CENTRE FOR EUROPEAN REFORM

working paper

What future for EU development policy?

Aurore Wanlin

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1 Introduction

The European Union, together with its member-states, is the world's largest donor of official development aid. It accounts for more than half of the world's efforts to support poor countries. It gives three times as much money to developing countries – as a proportion of GDP – as the United States. Yet the visibility of Europe's aid remains limited, compared with other major donors, like the World Bank or the International Monetary Fund. There is rarely a single European voice to counterbalance the United States in the Bretton Woods institutions, while Europe's influence on the intellectual and strategic debates on aid is limited.

The relative invisibility of the EU in aid contrasts sharply with the Union's weight in trade negotiations. It also sits uneasily with the Union's ambition to become a more influential actor in dealing with global challenges such as poverty, climate change and terrorism.

The main reason for Europe's underperformance in aid is the failure of the EU and its member-states to co-ordinate their development policies. European countries and institutions have failed to join forces and work together in ways that allow them to play to their comparative strengths. As a result, neither the EU's policies, nor its messages on development have been coherent.

However, Europe's development policy is not static. Reform is afoot. A lot of changes have taken place in the last few years, both at the global and European levels. At the global level, there is a new political will to assist poor countries. This follows a decade of decline in aid spending and scepticism towards the effectiveness of development policies. In 2000, the members of the United Nations (UN) agreed on eight so-called Millennium Development Goals, designed to reduce poverty dramatically by 2015 (see page 4). Spending on development is rising again and is set to increase further. In 2002, at the UN Monterrey summit in Mexico, rich countries promised to increase their aid spending to 0.70 per cent of gross national income (GNI) by 2015. In 2005, spending on development from the rich countries of the Organisation for Economic Co-operation and Development (OECD) rose to 0.33 per cent of their GNI, levels not seen since 1992.

However, increased public spending on aid means little if donors do not distribute the new money effectively. That concern led the OECD countries to come together with other rich and poor countries to sign the so-called Paris declaration in 2005. This is meant to improve co-ordination between international donors, as well as closely involve poor countries in the process of dispensing aid.

These new trends are having a profound effect on the EU. The Union includes 15 of the 22 members of the Development Assistance Committee of the OECD that signed the Paris declaration. It accounts for 80 per cent of the aid increase promised at the Monterrey summit. The EU has also set its own targets: the member-states have agreed on an intermediate target of 0.56 per cent of GNI by 2010, on the way to 0.70 per cent by 2015. On the ground, the member-states are making more of an effort to co-ordinate their aid activities, while the Commission has taken several initiatives to support and speed up this process.

The renewed interest in aid raises a number of questions, both old and new. Is aid the best way to promote development? Is the increase agreed at Monterrey sufficient? And do poor countries have the capacity to absorb these new cash flows? This paper will not address the issue of aid efficiency; it will take for granted that aid can make a difference, and will assume that poor countries will be able to absorb the extra cash. Most experts agree that aid can make a difference, though it can only help poor countries to help themselves.

No one can say with certainty how much money poor countries need to help them move out of poverty.[1] The Monterrey target does not even try; it is based on the donors' capacity to give rather than the recipients' needs. In this, it is both ambitious and realistic. Reaching the 0.70 per cent of GNI mark will be difficult, but not impossible. The purpose of Monterrey was to focus the attention of governments on aid as a top priority.

EU development policy is at a crossroads. The importance of development policy as an EU foreign policy tool is set to rise, thanks to the renewed global interest in aid and poverty reduction. The forthcoming review of the EU budget and the ongoing discussions on a new EU treaty offer opportunities to enhance the effectiveness of external policies. However, the EU will first need to answer difficult questions on the relationship between its own and the member-states' aid policies, the coherence between aid and other EU policies such as trade and agriculture, and the exact role of the Commission. The prime responsibility for the EU's aid efforts lies with the member-states themselves. But the EU can significantly augment the member-states' efforts.

This paper will argue for a more systematic EU approach to aid, to replace the current, unco-ordinated one. The potential benefits of a more coherent EU effort are too significant to be ignored. One option for EU governments would be to strengthen the role of the Commission in development policy. However, an enhanced role for the Commission should not lead to a 'centralisation' of Europe's aid policies, which few member-states would support. National governments need to find a third way – one that enables the Commission to play a more useful role, but respects the current division of competences between EU and national levels.

[1] *Olivier Charnoz and Jean-Michel Severino, 'Financer le développement aujourd'hui', in 'Rapport moral sur l'argent dans le monde 2003-2004', 2004.*

Millennium Development Goals by 2015

- ★ Halve the number of people who earn less than one dollar a day or suffer from hunger
- ★ Ensure that all children complete primary education
- ★ Promote gender equality and empower women
- ★ Reduce child mortality
- ★ Improve the health of mothers
- ★ Fight HIV/AIDS, malaria, and other major diseases
- ★ Ensure environmental sustainability
- ★ Develop a global partnership for development

2 An overview of EU countries' aid policies

Together, the EU and its member-states are the world's biggest donor of development aid, accounting for 52 per cent of global official development assistance (ODA) in 2005. In absolute terms, European spending is rapidly increasing: in 2006, the EU spent €48 billion (0.42 per cent of GNI) on development aid, compared with €35 billion in 2004. The same year the US spent 0.17 per cent of GNI and Japan 0.25 per cent.[2]

[2] *European Commission, 'Keeping Europe's promises on financing for development', April 2007.*

However, these figures obscure real differences between the member-states. The new members, for example, are only just starting to put in place development policies. They still spend little on aid, although their spending has doubled since joining the EU. They badly need more staff and resources for their policies.

