to raise a considerable amount of money; budgetary support usually involves larger sums than project aid. It potentially entails lower transaction costs for an understaffed EU development administration and for recipient governments, and thus promises to improve the effectiveness of aid disbursements channelled through the EC. In theory, direct budget support meets demands for more ownership of development cooperation; potentially, programming is undertaken by southern governments and the success of the measures is assessed after the programme has been implemented.

In this context, the conditionality of EU aid becomes an issue (see EDC Briefing *Political Partnership*). If aid is targeted to good performers, i.e. to states with a good record in poverty reduction and pro-poor growth, the under-performers risk suffering further setbacks due to reduced aid flows.

## *'Poor performers' and 'failed states'*

States that lack good governance are likely to have little capacity to transform aid into a positive impetus for development. New ways of supporting 'failed' states will have to be found; linkages with other interventions and the issue of sequencing are on the agenda.

Relief actions have recently come under the spotlight as part of an overarching political response to crisis (see EDC Briefing *International development and foreign policy*). The European Commission's humanitarian aid is channelled through ECHO, a quasi-autonomous part of the Directorate for Development, created in 1992. It has a distinct mandate, aimed at relief for civilians in acute crisis situations (i.e. natural and man-made disaster) and based on the principles of non-partisanship in conflict situations and political neutrality. Its association with political interventions and the delivery of humanitarian assistance by military forces (the 'Petersberg tasks') might compromise the perception of neutrality – and thus ultimately the legitimacy – of humanitarian assistance.



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