Open Europe submission to the UK Government's Balance of Competences Review: Development cooperation and humanitarian aid report

February 2013

The following evidence is drawn from the following Open Europe publications:

Open Europe, 'EU aid external aid: who is it for', 2011;
http://www.openeurope.org.uk/research/euaid2011.pdf

Open Europe, 'The EU and the Mediterranean: good neighbours?', 2011;
http://www.openeurope.org.uk/research/enp2011.pdf

1. What are the comparative advantages or disadvantages in these areas of the UK working through the EU, rather than working independently or through other international organisations?

Despite the Lisbon Treaty stating that the EU's development policy "shall have as its primary objective the reduction and, in the long term, the eradication of poverty," not enough EU aid reaches the world's poorest countries. Geopolitical considerations (immigration from and political stability in neighbouring countries) and old colonial ties still dictate where much of the EU's money is spent. In 2009[1], only 46% of EU aid reached low income countries, compared with 74% of UK aid, 58% of EU member state governments' aid and 56% of United States aid.

% of aid to low income countries

Year	UK	EU member states (DAC members[2])	EU institutions
2009	74%	58%	46%

OECD DAC database, % of allocable net ODA disbursement to least developed and low income countries; http://stats.oecd.org/index.aspx

In 2009, the entire EU external aid budget was €12,298m, €11,764m of which was counted as Official Development Assistance (ODA).[3] Under the broad definition of ODA, aid to Turkey, for example, through the EU's pre-accession funds is counted in the same way as EU development spending in sub-Saharan Africa.[4] Turkey, which is an upper middle income country, topped the list of recipients of EU aid, receiving €571m in 2009.

There is a legitimate discussion to be had about whether the European Commission is simply funding countries that the member states would be helping anyway – what officials describe as the 'division of labour'. But the UK's then Development Minister Andrew Mitchell called on the EU's aid to be far more "targeted at the poorest people"[5], while the

[1] At the time of publication the OECD had released its figures for overall aid spending for 2010 but not a breakdown of where funds had been spent so we have used the 2009 figures.
[2] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK are members of the OECD's Development Assistance Committee.
[3] Figures differ to those above because of distinction between "commitments" and "payments"
[4] *European Commission*, 'Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009', 2010, Tables 6.3, 6.4 and 6.5, p170-1;
http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf;
[5] *Telegraph*, 'EU 'wastes billions in aid'', 18 April 2011;
http://www.telegraph.co.uk/news/worldnews/europe/eu/8457729/EU-wastes-billions-in-aid.html

Netherlands' Europe Minister Ben Knapen suggested, "We need to help our neighbours, that is in our interest. But such assistance must be reconsidered, especially when it comes to the significant assistance to candidate countries such as Turkey."[6] There is a case for EU action in preparing countries for accession, but this spending should not be classified in the same way as traditional development aid spending.

2. What is the impact of the current system of parallel competences on policy making and implementation in these areas, especially in terms of:

a) efficiency, effectiveness and value for money;

Since the EU's 2005 'Consensus on Development', the Commission has placed more focus on co-ordinating the division of labour between itself and member states and among member states. However, the logic underpinning the EU's coordinating role is still centralisation and, in particular, the centralisation of financing. Under so-called "Delegation agreements", national governments' contributions to the EU aid budget are now, in some cases, being sent back to member states because they, rather than the Commission, are judged to be the best conduit to deliver aid to a given country.

However, what in theory is a good idea (simplifying the number of donors and prioritising the most effective donors operating in recipient countries), under the current system in practice, simply generates greater bureaucracy and cost at the EU level. It makes no sense for member states to hand over money to the Commission only to get it back again before delivering it to recipient countries. In 2009, there were 48 Delegation agreements (from the Commission to a member state) under preparation or signed for a total of €242.7 million.[7] The system does also work the other way, with member states delegating additional amounts of their bilateral aid to the Commission.

Delegating aid to the EU in such a way involves one less transaction and is potentially a good model for providing aid voluntarily through the EU. However, in contrast to the 47 agreements worth €242.7m to delegate aid *back to the member states*, there were only 17 agreements worth €123.3m where member states have decided to hand extra aid *to the Commission*. This begs the question of why the net difference (€119.4m) was ever handed over to the EU in the first place.

Under the terms of the UK's Comprehensive Spending Review, DFID, which manages around 86% of the UK's development aid, is committed to reducing its running costs, which include administration and frontline staff, from 4% to 2% of the total budget by 2014-15.[8] In contrast, the EU's administration costs, as a percentage of ODA disbursed, currently stand at around 5.4%.[9]

In its 2011 multilateral aid review, DFID noted that, while the European Development Fund (EDF) (€3.6bn a year) has a strong poverty focus (85% of funds are spent in low income

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[6] *Foreign Ministry of the Netherlands*, 'Nederland wil opheldering over foute EU hulpprojecten', 19 April 2011; http://www.rijksoverheid.nl/ministeries/bz/nieuws/2011/04/19/nederland-wil-opheldering-over-foute-eu-hulpprojecten.html

