European Union

The modernisation of European development cooperation: leaving no one behind?

Alexandra Rosen, CONCORD Europe

Overview

- In 2016, the EU and its member states reported a total increase in official development assistance (ODA) with the total for that year being €75.46 billion. According to the OECD DAC this level of ODA declined in 2017 by 2.4%. With this level, the EU and its 28 member states (EU28) make up the world's biggest development donor block, demonstrating a stable increase in total aid over the last five years. Still, one fifth (€15.40 billion in 2016) of the total aid reported by the EU member states reflected financial flows that were not a "genuine" transfer of resources to developing countries ("inflated aid").
- The EU collective ODA in 2016 amounted to just 0.50% of GNI, which is 0.2 percentage points below the global goal of 0.7% GNI. This ratio remained largely unchanged in 2017. According to CONCORD AidWatch calculations, if genuine aid increases at the current rate, the EU will not meet the 0.7% target before the year 2052 - more than 20 years after the 2030 deadline.
- Only 5 EU member states met the 0.7%-target in 2016, namely Denmark, Luxembourg, Sweden, UK and, for the first time, Germany.
- EU donors reported a total of €10.88 billion for refugee costs in 2016. This represents a 44% increase from the previous year, and a staggering three-fold increase since 2014. One in seven euros invested by EU donors in aid was spent as in-donor-country refugee costs in 2016. In-donor refugee costs fell slightly in 2017 by 6%.
- While total ODA from EU28 increased by 10% between 2012 and 2015, the ODA from EU member states dedicated to LDCs actually decreased by 2.5%. The EU and its member states are providing more ODA to the LDCs than other donors, but in relative terms there is a shift away from spending in LDCs.

Although the EU is the biggest donor bloc it is still far from reaching the targets

In 2016, the EU and its member states were the world's biggest donor bloc, collectively reporting €75.46 billion in total official development assistance (ODA). This represented a 27% increase over the past two years, partly because a majority of EU member states (23 out of the 28) increased their aid. Ten EU member states increased their total ODA by over 25%, including Spain (193%) and Germany (36%). EU and member states' ODA level declined by 2.4% 2017, according to preliminary figures by the OECD DAC.

Five EU countries - Denmark, Luxembourg, Sweden, the United Kingdom and, for the first time, Germany, -reached the 0.7% target. Luxembourg and Sweden deserve special mention for keeping the integrity of their aid very high. They are the only two EU member states that exceeded the 0.7% target in 2016 and spent their aid on delivering "genuine" developmental impacts in developing countries. As

an example, the Luxembourg government explicitly committed to not reporting in-donor-country refugee costs as ODA.

In spite of the 2016 positive trend of increasing aid levels over previous years, the EU is still far from meeting its international 0.7% of GNI commitment. AidWatch 2017 confirmed that overall the EU is retreating from, rather than making progress towards, its 0.7% ODA promise. The EUs total collective ODA in 2016 amounted to just 0.50% GNI - 0.2 percentage points below the 0.7% target. According to CONCORD AidWatch calculations, if genuine aid increases at the current rate, the EU will not meet the 0.7% target before the year 2052 - more than 20 years after the 2030 deadline.

Along with other OECD donors, the EU, is committed to spending 0.15% to 0.2% of its GNI in the world's least developed countries (LDCs). However, in 2016 OECD donors' spending in these countries shrank with only seven of them meeting thisinternational commitment to LDCs. Six of these seven donors were EU member states: Luxembourg, Sweden, the UK, Denmark, Belgium and the Netherlands. According to AidWatch 2017, total EU bilateral aid to LDCs in 2015 represented just 15% of total European aid. This amount represented only 0.06% of EU28 GNI – half of the amount required to honour the international LDC commitment. While total ODA from EU28 increased by 10% between 2012 and 2015, ODA from EU member states dedicated to LDCs decreased by 2.5%.

A shift away from poverty eradication and sustainable development

A central question is the quality of the ODA delivered by the EU and its member states: did it truly contribute to poverty eradication and sustainable development? In fact, for the most part, the EU's aid *increases*havenot been used for development purposes in developing countries. For a more accurate picture of EU development cooperation, it is crucial to distinguish between the portions of aid budgets that are focused on reducing poverty and supporting the countries and people that have the least versus the amount used to cover costs that serve European domestic objectives.

According to the AidWatch inflated aid methodology,[1] one fifth (€15.40 billion) of the total aid reported by the EU member states in 2016 was inflated. Furthermore, CONCORD's calculations show that, as a proportion of total European aid, "inflated aid" in 2016 increased by 43% compared to 2015, when it was 17% of total EU ODA.

The AidWatch 2017 analysis also revealed that the gap between current European aid levels and the amount needed to reach 0.7% ODA/GNI is wider than reported. Based on EU donor ODA figures reported to the DAC, the EU aid gap in 2016, amounted to €29.25 billion. When the "inflated" aid is deducted from that figurethe "real EU aid gap" is €44.70 billion. While absolute EU aid figures are increasing steadily, genuine aid is lagging behind.

