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Current Issues in EU Aid Policy

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This paper reviews those aspects of EU development policy that remain the focus for debate, both organisationally and politically, in what is an increasingly hostile global economic environment. It will assess whether the EC has delivered on its commitments to a 'poverty focused' aid programme and whether the objectives of the EU's development policy need to be restated in a revised 'Development Consensus'. It examines issues such as the future of the ACP group, the appropriateness of the balance of instruments and, in particular, whether EDF budgetisation is desirable. Finally it will discuss the challenges of achieving 'policy coherence for development' and of establishing an agreed 'division of labour' between the EC and Member States

Development policy is a shared competence between the Commission and the Member States. It has evolved from the post-colonial Association Agreements of the Treaty of Rome, embodied in the Yaoundé Conventions, and expanded with UK entry into a focus upon the African, Caribbean and Pacific (ACP) group with the adoption of the Lomé Conventions. With the accession of Spain and Portugal greater attention was given to South America, while France has championed, with Spain, a revived Mediterranean policy. More recently the end of the cold war led to a greater emphasise upon the development objectives of foreign assistance, although the 'war on terror', concern with the political stability of the near-abroad and the rise of China as a competing 'development partner' has again changed the international political landscape. This paper will however focus specifically upon the development debate, with it's emphasise upon aid effectiveness, and will attempt to identify those issues that are of particular importance in the context of the changes in the Commission and the adoption of the Lisbon Treaty.

Concern as to the effectiveness of the European Commission-administered aid programme rose up the political agenda in the mid-1990s. Principally driven by the impending re-negotiation of the Lomé Convention and the poor economic performance of the ACP states, it was also influenced by the increasing share of total EU aid represented by the aid programme administered by the European Commission (EC) and the changing international environment with the collapse of the Soviet Union. Thus, in 1995, the Council of Ministers requested a comprehensive evaluation of EC aid to the Mediterranean, Asia and Latin America and the ACP countries.

Until 1985 the objectives of the EC's development policy were not explicit, but at the same time the number of instruments multiplied, a product of the expanding policy agenda of the EU. In particular the European Parliament had contributed to an increasing number of special budget lines. Coordination was poor, both internally and externally. Although the ACP aid programme (European Development Funds (EDF)) was administered by the EC, funding was divorced from the general budget of the EU and control lay with a separate EDF Committee, but this failed to coordinate with the Council of Ministers. Similarly external coordination with the International Monetary Fund and World Bank had also been weak. This failure led to donors pursuing competing objectives, duplicating programmes and overburdening ACP administrations. Nor had donors attempted to share their expertise, carry out joint evaluations or exploited any specialist 'comparative advantage.'

In terms of transparency and accountability, problems arose not only from the complexity of the EC's aid programme but also from the weaknesses of the Commission's own management structure. Overall the EC was an organisation with a focus upon administrative procedures and disbursement rather than results, with little effective monitoring or evaluation of EC aid.

The Statement on Development Policy

The problem of a lack of clear policy objectives was tackled in April 2000 with the adoption of the Statement on Development Policy by the Council (EC, 2000b), complemented by detailed administrative reform proposals (EC, 2000a). Poverty reduction was identified as the main objective of Community development policy, with a qualified priority in resource allocation being given to low-income developing countries. The EU recognised the need to focus upon those areas of activity where the Community had a comparative advantage. However, again this was broadly drawn to include seven areas - the link between trade and development, regional integration, macro-economic support, transport, rural development, health and education, and institutional capacity building.

The Statement on Development Policy is of particular relevance in that it outlined the approach that was to be taken in implementing these broad objectives. It incorporated the arrangements agreed to in the post-2000 Cotonou Agreement for the ACPs, as well as outlining the proposed administrative reforms of the external aid programme. It signals the move to decentralised decision-making and the re-allocation of resources to the Delegations ('deconcentration'), the strengthening of the programming process and the enhancement of the evaluation function. The move to 'rolling programming' was regarded as central to this process of flexible but efficient allocation of resources. The need to shift the focus of the EDF Committee from detailed control to consideration of strategic issues is specifically mentioned, as is the need to address the relationship between emergency relief and long-term development assistance i.e., the European Community Humanitarian Office (ECHO) problem.

Complementing the broader Statement on Development Policy was the Communication on the Reform of the Management of External Assistance (EC, 2000a). The inadequacies of the administration were seen most graphically in the long lags been commitment and disbursement. By the end of 1999 this was averaging 4.5 years and €20bn. remained outstanding. The reform proposals reiterated the desire to shift primary administrative responsibility to the recipient developing country authorities where they had sufficient administrative capacity (co-management). Where this was absent, the option of co-financing with other donors, including Member State agencies who might take overall management responsibility, was specifically identified. In the six stages of the project cycle - programming, identification of projects, appraisal, financial allocation, implementation and evaluation - the role of the Common Service for External Relations (SCR) was to be extended, from only implementation and evaluation to all stages except programming. The SCR was to be re-designated an Office (EuropeAid) governed by a

Board composed of the RELEX Commissioners. Thus DG DEV (for the ACP) and DG RELEX (for other developing countries) were only to undertake the determination of the overall development strategies for each developing country and region.

Reform

Critics of the EU continued to express concern as to the failure to fully realise the commitment to poverty reduction as the prime objective of development policy (e.g., International Development Committee, 2002). In 2000 EC Official Development Assistance to low-income developing countries had fallen to 39% of the total. In part this reflected the EU's increased focus upon the 'near-abroad' (the Mediterranean and Central/Eastern Europe) where security issues, rather than development objectives, dominated. The tendency to raid development budget lines to fund unforeseen needs, for example the Balkan crisis, had also been a cause for concern. The method of budgeting, where the 'financial perspective' fails to map into activity-based budget headings, contributed to this tendency and undermined transparency.