By contrast, most of the old member-states have a long tradition of supporting poor countries. France, Germany and the UK in particular, stand out as the main EU donors. In 2006, the UK spent about €10 billion on official development aid, France €8.3 billion and Germany €8.2 billion.

However, looking at ODA as a percentage of GNI, the picture is rather different: Denmark, Luxembourg, the Netherlands and Sweden come out as the most generous EU member-states (see table on pages 6-7). In 2006, Sweden spent more than 1 per cent of its GNI on development, followed by Luxembourg with 0.89 per cent, Denmark and the Netherlands with 0.80 and 0.81 per cent respectively.

EU ODA levels in 2004 and 2006

	2004		2006	
	ODA in million €	ODA as % of GNI	ODA in million €	ODA as % of GNI
Austria	1175	0.50	1205	0.48
Belgium	1178	0.40	1568	0.50
Bulgaria	n/a	n/a	2	0.01
Cyprus	4	0.03	16	0.11
Czech Republic	87	0.11	124	0.12
Denmark	1639	0.83	1780	0.80
Estonia	4	0.04	8	0.07
Finland	547	0.36	658	0.39
France	6820	0.41	8324	0.47
Germany	6064	0.27	8247	0.36
Greece	258	0.15	306	0.16
Hungary	56	0.07	96	0.12
Ireland	489	0.39	794	0.53
Italy	1982	0.14	2926	0.20
Latvia	7	0.06	9	0.06
Lithuania	8	0.04	15	0.08
Luxembourg	190	0.86	232	0.89
Malta	8	0.18	7	0.15
The Netherlands	3384	0.67	4343	0.81
Poland	95	0.05	239	0.09
Portugal	830	0.59	312	0.21
Romania	n/a	n/a	3	0.00
Slovakia	23	0.07	44	0.10
Slovenia	25	0.10	35	0.12
Spain	1962	0.24	3028	0.32
Sweden	2191	0.78	3161	1.03
UK	6339	0.36	10049	0.52
EU-15	35047	0.35	46932	0.43
EU-10	316	0.07	592	0.10
EU-25	35364	0.34	47524	0.42
EU-27	n/a	n/a	47529	0.41

*Source: European Commission. *n/a = data not available.*

EU member-states also focus their aid on different parts of the world. This is partly due to historical and cultural ties. Countries tend to keep strong links with their former colonies. Belgium is actively involved in the Democratic Republic of Congo, while Algeria, Morocco, Senegal, and Tunisia are among the top ten recipients of French aid.

Member-states also tend to care more about their neighbours than distant countries. The new members focus mainly on neighbouring countries such as Moldova or Ukraine, whose successful development has a direct bearing on their own security. Greece directs a large share of its development aid to the Balkans, the Black Sea area and the eastern Mediterranean.

The development policies of some EU countries have strong reputations for quality, transparency and efficiency. That is the case in particular for the Nordic countries and the UK. Every year, an American think-tank, the Centre for Global Development, ranks rich countries for their commitment to development. For the last two years the Netherlands has come first, followed by Denmark and Sweden.[3] By contrast, Greece, Italy, Portugal and Spain are among the poorest performers.

[3] *Centre for Global Development, 'Commitment to development index 2006', 2007. See http://www.cgdev.org/section/initiatives/_active/cdi.*

Such diversity among EU donors is in theory a valuable asset. It should mean that under the right circumstances, Europe's support for the poor can reach all corners of the globe, covering a wide range of sectors and using a broad array of aid instruments. However, that presupposes a sophisticated co-ordination process. In practice, the lack of co-ordination between the Commission and member-states undermines both the efficiency and the visibility of Europe's actions.

A new EU aid policy?

The year 2005 was a turning point for both global and European aid policies. Rich countries made two big commitments. First, at the

G8 summit in Gleneagles the leaders of the world's principle industrialised economies promised to increase aid to $130 billion, and to double aid to Africa by 2010. A few months earlier in Paris they had signed the Paris declaration, promising to be more self-effacing in their charity, to "harmonise" their efforts with other benefactors, and to "align" aid with the priorities of governments they are trying to help.[4]

[4] *OECD, 'The Paris declaration', March 2nd 2005. See http://www.oecd.org.*

In 2006, EU countries went two steps further. They first agreed on common targets, pledging to increase aid to 0.56 per cent of GNI by 2010, as an intermediate step on the way to 0.70 per cent by 2015. They also signed up to a new common vision called the 'European consensus'. For the first time ever, the Council of the European Union, the European Parliament and the European Commission agreed on a set of common values, objectives and principles for development policies. The consensus aimed to increase co-ordination between European donors and to give more coherence to EU actions in poor countries.[5]

[5] *European Commission, 'The European consensus on development', June 2006. See http://ec.europa.eu/development/body/publications/docs/consensus_en_total.pdf.*

Both the Paris declaration and the European consensus reflect a new thinking about development aid and the conditions required for it to be delivered efficiently. They put particular emphasis on three factors: ownership, the convergence of donors' policies, and the predictability of aid flows.

