Why the EU’s aid effort must escape the budgetary axe

European development aid is undergoing a policy re-think, and looks set to emerge leaner and stronger. Simon Maxwell assesses the factors at work and points to reforms and new measures that are still needed.

What is it with we Europeans that we can’t seem to manage two things at once? It’s like we arrive at the top of the Eiffel Tower, and are so busy counting rivets that we forget to admire the view. Or are tasked with counting the rivets, but can’t tear our eyes away from Champ de Mars or the Bois de Boulogne.

The debate now launched about the EU’s "Financial Perspectives", its budget for 2014-2020, is a case in point. The grand panorama is about the future role of Europe in all our lives, but there are very many rivets, and it is on these that attention is focused; not on values and objectives but on financial stringency and detailed instruments. It is notable that the first intervention of some of Europe’s most powerful leaders has been to call for the budget to 2020 to grow no faster than inflation: France, Germany and the UK all signed a letter to this effect to Commission President Barroso in December. Sweden refused to sign because that was not restrictive enough.

From an international development standpoint, all this is puzzling, because the overall size of aid from the EU’s member states is set independently of the Financial Perspectives. Capping the amount spent through the European budget has the effect, not of limiting aid spending per se, but rather of shifting a given amount of cash between different programmes: less through Brussels simply means more through bi-lateral programmes or other multi-lateral arrangements like the UN or the World Bank. Did Nicolas Sarkozy, Angela Merkel, David Cameron and their co-signatories realise who...
would be the main beneficiaries of their rivet-counting approach to the next EU budget?

European Union countries have already committed themselves to ambitious aid targets: 0.7% of gross national income (GNI) by 2015 for the EU-15, 0.33% for the EU-12 newcomers. On present trends, this implies close to a doubling of aid by 2015, rising thereafter not just by inflation but by GNI growth. Additional public finance from taxpayers will be needed if Europe is to meet its share of the global commitment to climate funding of $100bn a year by 2020 from private and public sources. Never mind the rivets, the first big question for the Financial Perspectives is to decide what share of this should be spent through the European Commission. The current share of aid is 20% and just to maintain that would mean doubling the size of the Commission-managed aid budget in the post-2013 FP, from €10bn today to €20bn and rising within five years.

Europe’s letter-writing governments are right in one respect; Decisions about where to allocate resources should be hard-headed and pragmatic. ‘Europe’ has no automatic right to spend ‘our’ aid money. A plausible case can be made for Europe that is both pragmatic and hard-headed. It rests on the argument for multi-lateral rather than bi-lateral aid, and on Europe’s record as a multi-lateral donor.

A multi-lateral imperative can be read off from an analysis of development challenges which recognises that national well-being is shaped by global forces. National governments raise money and manage public expenditure, shape national politics and set their own incentive and regulatory frameworks. They are at the same time players in a much bigger game, in which national destinies are shaped by trade and financial rules, environmental constraints and the globalisation of everything from disease threats to technological innovation. The old adage admonishes us to ‘think globally, act locally’, but in fact the opposite should be the case. No national leader can afford to ignore the climate talks, the WTO or the G20 finance negotiations, so the right approach is to ‘think locally, act globally’.

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There is another argument for greater multi-lateralism. There are just too many small institutions in the aid business, complicating the administration of aid and adding to transactions costs for recipients. The EU-12, for example, have made a courageous decision to participate in the global aid effort, all the more remarkable for those whose own social indicators lag well behind the rest of the EU. Nevertheless, in aggregate they add only €1bn to the European total – equivalent to what the EU as a whole spends in a week – so they
are right to put most of their aid money through the European Commission. Multi-
lateralism acts to simplify aid: one World Bank office, one UNDP office and one EU Delegation, rather than 50 or more national representations.

But why choose the Commission rather than the World Bank or the UN? Partly because some diversity and contestability in aid is desirable in its own right, to help drive up standards. Also because the Commission genuinely has the comparative advantage of a multiplicity of instruments at its disposal.