Organisationally concern remained at the division between policy (DG DEV and DG RELEX) and implementation (EuropeAid). An attempt was made to clarify the relative roles of the two DGs and EuropeAid in an Inter-Service Agreement (2001), however an internal Audit Service report remained critical of these arrangements. Many commentators have continued to argue for a single institutional focus for EC development policy, covering both ACP and non-ACP states.

Although by 2004 considerable progress had been made (EC 2004), the EC's own monitoring of its aid administration had identified a number of areas requiring improvement (EC, 2005b). A review of the Country Strategy Papers, that were adopted as the central documents in formulating the EC's approach to individual country aid programmes, found them often to be inadequate in addressing problems of poor governance, corruption, human rights and weak government commitment to development policies. The expected impact of EC aid programmes was often found to be far too ambitious, with an over-optimistic assessment of the recipient countries' administrative capacity. Particular problems also arose with the integration of cross-cutting gender objectives into development programmes (Lister and Carbone, 2006). Finally, lengthy administrative processes were still impeding implementation, with management hampered by the limited use of proper reporting, monitoring and evaluation. In a ‘results-oriented monitoring’ (ROM) study undertaken by the Evaluation Unit in 2003 of 903 projects worth € 7 billion the sustainability of EC-funded projects was identified as the major weakness, suggesting the need for more clearly defined exit strategies (EC 2004).

The Development Consensus

With the installation of a new Commission and a new emphasis upon the international development effort, as expressed in the Millennium Development Goals, the need for a re-statement of the EU’s development policy was felt to be overdue. A review (ECDPM, 2005) was generally positive in its assessment of the original Development Policy Statement but some weaknesses were identified, in particular its need to place development policy in the wider external relations framework and to ensure ‘ownership’ across all of the Commission. It had also failed to identify adequately the EC’s comparative advantage in its aid programme and to sufficiently prioritise the realisation of complementarity between the EC and Member State bilateral aid programmes.

The adoption of the new Statement faced political opposition from the northern Member States and the UK, who wished to defend the autonomy of their national development policies, and those states, including Germany and the Netherlands, which supported enhanced coordination, but not led by the EC. With the elimination of the proposal for a common thematic framework, later to reappear, the compromise statement was adopted by the General Affairs and External relations Council (GAERC) in November 2005. This new “Development Consensus” (European Commission, 2005), was accompanied by a series of communications from the Commission addressing aid effectiveness. These outlined in detail the “strategic deliverables” (COM(2006)87), the approach to monitoring Member States’ aid performance (COM(2006)85) and the future of joint programming (COM(2006)88).

In response to previous criticisms the document asserts the priority of assistance to the low-income developing countries, but this is qualified by a commitment to the medium-income developing countries on the grounds of their large low-income populations, inequalities, weak government and their importance as ‘regional anchors’.

Again, while it emphasises the need for the EC to concentrate upon its areas of comparative advantage these are broadly defined, with the addition of water, energy, rural development and agriculture, and 'social cohesion and employment' to the original list of areas of activity. Aid will be based upon "the use of standard, objective and transparent resource allocation criteria based on needs and performance." Unfortunately the 'needs and performance criteria' are based upon those of the Cotonou Agreement, which remain rather imprecise. Whilst the Development Consensus recognises the difficulties that have arisen with mainstreaming the 'cross-cutting issues' and commits the EC to re-launching its approach through the use of impact assessments, the Country Strategy Papers, etc., it has also expanded the themes to include the rights of children and indigenous peoples, and HIV/AIDS. This may reflect political expediency rather than administrative realism.

The document emphasises the EC's focus upon results and performance-based assessment, with conditionality expressed as a 'contract' with the partner country. It recognises that aid effectiveness will only be achieved through "national ownership, donor coordination and harmonisation, starting at the field level, alignment to the recipient countries systems and results orientation." The EC, in keeping with the 2005 Paris Declaration on Aid Effectiveness, commits itself to a coordinating role with an emphasis upon the development of country 'roadmaps,' joint multi-annual programming based upon developing country poverty reduction strategies, shared analysis, joint donor missions and co-financing.

A major step forward in aid coordination and complementarity was taken in May 2007 with the adoption of the Code of Conduct on Complementarity and Division of Labour (EC, 2007a). This addresses the division of labour amongst the Member States and the EC, across developing countries and across sectors within each developing country, but it remains voluntary (see Murle (2007)).

The Development Assistance Committee 2007 Review

In 2007 the Development Assistance Committee of the OECD published its most recent peer review of the EC's development cooperation policies (OECD, 2007). It recognised the substantial progress that had been made since the 2002 review, including the "major strategic success" represented by the Development Consensus. But it observed that the ambitious and multiple objectives of the Consensus, including its political agenda, could undermine the focus on development and the longer term strategic priorities, especially poverty eradication, as well as the 'cross-cutting' issues.

The Report highlighted the central importance of achieving policy coherence across both the EC and the Member States, which would be facilitated by the EU's commitment to the Millennium Development Goals (MDGs) and the identification of the 12 priority policy areas. Policy coherence is particularly important when dealing with fragile states, where defence and security instruments need to be integrated with other aspects of assistance and where the EC's involvement may offer particular advantages over that of the individual Member States.