★ Poor countries need to 'own' the economic and development policies promoted by international donors. Rich countries used to impose conditions on governments in exchange for their financial support, often with disappointing outcomes. Poor countries may be reluctant to apply policies dictated from the outside, especially if they create domestic political difficulties. In practice donors rarely sanction poor performance by recipient countries. As a result, there is an emerging consensus about the need to shift from conditionality to ownership. Donor countries, it is thought, need to align their policies with those of the poor countries and channel aid through their local institutions and budgets.

★ Since each poor country is likely to receive aid from multiple sources, the alignment of donors' policies with those of the recipient country requires more convergence and co-ordination among the donors themselves. Better co-ordination also increases the absorption capacity of recipient countries, which are then able to spend less of their time, energy and limited resources on unnecessary meetings and paperwork. There are several ways in which donor countries could better co-ordinate their policies, such as working together on joint analyses of a poor country's economic and political situation, or co-financing aid projects.

★ Lastly, payments to poor countries need to be more predictable, in order to make a positive impact. This is particularly true where aid supports long-term projects, such as the recruitment of new teachers, doctors or civil servants, which suffer from unsteady and uncertain aid flows.

Of these three conditions, better co-ordination and convergence of donor policies is perhaps the most crucial. The aid industry is highly complex. A vast number of actors and programmes exist, which means that in practice, there are often too many donors or agencies working on the same sectors and/or in the same countries. For example, there are 23 different UN agencies working on projects related to water management and more than 90 global health funds. There are about 40 donors in Tanzania, a country with only 37 million people, including ten EU member-states and the Commission. In the same country, 23 donors, including nine EU agencies, have to meet every month to co-ordinate their action against HIV.[6] Such a multiplicity of aid sources is costly for poor countries whose limited staff and resources are overstretched by the requirements, conditions, and administrative procedures imposed by the various donors. The costs involved in co-ordination ultimately mean that less aid flows to those who need it most.

[5] *Holger Mürle, 'Towards a division of labour in European development co-operation: Operational options', Deutsches Institut für Entwicklungspolitik, 2007.*

Lack of co-ordination also leads to an unequal distribution of aid flows. 'Aid darlings' attract the bulk of funds, at the expense of 'aid orphans', largely forgotten by donors. In 'darling' countries such as Angola, Mozambique, the Palestinian territories, Tanzania or Zambia, ten or more EU countries are active. Meanwhile, aid orphans such as Burundi, Chad or the Republic of Guinea have few chances of finding paths out of poverty. Most aid orphans are fragile states with poor governance that fail to provide basic services to their people. Some experts argue that giving aid to such countries is a waste of money. But aid agencies should not forget them. A third of the world's poor live in these countries. A number of studies have shown that aid can help such countries, and that if they are shunned, they are more likely to destabilise their neighbours. A co-ordinated and coherent approach from western countries – mixing defence, diplomacy, trade and development tools – can make a difference if support comes at the right time.

The complexity of the aid industry is also rapidly increasing, with new donors entering the field. Emerging economies like Brazil, China, Chile, India and South Africa are stepping up their support for poor countries. For instance, in recent years China has become increasingly involved in Africa. It buys a tenth of sub-Saharan Africa's exports and has made almost $1.2 billion worth of foreign direct investment in the region. The Chinese diaspora in Africa now numbers approximately 80,000 people, including labourers and businessmen who bring their skills and entrepreneurism to places usually visited only by aid agencies. However, China has also helped African governments to ignore western concerns about human rights, by promising aid with few or no strings attached. Its support for the Sudanese government has helped to prevent the UN from imposing sanctions, because of the humanitarian crisis in Darfur. More generally, China has challenged the western approach to development. African governments increasingly cite China's economic success to prove that non-democratic forms of governance and state interference need not prevent a country from growing by 8 per cent a year or more. Some observers see the emergence of a new 'Beijing consensus' to replace the 'Washington consensus', with its emphasis on macro-economic stability, openness and liberal markets.

Europe's record on co-ordinating aid: poor but improving

EU member-states have begun to take concrete steps to co-ordinate their aid policies better. Some countries already focus on only a few countries or sectors. For instance, Denmark is the largest EU donor for water and sanitation projects in West Africa. The Netherlands has cut its number of core countries from 70 to 20, and pledged to focus on a maximum of two or three sectors in each. This means the Dutch are often the biggest European donor in the countries where they are involved. Slovenia has decided to specialise in the protection and treatment of vulnerable children in areas affected by conflicts or natural disasters, in particular in South-Eastern Europe, Iraq and the North Caucasus.

The EU has launched several initiatives to harmonise member-states' aid policies in selected countries. In Zambia, for instance, both EU and non-EU countries, in partnership with the government, have agreed on a 'joint assistance strategy', based on Zambia's national development plan. The donor countries have also agreed on a division of labour, choosing a lead donor for each sector. Those member-states present in Zambia have pledged to focus on a limited number of areas where they add real value. Sweden, for example, has halved the number of sectors in which it is involved, from six to three.