And finally because, though this will come as a surprise to many, the Commission has been shown in recent studies, for example by the Center for Global Development, to do a reasonably good job in delivering aid.

The EU’s Development Commissioner, Andris Piebalgs, is building on this foundation. The decision to merge EuropeAid and DG Development into a single, new agency, DEVCO, offers great potential for new leadership and better delivery (though not, apparently, for poetic nomenclature). The latest Green Paper on development

Good news and bad in development aid

The good news is that aid spending has increased despite the financial crisis. The OECD’s Development Assistance Committee (DAC), which groups 24 of the largest donor states, last year spent a record $129bn, bringing their aid budgets to an average of 0.32% of their gross national incomes (GNI), an increase of 0.1% since 2001. The bad news is that it isn’t at all clear that this represents a renewed focus on the UN Millennium Development Goals (MDGs). There are reasons to be pessimistic. The period from the mid-1990s until the early-2000s were a nadir for aid contributions, which have continuously fallen since their high point in the 1960s. These recent increases are therefore a return to the spending levels of the 1970s and 1980s.

The new figures represent an increase of just 0.01% of GNI on 2009. To reach the 0.7% target for the MDGs set at the G8’s Gleneagles summit at this rate would still take another 38 years. Although the DAC’s European members fare better than the overall average, contributing 0.46% of GNI towards aid, this is still far short of the 0.56% target that had previously been agreed. This amounts to a shortfall of $19bn for 2010, and since those targets were set, only $11bn of the $25bn promised to Africa has been received.

Perhaps more worrying still is that an OECD survey has found that most donors are planning to increase aid at a reduced pace over the next three years. Assistance is expected to grow at 2% this year, compared to the 8% average of the past three years. Aid to Africa is expected to rise in real terms by only 1% a year, which because of population growth means a reduction.
offers an opportunity to update policy and perhaps refresh the European Consensus on Development. A favourable settlement in the Financial Perspectives would be another contribution.

There is therefore an opportunity to build a development agency that will match European capability with European ambition; poverty-focused, in conformity with the Lisbon treaty; global in scale; and effective, accountable and transparent. A view to take the breath away. The rivets are needed to lock in the volume, facilitate administration, allow for shocks, maintain parliamentary oversight at an appropriate level, and ensure a degree of ownership by developing countries. Some big changes will be required.

First, the European Parliament needs to disabuse itself of the idea that effective parliamentary scrutiny is only achieved by creating multiple instruments, thematic programmes and budget lines. That imposes too many rigidities and costs, and amounts to pre-Lisbon thinking. With the additional powers over the budget now available to it, the Parliament should push the Commission and member governments to cut the number of aid windows to a minimum. Europe does not want to become like the U.S., where Congress has so earmarked the aid budget as to make it unmanageable.

Second, resources need to be allocated between instruments and budget lines in such a way as to maximise the impact on poverty reduction and sustainable development. This has painful implications for some; aid to middle-income countries will fall but to low-income ones will rise. And more money will be spent on global issues and on partnership with the new global powers.

Third, the EU cannot sit by while the UN and the World Bank, especially, take constitutional steps to improve their accountability to developing countries, for example by the reform of voting shares. Ironically, the EU has pioneered structures of mutual accountability through successive Lomé Conventions and now the Cotonou Agreement. It is time to transfer these across to the main aid programme, say by introducing an arbitration procedure, and by introducing oversight by a joint Council of Ministers and a joint Parliamentary Assembly.

There are yet other changes to be made, including on security policy and with respect to climate finance. But the key point is that the EU’s Financial Perspectives offer an opportunity to build a handsome new Eiffel tower of development policies. A lot of rivets will be needed, but all the hammering will be worth it for the view.

A plausible case can be made for Europe that is both pragmatic and hard-headed. It rests on the argument for multi-lateral rather than bi-lateral aid, and on Europe’s record as a multi-lateral donor and now the Cotonou Agreement. It is time to transfer these across to the main aid programme, say by introducing an arbitration procedure, and by introducing oversight by a joint Council of Ministers and a joint Parliamentary Assembly.

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