Complementary to policy coherence is the issue of harmonisation. The OECD Report urged the strengthening of inter-service coordination and the provision of clearer and more coherent policy guidance to Delegations and Member States. Externally the EU needed to provide a more explicit framework to improve cooperation with other multilateral development organisations such as the World Bank and the United Nations. The Report paid particular attention to the issue of good governance, a political priority for the EU, and recommended closer coordination among the EC, Member States and other key donors at the country level, as well as the development of consistent and transparent performance standards to enhance the predictability of aid disbursements

In 2006 the EU had undertaken a reform of its financial instruments and reduced them from 35 to 10, but the OECD called for further streamlining of the budgetary arrangements and believed that the EU should again address the issue of the integration of the EDF into the general budget of the EU ('budgetisation') in 2013 when current arrangements expire. Similarly it supports the principle of a unified DG dedicated to the EU's development objectives and providing greater development policy coherence and aid effectiveness. It also endorses the demands of some Member States that the EC should increase its focus upon low-income developing countries, especially as bilateral official development assistance of Member States to these developing countries had levelled off since 2003, and should consider completely untying its aid in line with the OECD's 2001 recommendation.

Whilst the EC had frequently presented its internal reform process as having been completed, many of its development partners commented on the need for greater devolved authority, simplified procedures and the need to accelerate programme implementation. The process of 'deconcentration' to the Delegations had yet to be fully exploited, with the need to strengthen their capabilities to undertake project approval, results reporting and country analysis. With the move to budget support, an understanding of the local context becomes of prime importance. The OECD warned that the EC should guard against utilising budget support merely to achieve administrative economies and a greater rate of funds disbursement. It also observed that while performance monitoring and reporting had evolved significantly since the last review, further attention needed to be paid to the development of results-based management to provide an integrated, simple and organised information system. Performance management is one of the areas in which significant advantages would arise from greater harmonisation between the EC and Member States, as well as with other international donors. The commitment by the EU Member States to the Paris Declaration on Aid Effectiveness provides an opportunity for the EC to fulfil a leadership role within the Community, setting an example by successfully implementing its own aid effectiveness measures.

But the OECD report also identified a number of longstanding problems that still required attention. As with other assessments it found that the cross-cutting issue of gender equality was not consistently addressed in programming and required strengthening. The integration of ECHO humanitarian relief with longer term development programmes remained unsatisfactory and the Report called for more coherent liaison between ECHO and the Member States, and for more generous funding of its base budget. Similarly it called for a more structured dialogue with civil society partners both in Brussels and in the developing countries.

Current Issues

The current extensive development policy debate is driven both by the internal changes presaged by the appointment of a new Commission but also by the external pressures of the international financial crisis and by the continuing dissatisfaction with the effectiveness of international aid programmes. In 2010/11 alone the EU collectively provided €53.8 bn. of Official Development Assistance, equal to 0.43% of its GNI. But after half a century of aid to the developing world and a trillion dollars, the rationale for many national aid programmes is being questioned and those same doubts afflict the EC's multilateral programme. This debate ranges from the specific – the appropriateness of the balance of aid instruments – to the general – the objectives of the programme. It is to a review of this debate that the paper now turns, beginning with the overall objectives of EU development policy.

Poverty Targeting

As we have already seen the Development Consensus reasserted the poverty focus of EU development policy, giving the priority in assistance to the low-income developing countries. However this was qualified by recognition of the needs of the medium-income developing countries given their large low-income populations, inequalities, weak government and their importance as 'regional anchors'. The Lisbon Treaty further enshrined the reduction and eventual eradication of poverty as the primary purpose of EU development cooperation – "Union development cooperation policy shall have as its primary objective the reduction, and, in the long-term, eradication of poverty. The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries" (Article 208). However again it is not clear whether this implies that the majority of funding should be focused upon the low-income developing countries.

In 2008 the EC dispersed €3.14bn. to the least-developed countries (42% of EC ODA), €528m. to other low income countries, €2.32bn. to lower middle income countries and €1.164bn. to upper middle income countries (EU Annual Report on External Assistance). For the EU as a whole 65% of ODA (DAC 2007) was allocated to low-income countries, ranging from 85% in the case of the UK to around 40% for Greece and Spain.

In a recent statistical analysis (Dearden 2009) I have established that the EC realised its 'development orientation' in the allocation of funds in the period 2000 to 2007 to the ACP states through the application of its allocation model. Despite the complexity of this model the UN's Human Development Index (HDI) predicts much of a country's individual aid allocation, together with population size. By contrast the allocation of aid to non-ACP countries, programmed by DG RELEX, exhibited little poverty focus overall, although the aid programmes to the Latin America and Asia groups still exhibited a strong inverse relationship to their countries HDI.

In reality the objectives of international development assistance have always been complex, reflecting the economic, political and security objectives of the donors. This is manifest for example in the EC's focus upon the 'near abroad' in its aid programme and the particular priority given to supporting the Palestinian Administered Area. In the current debate the focus has also turned to 'managing global interdependencies' through protecting 'global public goods' (externalities in economic terms) in areas such as communicable diseases, peace and security, climate and biodiversity. This calls for effective action in middle income and emerging economies. By contrast there are those who argue that the current financial crisis presents particular problems for poverty reduction and the achievement of the MDGs. Therefore new mechanisms for redistribution of resources and to strengthen social safety nets in the poorest communities should remain the priority. But it is also recognised that the MDGs represent goals and not means and that a permanent reduction in poverty requires the conditions to be created for sustained economic growth.

A New Development Statement?

The objectives of EU development policy had been defined in the Statement on Development Policy (2000) and the Development Consensus (2005). With the appointment of a new Commission and accompanying organisational change, the question of the need for a new statement of development policy had arisen. In the international environment the financial crisis, climate change, review of the progress in achieving the MDGs and the continuing negotiations of the Economic Partnership Agreements, all suggested the need for a revision of the existing Development Consensus. Thus in 2010 the EC launched a consultation through the issue of a Green Paper (COM(2010)629).