In Uganda, EU countries chose Austria as the lead donor for water and sanitation because of its particular expertise. In practice this means that Austria is in charge of liaising with local government bodies, monitoring progress, providing information to other EU members, and taking specific action in agreement with other donors. Other examples of improved co-ordination include South Africa, where the UK has delegated the implementation of its support for land reform to Belgium, and Malawi, where Sweden put Norway in charge of its entire country programme.

However, such positive examples are few and far between. In practice, co-ordination is proving very difficult to achieve. Unfortunately, donors are often reluctant to pull out of countries and sectors where they make little impact, or to allow others to take the lead, or simply to give others the money to do the job. Where donors and governments see eye to eye, rich countries' aid agencies should not be involved at all. For instance, 80 per cent of the British aid to Tanzania goes directly to the government's budget. This form of aid, called budget support, has become increasingly popular. It gives a greater sense of ownership to poor countries, while limiting the number of actors on the ground. Of course, such aid needs to be subjected to close scrutiny and is only suitable in countries with good governance.

The main obstacle to closer co-ordination lies in the fact that most donors see aid as a part of their foreign policy. Governments fear that if they cut aid initiatives they will suffer a loss of prestige and international visibility. A big aid donor has a higher chance of getting nominees accepted into senior jobs in international organisations, and may exert more influence in some UN bodies than those that give less. Understandably, some governments are reluctant to let go of such privileges. And they may find it harder to secure public and parliamentary support for aid budgets when some money goes to other donors or directly to the recipient country's coffers. There will always be doubts about the standards of book-keeping and budgeting in developing countries.

Donors often prefer to impose their own tastes or tactics, rather than follow a joint approach. Competition between donors is common and makes co-ordination difficult. Worse, donor countries do not only enter sectors where they can most usefully make a difference; they sometimes choose to use aid to mask commercial interests or to legitimise other policy objectives. Thus during the Cold War, western countries sometimes fought the Soviet Union through African proxies, propping up corrupt regimes and selling weapons that led to excessive foreign debt. Meanwhile the aid that helps to assuage western consciences is still often tied to western exports.

The EU's progress on meeting its pledges to increase support to the poor has been in some respects weak. On the one hand, the Union as a whole has exceeded its target to increase its ODA to 0.39 per cent of GNI, spending a record high of 0.42 per cent of GNI (€48 billion) in 2006. The EU has also fulfilled its commitment to focus more on Africa: between 2002 and 2005, the EU doubled its annual support, to a total of almost €14 billion. Africa now receives the largest share of the EU's money, almost half of the total spent on aid.

However, not all member-states have met their commitments. While Sweden spends more than 1 per cent of its GNI on ODA, Greece, Italy and Portugal have missed the 0.39 per cent target. The tally is also distorted by one-off measures, such as debt relief to Iraq and Nigeria, and post-tsunami aid in 2005 and 2006. According to OECD definitions, debt relief counts as official development aid. But, as more and more developing countries see their debts written off, some member-states may find it much harder to fulfil their promises. In 2005, net ODA volumes, once debt relief is excluded, either decreased, as in France and Germany, or only marginally increased, as in the UK. That bodes ill for the EU countries' ability to meet the various pledges they have made on aid. Furthermore, domestic pressures on governments to rein in public spending, including on development, are unlikely to diminish in the coming years.

The EU's sub-standard performance on both increasing amounts of aid, and better co-ordinating it, show that the current member-state driven approach may not be adequate. Could the EU itself play a more useful role in leading Europe's efforts?

3 Should the Commission play a larger role in EU development policy?

There is no easy answer to this question. In general, the member-states are increasingly reluctant to give more competences to the EU institutions. And the Commission's development aid policy also had a very poor reputation until recently (the reasons for which are explained below). However, that reputation has started to improve, thanks to various reforms undertaken by the Commission. Some member-states now implicitly recognise that they may find it hard to spend all their planned increases in aid budgets on a bilateral basis. If they shifted some of that money to the Commission, they could make use of the breadth of its global network. This would help the Commission to co-ordinate aid policies with others that are relevant to development, such as trade, and boost its credibility as a donor.

The ambiguous role of the Commission as a donor

The EU is a unique actor in the development world in that it is both a bilateral donor – providing direct support to developing countries – and a multilateral organisation that plays a role in co-ordinating the policies of the member-states. The Commission is one of the world's largest aid donors. According to the OECD, it spent $10 billion on development aid in 2006. It also has a uniquely global reach: the Commission is active in more poor countries than any of the EU member-states. Over the last 20 years, the Commission's spending on aid has represented a growing share of Europe's overall development aid, rising from 7 per cent in 1970 to 22 per cent in 2003.