[7] *European Commission*, 'Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009', 2010, p25; http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf

[8] *HoC International Development Committee*, 'Department for International Development Annual Report & Resource Accounts 2009–10', 2011, p5; http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/605/605.pdf

[9] *European Commission*, 'Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009', 2010, p186, Table 6.14 shows total ODA at €9,799.7m and administration costs of €524.48m.

countries), more than 85% of the EU's other development aid programmes' budget (€7bn a year) is spent in middle income countries. The EDF is rated "strong" on both its contribution to the "UK's development objectives" and on its "organisational strengths" but the rest of the Commission's aid budget is rated "weak" and "satisfactory" on the same respective measures.[10] Despite this varying performance, in 2009/10, the UK contributed £397m to the better performing EDF but a much higher £789m to the poorly targeted and less effective central Commission budget.[11]

DFID officials have suggested that the UK had been able to "drive much better performance with the EDF" rather than other EU aid because the latter was an "assessed contribution over which we have very little choice over the amount."[12] This illustrates the need for accountability: a clear link between aid priorities and UK contributions.

b) transparency (including checks against fraud and corruption); and

The EU has placed an increasing emphasis on delivering its aid as 'budget support'. According to its own figures, the Commission has committed over €13bn in budget support between 2003 and 2009 (about 25% of all commitments in this period). About 56% of commitments were made in Africa, Caribbean and Pacific (ACP) countries, 24% in neighbourhood countries (Eastern Europe and the Mediterranean), 8% in Asia, 6% in Latin America and 5% in South Africa.[13] In 2008, then European Development Commissioner Louis Michel argued, "Budget support and more of it is the only answer", and committed to increasing budget support up to 50% of the EU's total aid.[14]

The Commission argues that the use of budget support promotes "local ownership" and ensures "alignment of aid with national policy". It is argued that such support has "had a positive impact for instance on dialogue with partner countries, donor coordination, public financial management and policy reforms in the beneficiary countries," although it admits these findings "cannot be generalised."[15] By aiming to increase budget support to 50% there is clearly a risk of the Commission 'picking winners' when it comes to development policies.

The recent events in North Africa and the Middle East illustrate the dangers of directly supporting potentially illegitimate regimes rather than civil society groups. The EU had planned, for example, between 2011 and 2013 to grant 50% of its €149.76m a year funding to the now-discredited Egyptian government as budget support.[16] In a recent consultation on the Commission's use of budget support the Dutch government stated that, "the Commission

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[10] *DFID*, 'Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations', March 2011, p170-171; http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf; DFID also rates the European Commission's €800m humanitarian aid office, the ECHO, giving it scores of "strong" for meeting the UK's development objectives and "satisfactory" for organisational strengths.

[11] *DFID*, 'Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations', March 2011, p170-171; http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf

[12] *HoC International Development Committee*, 'DFID's Performance in 2008–09 and the 2009 White Paper', 2010, p39-40; http://www.publications.parliament.uk/pa/cm200910/cmselect/cmintdev/48/48i.pdf

[13] *European Commission*, 'Green Paper on the Future of EU Budget Support to third countries', 19 October 2010; http://ec.europa.eu/development/icenter/repository/green_paper_budget_support_third_countries_en.pdf

[14] *European Commission*, 'Budget support: a question of mutual trust', 2008, p4; http://ec.europa.eu/development/icenter/repository/LM_budget_support_en.pdf

[15] *European Commission*, 'Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009', 2010, p12-13; http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf

[16] *European Commission*, 'European Neighbourhood and Partnership Instrument Arab Republic of Egypt National Indicative Programme 2011-2013', p7 and p27; http://ec.europa.eu/world/enp/pdf/country/2011_enpi_nip_egypt_en.pdf

sometimes underestimates the risks and sensitivities associated with this aid modality. As a result, the Commission may, in certain cases, provide budget support too readily." It stated that that due to the lack of regard to "good governance, human rights and fighting corruption" the Dutch government could not support the Commission's recent proposals to grant budget support in the DR Congo, Namibia, Armenia, Algeria and Nicaragua.[17]

The European Commission also rarely gets a good 'bang for its buck' in terms of influencing recipient governments' performance with its budget support. The European Court of Auditors (ECA) has noted that, "the Commission often does not play the role in dialogue that could be expected, given its significant financial contributions."[18] Meanwhile, the ECA also warns that the "rationale followed by the Commission in deciding on the amount of funds to be allocated to general budget support in each country is not clear", and calls for the Commission to "demonstrate that the amount allocated to individual programmes is appropriate in view of the objectives and the framework for dealing with risks and benefits".[19]

Questions should therefore be raised about how much influence the UK Government has over the use of budget support to deliver EU aid and the power it has to block its use in countries that do not satisfy good governance or human rights criteria or where taxpayers are not getting value for money.

c) working with other international partner organisations (e.g. UN, World Bank etc.)?