The following statement perhaps best indicates the overall direction of thinking of the Commission in the Green Paper – "Aid is not a panacea and is one of several financial flows towards developing countries. It must tackle the roots of poverty rather than its symptoms, and primarily be a catalyst of developing countries capacity to generate inclusive growth.".

The Paper focuses upon four broad issues; maximising the impact of aid, fostering 'inclusive' growth, sustainable development and food security. In order to maximise impact the Paper emphasises the importance of added value, EU aid coordination and of 'leverage'; both upon recipient's policies, especially the achievement of good governance, and in terms of mobilising private and domestic resources. The challenge of providing support to fragile states, especially those in post-conflict situations, is specifically addressed, whilst recognising the potential offered for formulation of a comprehensive approach integrating the development dimension with the establishment of the EEAS. The introduction of the phrase 'inclusive growth' underlines the importance that the EC attaches to the issue of the distribution of benefits from economic growth. At the same time considerable attention is paid to fostering the role of private investment and the development of the small and medium sized enterprises (SME) sector through the creation of an appropriate legal and regulatory framework, the 'leveraging' of complementary finance (joint programming) and the furtherance of regional integration. Mainstreaming climate change through mitigation, adaptation and disaster risk reduction also receives particular attention. Finally the Green Paper focuses upon the development of the agricultural sector and its contribution to food security.

The Green Paper presents a series of questions seeking contributions to the debate as to how practically to realise these broad objectives i.e. to address the major challenge of avoiding 'policy evaporation'. It is anticipated that the Green Paper consultations will lead to a Commission Communication and the possible review of the 2005 'Development

Consensus' as well as informing the negotiations over the post 2013 Multi-Annual Financial Framework.

However there are those who regarded opening the debate on the revision of the Consensus as offering a hostage to fortune. Work by the ECDPM suggested that there were considerable reservations amongst senior officials in the Member States Delegations at instigating such a debate. The Consensus was not arrived at without considerable political difficulty, with opposition arising both from it's content, including the emphasis upon a poverty focus, and from its encroachment upon the Member State's national development policies. As in many other areas of EU policy, where both the Member States and the Commission have shared competence, the boundaries of subsidiarity remain contested. Nor is the timing regarded as ideal given national budgetary pressures and the uncertainty regarding the position of development priorities in the EEAS, as discussed below.

But the Consensus has proved its worth in the process of forging new policy texts where its existence has constrained opposition from the national governments. It also had an important influence on the negotiations between the Council and the Parliament on the Regulation for the Development Cooperation Instrument (DCI). The Regulation is of particular importance in that it is a legal instrument, unlike the Development Statement and its successor the Consensus, which provides the framework under which Commission officials must operate. The negotiation of the new Financial Perspective, covering the period from 2014, will also require the renewal of the DCI.

Regional Partnerships

One of the particular comparative advantages claimed by the EC in the implementation of development policy is its potential role in encouraging regional integration. This is reflected both in the funding specifically allocated to the Regional Indicative Programmes of the EDFs and in the regional approach to the negotiations of Economic Partnership Agreements (EPA). The most significant regional grouping is that of the African, Caribbean and Pacific under the Cotonou Agreement. However the EPAs have been negotiated on the basis of sub-groupings within the ACP, creating particular problems in Africa where they have not coincided with existing regional bodies such as

SACU and ECOWAS and where there is a mixture of middle and low-income developing countries, the latter benefiting from the non-reciprocal 'Everything-But-Arms' trade concessions.

The debate as to the merits of the 'budgetisation' of the EDF funds, EDF 10 expiring in 2013, also continues. Unlike previous Treaties the Lisbon no longer specifies that the EDF should be separate from the general budget. Budgetisation has been supported by the Commission and European Parliament but has faced opposition from some Member States and the ACPs. For the Commission budgetisation is seen as offering more coherence through removing the complexity of different sources of funding for individual countries. The role of the European Parliament is also much greater in the allocation of funds through the EU budget than through the EDF. However for the Member States the basis of contributions differs in the case of the EDF from the general budget and any increase in national contributions is likely to face opposition at a time of financial stringency. Further a recent evaluation by the UK (DFID 2011) has suggested that the EDF has proved more innovative (e.g. MDG contracts) and flexible than the general budget instruments, with a greater emphasise upon 'partnership' with the recipient countries and better financial management. By contrast general budget funding has lacked a 'poverty focus' (85% ODA going to middle income countries), with variable results in terms of impact and delivery. Meanwhile for the ACPs the existence of the EDF has embodied Cotonou principles such as co-management and joint decision-making and provided a degree of funding predictability absent from assistance provided through the EU's external actions budget.

But alternative groupings are assuming greater importance. For example, the EU has adopted a continent-wide Africa strategy (Joint Africa-EU Strategy:2007) supported by the EU Africa Trust Fund for Infrastructure, and separate strategies for the Caribbean (2010) and the Pacific (2006). In addition, as we will see, the new DG DEVCO no longer has a specific ACP focus and the European External Action Service (EEAS) has assumed responsibility for all geographical funding allocations.

The continued relevance of the historic ACP grouping and the Cotonou Agreement is therefore being challenged. However its defenders emphasise its significance as a partnership contract. It provides a framework not only for trade relations and aid programming but also an institutional structure for fostering a political dialogue (Art. 3 & 4). Whatever their current effectiveness the joint institutions may offer potential for establishing genuine joint planning and co-management. In addition the Cotonou Agreement provides a clear dispute settlement and arbitration procedure (Articles 96 and 98). Its defenders argue that the focus should be on ensuring its greater effectiveness and extending the model to other regional groupings such as Latin America and Asia. Its strongest advocates argue that it should be extended to all developing countries, building a similar contractual relationship, with its supporting joint institutions fostering mutual accountability.