The Commission runs a large number of political dialogues and co-operation programmes, ranging from the Cotonou agreement with the African, Caribbean and Pacific (ACP) countries, to the EU-Mercosur co-operation agreements, the Barcelona process that assists Mediterranean countries, and a whole range of programmes that benefit the former Soviet Union. Together with recipient countries, it sometimes sets up specific institutions that are designed to foster mutual understanding, exchanges of information and the smooth implementation of aid. For instance, the Cotonou agreement, signed in 2000, led to the creation of an ACP-EU Council of Ministers, Committee of Ambassadors and a Joint Parliamentary Assembly. Commission aid therefore often forms part of a broader economic and political partnership with poorer countries, in contrast to the aid from other multilateral or bilateral agencies.

However, the objectives of EU development policy have still not been clearly defined, despite the efforts described above. An agreement between the Council of Ministers and the Commission in 2000 identified poverty reduction as the main objective of EU development policy.[7] That is consistent with the UN Millennium Development Goals, agreed the same year. To further improve the Union's policy coherence, the Council stated that the Commission should focus on six sectors where it had a comparative advantage.

[7] *European Commission, 'The European Community's development policy: statement by the Council and the Commission', 2000.*

However, these sectors, ranging from building links between trade and development, to macro-economic support and education, are too broadly defined to provide the Commission with a clear focus. The 2005 European consensus redefined the objectives of EU development aid. But although it set out a common vision for Europe's development policy, in terms of values and principles, it failed to resolve the tension between the need for more focused Commission action, and the broad range of issues chosen for the focus.

Another problem with EU aid policy has long been its poor reputation, which reached an all-time low at the end of the 1990s. In its 1998 review of the Commission's policy, the OECD deplored the lack of "coherent ... development strategy", saying in particular that its "splintered policy framework" meant that it had to pay a "heavy price in organisational efficiency".[8]

[8] *Development Assistance Committee, 'European Community', Development Co-operation Review Series, No 30, 1998.*

The problems stem in part from the way EU development policy has grown organically over many years. Each time a new member joined the EU, the Union's portfolio of programmes expanded. The European Parliament and the older member-states did not help either, creating new budget lines and aid instruments to reflect the development priorities of the moment, regardless of the Commission's administrative capacity.[9] So by the end of the 1990s, EU aid policy operated too many programmes, instruments, budget lines and administrative procedures. The Union also drew, for no logical reason, on two different funds for its development policy: the European Development Fund (EDF), created in 1957 by the Treaty of Rome and devoted to both the ACP countries and overseas territories; and the EU budget for external action in candidate states and poor countries, mainly in Asia and Latin America.

[9] *Development Assistance Committee, 'Development co-operation review, European community', OECD, 2002.*

Neither did the Commission make good use of its global presence. The Commission's worldwide network of 123 'delegations' means it is potentially well-placed to understand the local situation in many countries. But these offices had limited authority and insufficient expert staff. Too much decision-making was concentrated in Brussels. The Commission also lacked effective monitoring and evaluation procedures, while its management of aid was fragmented between the various departments.

The Commission also had a poor record in co-ordinating its various policies, such as trade and the common agricultural policy (CAP), with development aid. The CAP, for instance, requires the

EU to dump its food surpluses on world markets, driving down world prices, and the revenues of poor countries' farmers, in the process. The common fisheries policy has allowed European fishermen to catch an excessive amount of fish in poor countries' waters, contributing to the depletion of their stocks and threatening the livelihoods of their own fishermen.

EU policy focused too heavily on middle-income countries, at the expense of the poorest ones. The bulk of EU money went to the Union's neighbourhood, namely the accession candidates and countries in the Balkans and the Mediterranean (Egypt, Morocco, Tunisia and Turkey were among the top ten recipients of EU aid). This approach may well have served the EU's broader political goals, such as enlargement and enhancing the security of its own region, but many have criticised it for being inconsistent with the main objective of EU development policy, that of reducing poverty. In fact, by 2000, the Commission was spending less than 40 per cent of its aid on low-income countries. Many commentators have argued strongly that the EU should give more to the world's poorest countries.[10] There is a clear difference to make, however, between development aid to poor countries and support for its neighbours. Many of the latter are adopting the *acquis communautaire* and some of them aspire to join the Union in the long run.

[10] Development Assistance Committee, 'Development co-operation review, European community', OECD, 2002.

Reforms of EU aid policy

Since 2000, EU aid programmes have undergone radical reform. The Commission has created the EuropeAid Co-operation Office as a single body for managing its development programmes. It has also created the so-called RELEX family, a loose grouping of three directorates-general, those for external relations (RELEX), development and trade. A new 'quality support group' seeks to co-ordinate the activities of the three directorates-general. DG Development is responsible for the programmes for ACP countries, while DG RELEX deals with the Mediterranean, Asian and Latin

American countries, as well as the Western Balkans. Despite its complexity, commentators agree that this new division of labour is more efficient than what it replaced: during the Santer Commission, as many as six commissioners were responsible for external policies, which inevitably created overlaps and tensions.[11]

[11] Sven Grimm, 'The institutional architecture', European development co-operation to 2010 briefings, Overseas Development Institute, July 2004.