The EU channels money through other international multilateral organisations. In 2009, agreements for a total of €935 million and €469 million were signed with the UN and the World Bank Group.[20] This potentially means a wasteful chain of transfers: national agencies administering a transfer to the EU, which then administers a transfer to either the UN or World Bank, which then administer the final transfer of aid to the recipient country – with administrative costs and delay at each stage. The result is that less aid reaches the people that need it. The UK is surely capable of transferring money directly to these institutions rather than via the EU.

3. How far do EU development policies complement and reinforce policies in areas such as trade, security, stability, human rights, environment, climate change etc., and vice versa?

While countries in Eastern Europe and the Caucasus have arguably benefited from a boost in trade as a result of EU cooperation, almost every single Mediterranean partner state saw its exports to the EU drop as a percentage share between 2000 and 2007 (before the economic crisis). Too many barriers to trade still remain in place, including EU tariff quotas on agricultural products that are vital to the incomes of farmers in these countries.

Exports to Mediterranean countries as a proportion of the EU's overall world trade increased between 2006 and 2010, while imports have gone down, meaning that Mediterranean

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[17] *Dutch Government*, 'The Dutch government's response to the European Commission's Green Paper *'The future of EU budget support to third countries'*, COM(2010)586, of 19 October 2010', p2; http://ec.europa.eu/development/icenter/files/green_paper_contributions_future_eu_budget/Public%20Authorities/gp_pa_NL_en.pdf

[18] *European Court of Auditors*, 'The Commission's management of general budget support in ACP, Latin American and Asian countries', 2010, p39; http://eca.europa.eu/portal/pls/portal/docs/1/7036731.PDF

[19] *European Court of Auditors*, 'The effectiveness of the Commission's management of General Budget Support in ACP, Latin American and Asian Countries', p1, 2011, http://eca.europa.eu/portal/pls/portal/docs/1/7106723.PDF

[20] *European Commission*, 'Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009', 2010, p12 and 162; http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf

countries' annual trade deficit with the EU soared from €530 million in 2006 to €20.4 billion in 2010.

Aside from agricultural tariffs, only Algeria, Morocco and Tunisia fully benefit from trade agreements with the EU because of so-called 'rules of origin'. However, other countries in the Mediterranean only enjoy 'diagonal cumulation' rights. EU member states have recently given the green light to plans to simplify the complex rules on 'diagonal cumulation' within the region. While this is welcome, the EU should extend 'full cumulation' rights to these countries.[21]

This is a hugely important issue, for several reasons. For one, restricting the economic prospects of poorer countries through trade barriers and farm subsidies is only likely to increase the number of people looking to come to Europe in search of a better life and increase pressure on EU member states' migration policies.

4. Bearing in mind the UK's policy objectives and international commitments, how might the UK benefit from the EU taking more or less action in these areas, or from more action being taken at the regional, national or international (e.g. UN, OECD, G20) level – either in addition or as an alternative to action at EU level?

The Government should consider the following approaches to reforming EU aid:

- Contributions to the EU development aid budget should be made entirely voluntary as the EDF element already is. The UK should spend its aid budget directly through DFID, which performs better as a donor than the Commission on most measures, especially regarding the targeting of poverty, unless there is a demonstrable EU 'value added' in which case it could opt into specific EU programmes, such as the EDF.

- The case for working via the EU in humanitarian aid and crisis situations is far stronger, since collectively the EU can act quickly and avoid unnecessary duplication in emergencies.

- The UK should tackle the criteria for classifying spending as ODA, both so that more funding goes to the world's poorest countries and to increase transparency about how 'development funds' are spent.

- It is widely acknowledged that greater co-ordination of member state development programmes is crucial to increase aid effectiveness. Currently, developing countries have to deal with 27 different EU donors, plus the Commission, each with their own policies. Therefore, to reduce the administrative burden on aid recipient governments, a strong case can be made for greater harmonisation of procedures.

  The role of the EU should be to provide a forum for coordination between donors, rather than acting as a 28th donor. This would allow it to provide a resource for small member states with limited diplomatic networks to coordinate their spending, and divide up responsibilities if they wish. It would mean large savings on administration costs.

- As budget support is less bureaucratic it is a way of getting money out of the door faster but, as the share of budget support increases, the risk is that speed is traded for effectiveness and accountability. Due to the inherent uncertainty and risks

[21] See *Open Europe*, 'The EU and the Mediterranean: good neighbours?', 2011; http://www.openeurope.org.uk/research/enp2011.pdf

involved in providing budget support directly to recipient governments, the European Commission should consider setting a 25%-30% limit on the portion of budget support as a total of EU aid. Development funding is a complex exercise that entails risks of waste and inefficiency; therefore the Commission should avoid picking winners when it comes to particular aid policies.

- Aid works only when it is combined with good policies and institutions. A large share of the responsibility lies with developing country governments, but the policies used by donors also matter. In particular, the EU should open up to globalisation and embrace the inflow of goods, people and ideas from the developing world. A good first step would be the phasing out of the Common Agricultural Policy, and a commitment to an ambitious opening of trade with developing countries.