The very contractual nature of the Cotonou Agreement means that no changes can take place until 2020 when it expires. But the five yearly review in 2010 led to a number of modifications including a greater emphasise upon support for intra-ACP cooperation and for regional integration, with a new Article 30 referring to strengthening the capacity of regional institutions such as the African Union. Such organisations are regarded as having a central role in peace and security. Amongst the ACP states themselves there is no support for its abolition, despite tensions created during the EPA negotiations. Indeed a new ACP Strategic Plan has recently been formulated and a Standing Committee on the Future of the ACP group formed to identify its areas of 'comparative advantage'. But the future of the group will very much depend upon the commitment of its dominant African members and for them a choice between the ACP and the African Union may be the major consideration.

External Actions Budget

In addition to the overall framework discussion has also focused upon the most effective financial architecture for the EU's External Actions Budget. Given the overall volume of funding necessary to achieve the MDGs and to contribute to ameliorating climate change, it has been argued that neither the EU Member States nor the international community will be able to rely solely upon grants. Nor to ensure their effective utilisation can responsibility lay only with bilateral assistance or the EC's multilateral programmes. In general multinational organisations can add value by the pooling of resources, the replication of pilot schemes, through setting international standards and creating the framework for collaboration. The EC in particular can fulfil a strategic role in this process, in ensuring the right resource mix to finance a given project or programme, in fostering strategic and operational coherence amongst the EU's Member States and with other multinational organisations.

However while maximum use should be made of existing institutions, drawing upon their accumulated expertise, inflexibilities need to be addressed. For example problems have arisen in adequately financing Trade Related Assistance (TRA) through the EU's existing funding mechanisms. DG Trade provided a limited amount to the Doha Trust Fund out of its own budget, as there was no other way of financing this expenditure. DG Dev EDF funds are allocated under NIPs and RIP's exclusively to the ACP states. These funds may only be spent on TRA in country and regional programmes, not on multilateral funds for more general purposes.

In addressing the needs of global public goods some critics have argued for the need to create specific multilateral funds, to which collectively and individually EU Member States would contribute, and which would distribute assistance to any developing countries when need was identified. Indeed the EU has responded to these difficulties by the creation of instruments such as the Food Facility, which provided funding to other multilateral institutions, and the Member State/EC joint-funds such as the EU-Africa Infrastructure Fund and the Neighbourhood Investment Facility. The latter is regarded as the template for the proposed Central Asia and Latin America Investment Facilities. Bringing together 12 Member States and the European Investment Bank (the European Financing Partners; EFP) the risk sharing will allow the financing of larger projects beyond the scope of individual Member State development programmes. It also reduces the need for separate appraisal, monitoring and administration. However concerns have been expressed in regard to the governance structure, selection criteria and additionality of the Neighbourhood Investment Facility.

We have also seen that the EU is moving towards budget support and away from project funding, recognising the reality of fungibility and to enhance recipient ownership. It is also likely to lead to lower transaction costs and faster disbursement, however this always represents a danger in sustaining aid effectiveness. Budget support requires confidence in the recipient countries financial management and development strategy[1], and in 2008 MDG Contracts were introduced, which offer a six-year commitment to budget support (70% of total commitments are guaranteed), build on this approach. But so far only eight partner countries have qualified for these contracts through demonstrating a commitment to poverty reduction and domestic accountability.

The future of budget support, both general and sectoral, has been addressed in the EC's Green Paper (COM(2010)586) which clearly identifies the essential issues and the approach that the EC is developing. Budget support is seen as being part of a policy package including political dialogue, performance assessment and capacity building. To be successful it requires country ownership, a focus upon measurable outcomes, predictability, accountability, enhanced donor coordination and the sustaining of public support amongst EU stakeholders. But the EC also identifies a number of issues where a consensus on an agreed strategy has yet to be established. These include such questions as to whether budget support should be explicitly conditional on a recipient countries commitment to human rights, democratic principles and the rule of law (i.e. political conditionality); the scope of policy dialogue, role of conditionality and the appropriate balance between policy reforms and results indicators in performance assessment frameworks; how to enhance domestic accountability; the criteria for determining the balance between budget support and other aid instruments; risk assessment and the appropriate measures to address deteriorations in political governance, macroeconomic instability, weaknesses in financial management and corruption; the appropriateness of budget support in the case of fragile states; and the relation of budget support to domestic revenue generation and donors exit strategies.

The Green Paper in part may have been a response to a series of critical Court of Auditors report's (SR 5/2001, SR 2/2005, AR 2009, SR 11/2010) which have called for "a clearer definition of country specific objectives to facilitate the assessment of impact; the use of a complete risk management framework; more transparency and a rationale for allocations to budget support…;stricter management of performance related conditionality…and more regular reporting on performance,“ (COM(2010)586 p.4) as

[1] To qualify for budget support the recipient country must meet three eligibility criteria: a well-defined development strategy, a stability-orientated macroeconomic framework and a credible programme for public financial management improvement.

well as stronger coordination and joint assessments with other donor's local representatives. Recent evaluations of EC aid programmes in 20 countries where budget support has been a significant feature have generally confirmed its relevance. However they have also emphasised the difficulty of assessing the impact of budget support on poverty reduction and the achievement of the MDG goals and the difficulty of assessing the effectiveness of budget support as contrasted with the potential use of other aid instruments.