Meanwhile, the Commission has delegated more of the management of aid projects to staff on the ground. This has helped the Commission's network of 123 delegations to do a better job of monitoring EU aid projects in close dialogue with the relevant local government. Between 2000 and 2005, the delegations added 1,550 new posts for development-related work, and by 2005 they were administering 70 per cent of all EU development funds.[12] The Commission also reduced the number of procedures required for the dispersal of aid, speeding up the implementation of its programmes significantly. As a result, the Commission now disburses funds more speedily: it distributed €2.6 billion in 2004, compared with an average of €1.5 billion a year between 1990 and 1999.[13]

[12] European Commission, 'Qualitative assessment of the reform of external assistance', September 2005.

[13] Direction générale de la coopération internationale et du développement, 'Le fonds européen de développement est-il efficace?', Les Notes du Jeudi, Numéro 44, October 2005.

To make its strategy more coherent, and better suited to the needs of the poor countries, the Commission has introduced 'country strategy papers' and 'regional strategy papers', based on analysis of their respective economic and political situation. The Commission has shifted spending towards budget support – direct transfers to poor countries' national budgets – and away from the traditional project funding.

The Commission has also striven to improve the coherence of its various policies. For instance, it introduced the 'everything but arms' initiative, granting quota-free and tariff-free access to imports from the world's 50 poorest countries. Within the negotiations of the Doha trade round, it has also committed to phase out all agricultural export subsidies by 2010. Poor countries often fail to reap the benefits from trade liberalisation because of poor roads, insufficient power supplies, or heavy regulations. For instance, it costs more to ship a ton of maize from landlocked Zambia to neighbouring Tanzania than to Europe or the US. So the EU has launched an 'aid for trade' programme that helps the poorest countries to build the infrastructure that would allow them to benefit from trade liberalisation.

What future role for the Commission?

As a result of these reforms, the member-states increasingly recognise the value of the Commission's work. Even the UK's department for international development (Dfid), which in the past has been a big critic of the Commission, praised it in a white paper of 2006.[14] The latest OECD review in 2002 also applauded the Commission for its reforms. A survey conducted in 2004 across 18 developing countries shows that they too find the Commission's policies better focused and more efficient.[15]

14 Dfid white paper, 'Eliminating world poverty: Making governance work for the poor', July 13th 2006. See http://www.dfid.gov.uk/wp2006/default.asp.

15 Centre for International Development and Training, 'Perceptions of the European Commission's development assistance at country level: A view from the field', University of Wolverhampton, February 2005.

However, the Commission's role remains ambiguous. According to the Maastricht treaty, the Commission's aid policy should complement that of the member-states. It should therefore try to fill niches where it has a comparative advantage compared with national governments. For instance, the Commission is often better placed to fund large-scale infrastructure projects, because of its know-how in that area. It has also developed particular expertise in several areas of governance, such as human rights and the fight against corruption.

However, the Commission is unlike any other EU donor. It is active in more countries than any individual EU member-state, and in some cases, it is the only European actor involved. This gives it a global perspective that is shared by very few national governments. Its economic and political partnerships within various regions of the world provide it with a broader perspective than that of some national aid agencies. For instance, its exclusive competence for EU trade policy means that it can incorporate trade into its aid strategies.

Being multilateral in nature, the EU enjoys several advantages over national governments. Its aid is not tied to narrow national priorities or commercial interests. Because of its global reach, it may be better placed than many member-states to test innovative forms of aid in one place, and then spread best practice on a wider scale.[16] Furthermore, as some commentators have observed, a stronger role for the EU would add to the variety of multinational actors in the aid industry.[17] This, in turn, could have interesting consequences for the nature of the industry itself. Currently the World Bank dominates the development world, and has a quasi-monopoly on the intellectual debate on aid.

16 Speech by Gareth Thomas MP, Parliamentary Under-Secretary of State for International Development, 'Multilateral aid and the European Union's contribution to meeting the Millennium Development Goals', ODI, February 24th 2005.

17 Simon Maxwell, 'Where Europe stands in the new aid architecture and why we need a new €5 billion European MDG Fund', ODI opinion, June 2006.

Some EU member-states – including the Nordic countries – are reluctant to strengthen the Commission's role. They argue that EU aid is redundant and that bilateral and multilateral agencies are more than enough. The Commission retorts that the EU is very different to other multilateral organisations, like the World Bank. For instance, it aspires to promote regional integration in several parts of the world, on the model of the European Union. The Commission also sees its aid policy as a part of a broader strategy, which is to ensure that economic growth in poorer countries does not damage social cohesion and the environment.[18]

18 European Commission, 'The social dimension of globalisation – the EU's new policy contribution on extending benefits for all', March 2004.

Furthermore, the Commission has the potential to play a useful role in helping member-states co-ordinate their aid policies. It has already taken several initiatives to this end, designed to promote "more, better and faster aid".[19] The Commission initiated the so-called European consensus and the new Africa-EU strategy that defines a comprehensive and long-term framework for the EU's relationship with Africa. It has also proposed drawing up a common EU strategy for each poor country, that would define a division of labour between European donors. It has launched an EU donor atlas to identify the gaps, duplications and unnecessary administrative costs that undermine the impact of EU aid.[20] The Commission has also undertaken to change its financing rules, so that it can more easily co-finance projects with member-states or non-EU donors.

[19] *European Commission, 'EU aid: Delivering more, better, faster', March 2006.*

[20] *European Commission, 'EU donor atlas: Mapping official development assistance', 2006. See http://ec.europa.eu/development/body/publications/docs/eu_donor_atlas_2006.pdf.*

Early in 2007, the Commission proposed a code of conduct to help speed up the process of co-ordination. The most important of the code's ten guiding principles call on the member-states to focus their efforts on only two sectors in each recipient country, to entrust their non-priority activities to the lead of other EU donors, and, where their projects do not add real value, to give money directly to a poor country's government or withdraw altogether. It also asks EU governments to focus their actions on a limited number of countries to avoid spreading their resources too thinly. The code of conduct also asks governments and the Commission to agree on who – whether member-state or Commission – should be the lead donors for each poor country.

The Commission, with the support of the member-states, could do even more. It could actively supervise the reform process of the EU governments' aid policies, ensuring they improve their co-ordination. The Commission could help to spread successful ideas and best practice among the member-states based on a peer review

process. And it could put moral pressure on national governments to fulfil their financial commitments. However, these additional responsibilities would require further efforts on the Commission's part. If it wants the member-states to give it more responsibility, it needs to show that it can further improve its own policies, and increase its intellectual capacity.

4 Which way forward for EU aid policy?

A common reform strategy?

In order to keep their promise to deliver more and better aid, member-states need to reassess their own policies and focus their actions on a limited number of countries or sectors where they can make a difference. A better division of labour among the member-states would allow each one to use its comparative advantage, whether in the form of technical expertise, long field experience, or cultural ties to the recipient country. The co-ordination process must be flexible enough to allow every government to find its own role while offering the most beneficial combination of programmes for the developing countries concerned.

Most importantly, the EU, while encouraging co-ordination, must ensure that the overall diversity of European aid policies is preserved. This diversity is a key ingredient of Europe's ability to answer the various needs of developing countries. The EU should also make sure that increased co-ordination does not lead to more rigidity or bureaucracy on the ground. For instance, national embassies often provide limited amounts of support to local initiatives in poor countries. Such support represents only a tiny share of the overall amount of aid provided by rich countries and should not necessarily form a part of the co-ordination effort.

The member-states should use the code of conduct proposed by the Commission as a helpful agenda to shape their efforts at reform. One could imagine a process similar to the 'Lisbon agenda' for economic reform. Each member-state could design a roadmap for the reform of its aid policies, and assesses each other's progress on the model of the Lisbon agenda's open method of co-ordination. They could also submit this roadmap to the Commission along with a detailed timetable. The Commission would then put together these roadmaps, check for consistency, suggest improvements where necessary, and monitor their progress. It should also compare the member-states' performance and encourage the exchange of best practice.

A new EU fund?

There is a growing contradiction between the member-states' increasing respect for the Commission's work on aid, and the current financial trends for EU aid. Currently the Commission spends 20 per cent of total EU aid. By 2010, EU member-states have committed to spend $81 billion a year on development, which, assuming a constant Commission share of 20 per cent, would leave $16 billion to be administered by the EU – almost double the amounts of today. However, the financial perspectives for 2007-2013 foresee an increase in the Commission's spending on development of only 30 per cent. Its share of EU aid is thus destined to fall significantly.

In 2005, Tony Blair's speech to the European Parliament at the start of the British EU presidency called for development to become one of the Union's new political priorities, and to receive a higher share of the budget. He was right to do so. Political changes in some member-states, such as France, are increasing the chances that the 2008-2009 review of the EU budget could lead to meaningful reform. National governments should have an open debate on these issues and agree to increase EU development spending from 2013 onwards.

In the meantime, some analysts suggest that the best way for member-states to increase their funding for development, while

also making better use of the multilateral channels, lies in creating a new European Fund devoted to the UN Millennium Development Goals.[21] This proposal assumes that whatever happens in the budget review, national governments are unlikely to reopen negotiations on the EU 'financial framework' that fixes Europe's spending for the period 2007 to 2013. Nor are the governments likely to wish to put more money into the European Development Fund, which falls outside the normal EU budget, since it would only benefit the ACP countries, at the expense of the others, in Asia for instance. But the creation of a new fund to meet the UN Millennium Development Goals, administered by the Commission, could help the EU meet its commitments to fight poverty in the world's least developed economies. It would also send a strong signal that the EU was prepared to take responsibility for leading the fight against poverty. Of course, in practice, the Commission would need to make sure that the new fund did not overlap with other EU aid funds and worsen the co-ordination problem. The new fund should therefore have a strong focus on the UN Millennium Development Goals and countries often overlooked by EU aid.

[21] Simon Maxwell, 'Where Europe stands in the new aid architecture and why we need a new €5 billion European MDG Fund', ODI opinion, June 2006.

Speed up Commission reforms

Meanwhile, the Commission should set an example by speeding up its own reforms. It should increase the monitoring of its own aid policies and improve its efficiency. It should also focus on developing its own expertise in particular areas, such as governance issues, or improving the coherence between its aid, trade, farm and fisheries policies. And it should spend relatively more money on the poorest countries, in particular in Asia, in countries such as Bangladesh or Cambodia, where it has been less active.