The EU has also attempted to address the problems of flexibility through the Vulnerability FLEX instrument launched in April 2009. Intended to provide support for social sectors in those countries particularly adversely affected by the current economic crisis, it operates in close cooperation with the International Monetary Fund and the World Bank. It was expected fourteen countries would have benefited from support by the end of 2009. Mid term evaluations of the European Investment Bank's programmes are also being undertaken. This will offer an opportunity to reconsider the potential of the EIB's instruments. Indeed some commentators have argued that significantly more emphasis needs to be placed upon private sector involvement. This is already been reflected in the Cotonou Agreements substantial Investment Facility.

The choice of policy instruments and the degree of conditionality is dependent upon the local context. Conditionality must be clearly specified and is a 'shared responsibility' with the partner country. Conditionality becomes most important in those recipient countries where government lacks any real commitment to the development of its people but are focused upon regime survival. In addition there is the problem of aid dependency and sustainability. In three African countries 60% of government expenditure is met from foreign aid. There also remains the question as to whether the focus upon social expenditure may have led to the relative neglect of the productive sectors or whether such social expenditure lays the foundations for economic growth.

Division of Labour

Whilst it can be argued that the activities of a large number of national bi-lateral programmes are good at fostering innovation and flexibility, and individual national development agencies may have gained significant expertise in particular countries or sectors, this situation has also been identified as a major factor in compromising aid effectiveness. The existence of up to 56 bi-lateral donors and 230 funds and multi-lateral organisations raises transaction costs, not only through frustrating the achievement of administrative economies of scale in the donor countries, but also through imposing substantial burdens upon the recipient states, countries already faced with inadequate capacity in their public administration. Thus although new financing instruments and joint funding arrangements, such as the EFP, may offer flexibility and address current aid programme lacunae, other commentators have been critical of the increasing multiplicity of donor institutions and aid instruments.

One solution is to divert funds through existing multi-lateral institutions and Funds, but much of the debate within the EU has focused upon the potential for increasing a 'division of labour' amongst the EU's development agencies. This culminated in the adoption of the Code of Conduct (COM(2007)72) addressing in-country, cross-country and cross-sector coherence. With bilateral aid accounting for 75% of total ODA effective implementation of the Code of Conduct has the potential to make a significant contribution to aid effectiveness (see Murle 2007).

Although voluntary, it commits the Member States to confining their bilateral programmes to no more than three sectors within a Developing Country; although additional resources can be made available for budget support and for civil society, education and research. In each priority sector a lead donor is to be selected from amongst those Member States with bilateral programmes or the EC. In addition the number of active donors in each sector was to be reduced to a maximum of between three and five, but at least one donor must operate in every sector relevant to poverty eradication. The Member States also undertook to increase the geographical focus of their national aid programmes in consultation with the EC and also to address the problem of 'aid orphans'.

EU donors also committed themselves to identifying more clearly their comparative advantages and to pursue other areas of complementarity (e.g. across national, regional and international levels or across aid instruments). But establishing which donor has a comparative advantage in a particular area is to be undertaken by self-assessment. This may prove a significant weakness if there is no clear criteria. It must also be recognised that the donor's view of comparative advantage may differ significantly from that of aid recipients. Whereas donors may focus upon the volume of funding, history of engagement, staff expertise etc, the recipients may give greater priority to the alignment of donor policies, dialogue skills, risk-taking, credibility and their commitment to harmonisation. For the EC its comparative advantage is seen as being in post-conflict situations and infrastructure investment, in supporting regional integration and in addressing 'orphan topics' such as land rights and the sale of arms. In addition the EC should be ideally placed to fulfil a coordinating role in furthering the effective implementation of these commitments.

Although the Code of Conduct is regarded as a milestone in the advancement of aid coordination and harmonisation, there are differing views as to its likelihood of success. At one extreme it has been regarded as a "piece of fantasy" but most commentators regard it as an important foundation on which to build, its success depending to a considerable degree upon the response of the Delegations of the EC and Member States in the developing countries in operationalising its principles.

However it raises a number of very fundamental questions. So far the focus has been upon sectoral specialisation, where it would be argued that the recipient country should be the driving force. The 'fast track' initiative applied in the field of education is regarded as relatively successful since the EU Member States had established a consensus. Unfortunately some commentators argue that a similar common approach has yet to be established in areas such as agriculture or healthcare and that therefore greater attention needs to be made to ensuring policy convergence. But greater challenges are presented in agreeing country specialisation, since it must be recognised that national bilateral programmes reflect political and commercial interests as much as national development policies. This will be an important factor in constraining any attempt to apply the principles of comparative advantage to the division of labour.

If the existing donors are to concentrate on fewer partner countries the need for coherent exit strategies needs to be urgently addressed to ensure that additional 'orphans' are not created. But doubts have been expressed as to whether the EC possesses the resource capacity to take over where other European donors have exited or even to coordinate joint responses.

At the level of implementation the relationship between Brussels and the country level's Delegations becomes central. The Code of Conduct was not intended to lead to centralisation, which would be opposed by the Member States and which would compromise the objectives of aid effectiveness under the Paris principles. But the EC needs to enter into a close dialogue with its aid recipient partners to address how Delegations are actually responding to the needs of the 'division of labour' and in particular how they are perceived by the national stakeholders and other European donors. Current experience suggests that EC Delegations do not regard themselves as having the mandate to "readjust" Member State activities, nor even to address this issue. At the same time individual Member State Delegations exhibit a broad range of commitment and capacities to address 'division of labour'. "A shared view amongst EC and MS representatives at the country level is that division of labour is a high flying technocratic issue, nowadays being backed by huge pressure from HQ, which is almost impossible to implement considering the constellations on the ground."[2]

There is also a lack of consensus as to the broader development role to be fulfilled by the EC. Is it intended, as part of the deepening of the integration of the EU and the raising of the its profile on the international stage, to strengthen internal processes and structures to present a unified approach to partner countries (the 'global leader' model), or is the EC's role to foster cooperation and dialogue between individual Member States (the 'network manager' model)? The latter seems to be the role emphasised in the Lisbon Treaty, where Article 210 provides that "in order to promote the complementarity inefficiency their action, the Union and the Member states shall *coordinate* their policies on Development cooperation of and shall consult each other on their aid programmes including in international organisations and during international conferences." If this interpretation proves correct then the role of the EC is likely to focus upon the encouragement and financing of collaboration between the various development actors (e.g. NGOs, foundations), to providing collective independent evaluation and inter-agency knowledge management and to the creation of instruments for joint action such as the Africa Infrastructure Trust Fund. PCD encompasses four aspects – political commitment in setting priorities, policy coordination, implementation and

[2] See Sven Grimm & Nils-Sjard Schultz DIE/FRIDE Discussion Paper

monitoring/evaluation. To realise PCD some commentators have suggested that the EC should adopt the OECD (2010) recommendations that have arisen from its own comprehensive review.

The Statement on Development Policy (EC 2000) and the European Consensus on Development (2005) identifies the EC's comparative advantage as being built upon its global presence, size and critical mass and in the range of policies for which it is responsible. In some cases, such as trade, it possesses a sole competence; it therefore has a central role in ensuring policy coherence. But as we have seen its areas of activity were also broadly drawn to include the link between trade and development, regional integration, macro-economic support, transport, rural development, health and education, and institutional capacity building, water, energy, rural development and agriculture, and "social cohesion and employment".

In terms of the relative volumes of EU aid to be administered by the EC this will depend upon the size of the individual Member State's aid budgets and their national expertise. Thus EC managed aid could constitute a minimum contribution for those Member States whose budgets are too small or who choose not to establish bilateral programmes or which provides a framework to contribute to larger projects beyond their individual financial limits. The EC aid programme can provide an anchor for joint funding by the EU, as a benchmark for the international community and is a vehicle for harmonising bilateral contributions i.e. contributing to national policy coherence.

Policy Coherence for Development

Policy coherence has a number of dimensions (Evaluation Service, 2005). Member State development policies should be internally coherent but, more challengingly, they should also be consistent with other national government policies ('intra-government'). Externally policy should also be consistent with other Member State and EC policy ('inter-governmental/multilateral'). Finally, aid programmes should be consistent with the priorities and needs of recipient governments ('donor-recipient'). The EC has sought not only to achieve policy coherence for development (PCD) within its own process of policy formation, but has also seen itself as having a central role in promulgating PCD within the Member States.

The document Policy Coherence for Development (COM(2005)134) signalled the new priority to be given to this objective and the acceptance by the Member States of the central role to be played by the EC. It included a commitment to improve PCD in 12 specific policy areas, including trade, agriculture, fisheries, migration and security. Since 2005 the EC has sought to establish organisational mechanisms specifically to address the requirements of PCD. These have included the creation of an inter-service group on PCD and a specific unit within DG DEV, and the development of an Impact Assessment System (see Evaluation Service, 2007). The new format for the Country Strategy Papers, adopted in 2006, provides for PCD to be specifically addressed, offering an opportunity for the partner countries to highlight their main concerns regarding the non-aid policies of the EU. Subsequent analysis has shown that trade policy is addressed in almost all CSPs, with agriculture and fisheries considered in half.

In 2007 the first by bi-annual report on PCD was published (EC, 2007b). At the EU level progress was regarded as satisfactory. The findings confirmed those of a previous study in that "the mechanisms examined were relatively effective" but "the most common obstacles included the lack of adequate political support, unclear mandates and insufficient resources." (Evaluation Service, 2007). The assessment of practice at the national level was far more mixed. A wide variety of organisational approaches were taken to achieve PCD within national governments, including inter-ministerial committees, consultative bodies and 'whole-government' approaches, such as in Sweden. The general commitment to PCD depended upon political support, capacity and knowledge, degree of involvement of development cooperation staff and attitude to the trade-off between development and non-development policy objectives. Overall the Member States viewed the commitment to PCD of ministries other than development as being only moderate, and varying according to policy areas and the level of understanding of PCD issues, while they also noted a lack of transparency and accountability for PCD. Even at the EU level accountability presented a challenge, particularly in the implementation of new and politically sensitive policies.

The biennial report (EC, 2007b) identified a number of outstanding issues. These included the need to improve Council procedures, especially to ensure that PCD is considered within the Council Working Parties, improved information sharing on PCD issues, intensified exchanges with the European Parliament and in the dialogue with partner countries. Better use of the impact assessment process was also advocated, although this often presents substantial methodological challenges. Impact assessments, as employed during trade negotiations, have also been viewed by some critics as political window dressing rather than as a useful contribution to the debate (see Dearden 2005).

The debate about PCD is mainly focused upon the degree of coherence in the EU's own policies. More recently the EU Council has identified five broad policy areas for priority in achieving PCD – trade and finance, climate change, global food security, migration and security and development. Of these the relationship between development and EU security objectives has received particular attention in the Community, and this relationship will be enhanced under the Lisbon Treaty. The linkage between development policy and security is 'context dependent' and presents the challenge of ensuring that development policy does not become merely instrumental. But the general relationship between development policy and foreign policy is no longer regarded as an issue for debate; the focus now is upon the reality of the interaction of these two objectives.