The Commission should also strive to correct one of its major weaknesses: its lack of intellectual credibility. There is no shortage of development expertise in the EU – some of the world's most innovative ideas on development have come out of European governments, research institutes, NGOs, think-tanks and universities. But this expertise is fragmented across the continent, which hosts few centres of excellence. And the European Union's own role in the intellectual debate is comparatively limited.

By contrast, the World Bank leads the thinking on many development issues – with the result that EU policies often follow the bank's approach. For instance, in the 1980s and 1990s the EU was sometimes too unquestionably wedded to the 'Washington consensus' in favour of trade liberalisation, privatisation and macro-economic reform as the priorities for development. Critics of the consensus like Joseph Stiglitz argue that countries that followed the model too closely have run into trouble, such as the Latin American countries like Bolivia, or sub-Saharan countries that liberalised agricultural prices without putting in place the right safeguards. In 2006, the Commission launched the idea of a network that would bring together EU thinkers on development issues and encourage the exchange of information and the best ideas. That would be a step in the right direction.

In the long run, the European Union will need to resolve lingering questions on the funding and oversight of the European Development Fund (EDF). Currently, the European Parliament has no say on the EDF, since it falls outside the EU budget. The Parliament argues that parliamentary scrutiny of EU aid spending would guarantee that money was spent in accordance with the Union's overall objectives. Those who defend the current structure fear that putting the EDF into the budget could diminish EU support for the ACP countries. However, the status quo cannot continue for long, as it contributes to the overall complexity of EU aid policies. Better scrutiny by the European Parliament would improve the legitimacy of EU aid.

Similarly, DG Development should gain more control over EU aid. The Commission needs a 'super-DG Development' that would play a lead role in co-ordinating all the EU's relationships with poor countries – apart from those that are candidates or potential members. Such a body could help the Commission to deliver on its promises for a better and more coherent development policy. In practice, that would mean DG Development taking charge of the Union's relationship not only with ACP countries, but also with poor countries in Asia and Latin America. DG RELEX would confine its focus to developed countries.

Another useful reform would be to change the relationship between DG Development and EuropeAid, so that the former has a clear line of authority over the latter. Currently, the division of competences between the two directorates-general is not always clear. In theory, DG Development is responsible for putting together aid programmes, and EuropeAid for implementing specific projects. In practice, however, competition between the two often leads to EuropeAid redoing some of DG Development's programme work – which slows down the decision-making process and undermines its efficiency.

The question of co-ordination between the EU's development, trade, agriculture, foreign and security policies will also remain high on the agenda. The need for coherence between aid and trade, in particular, is an issue that is unlikely to vanish in the next few years. If, as seems likely, the Doha trade round fails, the EU will be increasingly likely to resort to bilateral and regional trade agreements – deals that will largely exclude the world's poorest countries. Such countries have little to offer western investors. Even if the EU decided to conclude bilateral agreements with the poorest countries, the two partners would not be on an equal footing. By contrast, in the WTO, each member-state, whatever its size or economic weight, has a veto. The continuing negotiations between the Commission and the ACP countries to conclude new 'economic partnership agreements' highlight the difficulty of trying to combine trade liberalisation with development objectives.

[22] *Dutch Foreign Ministry, 'Recommendations for co-operation between defence, diplomacy and development', January 2007. See http://www.minbuza.nl/en/news/newsflashes,2007/01/Recommendations-for-cooperation-between-defence--d.html.*

But the EU will also need to find new synergies between its security, foreign policy and development agendas.[22] Since the Iraq war, development, defence and diplomacy have become increasingly intertwined. The line between development and defence is blurring, as commentators and policy-makers realise that peace, security and economic development are closely interrelated. The EU has to find a balance between the need to ensure that the fight against poverty remains a priority, and the need to combine its security and development policies in unstable countries.

The international stage

The EU and its member-states need to engage with emerging donors like China. They first need to acknowledge that these new donors offer important opportunities to poorer countries. But they also need to make sure that the policies of countries like China, South Africa and India do not undermine their own efforts to promote economic development and good governance. They should try to involve the new donors in their efforts to improve co-ordination on the ground. The EU governments should also include new donors in multilateral conferences on development, such as those organised by the OECD, so that they can benefit from the experiences – good and bad – that European aid agencies have had over many years.

5 Conclusion

While over a billion people worldwide struggle to survive on less than one dollar a day, aid is only one way to help a country find its own path out of poverty. Private investment, remittances from migrants, private grants and trade are also important. However, international aid is the only form of global redistribution that can help compensate the countries that have benefited the least from globalisation. Aid also plays a central role in attracting other sources of finance, notably private investment.

As the number of donors, funds and agencies increases, the way forward is better co-ordination, the convergence of aid mechanisms, and closer co-operation between donors and the governments of poor countries. Multilateral institutions like the Commission have a particularly important role to play in promoting these goals. If the EU can improve its performance as a provider of aid, and improve the coherence of its various policies, it will gain a political voice that matches its economic weight on the international stage.

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The European Union, together with its member-states, is the world's largest source of development aid. Yet the Union under-performs as a donor: its various governments and the Commission seldom co-ordinate their efforts, and often fail to think strategically. However, national governments and the Commission are increasingly open to reform. Aurore Wanlin suggests how the EU could become more effective at promoting development.

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