But while there has been considerable discussion about the relationship between development policy and areas such as trade, migration and security, little attention has been paid to the issue of coherence from the perspective of the recipient countries. The structures and institutions addressing PCD rarely offer an opportunity for the 'Southern voice' to be heard, and even where such accountability mechanisms exist, such as under Article 12 of the Cotonou Partnership Agreement, it has rarely been employed. Complementing this is the need for more extensive research on the impact on recipient countries and the EU policy coherence. Where such studies have been undertaken the complexities of evaluating the impact of a lack of 'coherence' readily became apparent. Again a crucial opportunity exists for the EC to champion joint evaluation and research in this area across the EU and in particular to address the need for a new methodology for policy coherence evaluation and to determine the tools needed to put it in practice. The more effective implementation of PCD also requires a stronger results orientation in all EU donor agencies. Results orientation requires the identification of specific goals, which in turn renders institutional coordination and joint action on PCD more effective.

The ratification of the Lisbon Treaty, with its stronger overall commitment to poverty reduction and more explicit understanding of ‘consistency’ offers an opportunity to strengthen PCD. In particular it will depend upon the ability of the new European External Action Service (EEAS) to integrate development objectives into the Common Foreign and Security Policy and the priority assigned to promoting PCD by the new High Representative for Foreign Affairs and Security Policy in the College of Commissioners. At the Delegation level much will depend upon the degree to which their role in PCD is enhanced beyond their current ineffective role in ‘monitoring’.

Organisational Structure

The existing division of responsibility for aid programming between DG Development (ACPs) and DG External Relations (non-ACP excluding pre-accession), with implementation undertaken by Europe Aid and emergency aid provided by ECHO, had always been subject to criticism. The adoption of the Lisbon Treaty has led to organizational changes that address this issue. It identifies the reduction of poverty in developing countries as a goal of all external actions and “the reduction and, in the long-term, eradication of poverty” as a specific objective of development policy. This specific commitment is reflected in the new organisational structure that has followed from the creation of the position of High Representative for Foreign Affairs and Security Policy, who will also be Vice President of the European Commission and a member of the Council. The High Representative is to be supported by the EEAS, which will have responsibility for all geographical aid allocations (both EDF and DCI) through the preparation of multi-annual country and regional development plans and their respective National and Regional Indicative Programmes.

At the same time a separate DG for Development and Cooperation (DEVCO) Development Commissioner (Andris Piebags) has been preserved accompanied by its integration with EuropeAid. The new DEVCO will be responsible for preparing the thematic programming, other than the European Instrument for Democracy and Human Rights and part of the Instrument for Stability and for broad policy development and for implementation across all developing countries. This broader remit, beyond the ACP group alone, is seen as offering considerable potential for increasing the coherence of the

EU's development efforts. The precise detail of the division of responsibilities between the EEAS and DEVCO however remains to be settled. Thus although a split remains in the aid programming cycle, the geographical division of responsibilities has been eliminated.

From a development perspective the success of the Lisbon Treaty will very much depend upon the degree to which development policy objectives are fostered within the new EEAS. The greatest concern is that long-term development objectives will be sacrificed to short-term foreign policy considerations. The EEAS will have significant responsibilities in both conducting political dialogue with the recipient developing countries as well as in the allocation and programming of development funds. The EEAS and the High Representative will also have a central role in ensuring the achievement of PCD and donor coordination to realise the commitments made under the Paris Declaration on Aid Effectiveness. Thus the EEAS should facilitate donor coordination at the country level through encouraging joint EU country strategies, programming, monitoring and evaluation.

Conclusion

In the recent report of a group of European Development 'Think Tanks' (2010) and in the various submissions to the Green Paper consultation, there is clearly a substantial body critical of the EU's development policy. In particular they observe that development partnerships have become too complex, that there are too many aid instruments which are poorly focused on poverty reduction, that policy coherence and coordination between Member States has not been realised and that EU development thinking has failed to respond to the changing global context. They argue that the EU should 'update the narrative of its development policy', re-evaluate the comparative advantages of the Member States and the EC, develop a comprehensive engagement strategy for the private sector in development, place PCD at the heart of EU policy-making, invest more in conflict prevention in developing countries, extend the partnership model of the Cotonou Agreement to its relationships to all developing countries and increase the share of funding directed to low income countries. But they also argue for a more 'differentiated' approach to developing countries, both in the thematic (global 'public goods') and geographic aid programmes, with recognition of the need to develop a more sophisticated 'political economy' model of the obstacles to development. Externally they argue that the EU collectively should take a leading role in addressing climate change, the challenge of fragile states, in the review of the MDG and in international trade discussions such as the Doha Round.

But despite the adoption of the Lisbon Treaty many of these issues still need to be viewed in the context of the continuing tension between those seeking a more integrated 'federal' Europe, with a global role, and those who emphasise subsidiarity and the continued pre-eminence of the Member States. In the case of development policy this is often reflected in the conflicting view as to the role of the EC, as the promoter of the EU as a 'global leader' or as the advocate of the 'framework' model. For example, the success of PCD depends not only upon the degree to which national governments can arrive at a consensus as to the EU's development goals and objectives, but also the degree to which it is prepared to address the issue of Member States internal policy consistency. In the case of those who advocate a stronger unified global presence for the EU it has been argued that consistency also requires the external impact of all policies to be given the same attention in policy formation as the demands of internal integration.

As in the whole history of the EU this political conflict will be fought out in the corridors of Brussels and will be reflected in any evolving shift of power. In particular the emerging role of the new EEAS and its political head, the High Representative, relative to that of the Development Commissioner and DEVCO, will be of profound significance for the realisation of EU development policy.

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