In donor refugee costs: EU member states still receiving its own aid

In-donor-refugee-costs accounted for 30% of the total EU aid increase in 2016, showing once again that this type of spending is rapidly become a main feature of European development cooperation. In 2016, EU donors reported a total of €10.88 billion for refugee costs - a 44% increase from the previous year, and a staggering three-fold increase since 2014. In 2017 in-donor refugee costs fell slightly.

These figures for in-donor refugee costs mean that one in seven euros invested by EU donors in aid in 2016 was, in fact, spent as in-donor-country refugee costs. Although it is vitally important to support refugees in Europe, counting donor refugee costs as ODA is misleading. This type of spending has little to do with development aid and does not link directly with the core purpose of ODA, which is to reduce poverty in developing countries. As CSOs have long argued, DAC rules should stop accepting in-donor-country refugee costs as ODA. The impact on EU members states, following the implementation of the 2017 clarification to the reporting of in donor refugee costs, remains to be seen.

The EU is stepping up its gender commitments, but progress is slow

In 2016, the EU introduced its second Gender Action Plan 2016-2020 (GAP II), again confirming that 85% of new EU programmes must have gender as either a "significant" or "principal" objective, in line with the OECD's definition of gender markers. According to data on gender-integrated ODA from 2014-2015, only Sweden has met this target, although seven member states were making significant progress, reaching 50-75%. Most member states, however, still have a long way to go to reach the 85% target by 2020. In 2014-2015, the EU Commission had reached only 34%. In its GAP II 2017 implementation report it claimed that as many as 57% of its programs had gender as a significant or principal objective. Although slow, progress is being made, given that the portion of EU programs with gender as the "principal objective" will increase as well.

Modernising EU development cooperation - the instrumentalization of aid

The diversion of European ODA away from those countries that are most in need is not necessarily serving genuine and effective development. On both the EU and member state level, there has been a trend towards an instrumentalization of ODA to address emerging non-development objectives. The following section addresses EUs response to these non-development objectives, such as managing migration flows or donors' domestic security goals.

ODA and Migration - the externalisation of EUs responsibilities

Between 2013 and 2016 more than 3 million people sought asylum in Europe. In response, the EU developed several plans, agreements and policy frameworks. It also established cooperation agreements with several third countries, highlighting the importance of "addressing the root causes behind irregular migration to non-EU countries." In addition, EU development cooperation budgets were increasingly spent in favour of "migration management." Development cooperation has become a tool to "control migration", "manage migration" or "tackle the root causes of migration".

The three ways that EU ODA is being used to curb migration include:

a) **The inflation of ODA**: ODA is being spent in Europe to host refugees instead of reaching developing countries. As mentioned above, €10.88 billion has been reported as ODA in 2016 to host refugees and migrants in Europe. As an example, Germany spent more than 25% of its ODA on hosting refugees, making Germany the biggest recipient of its own aid.

b) **The diversion of ODA**: To prevent migration to Europe, ODA has been increasingly invested in specific countries from which people tend to migrate. "Addressing the root causes of migration" has been a key theme of official European strategy since 2015 and it is also reflected in EU development cooperation policies. For example, a main purpose of the instrument called the Emergency Trust Fund for Africa is to manage migration - more than €3 billion has been invested in this fund by EU member states. The instrument is problematic as it uses development budgets for migration control and enforcement measures and diverts ODA from its main purpose of poverty eradication. Also, in implementing the Trust Funds for Africa, the EU and its member states are failing to be consistent with the principles of development effectiveness and fully supporting partner countries in achieving their own development priorities.[2]

c) **The conditioning of ODA:** EU ODA is provided on the condition that the recipient country will either prevent migrants from leaving that country to enter Europe or offer to host refugees. ODA is increasingly being used to encourage the cooperation of developing country partners in migration and border control efforts. This type of conditionality is visible in many regions that are either sources of or transit points for migrants coming to Europe. For example, 17 readmission agreements have been signed by the EU with origin countries and more than €6 billion from the EU ODA budget has been allocated to Turkey under the condition that it will host Syrian refugees under the so call "EU-Turkey deal". On a national level, Denmark has appointed a "repatriation ambassador" in charge of facilitating return agreements with countries of origin.

To stop the dilution of EU ODA, EU and its member states should phase out the inclusion of all in-donor refugee costs from their ODA and develop an evidence-based approach to migration and development that ensures development impact remains the key focus of all EU aid. As well, the EU must stop the instrumentalization of development cooperation by establishing clear boundaries between migration deterrence and development efforts. ODA in particular, must hold true to its purpose of eradicating poverty, reducing inequality and meeting humanitarian needs.

Security aid - serving European donors' national interests?

Aid spending figures show that peace and security has not traditionally been a priority sector for donor spending in developing countries. Yet, this is changing as some European Union donors are starting to prioritise the strengthening of state security in developing countries and are using ODA as a tool to

counter perceived threats to Europe. Donors are also increasingly committing aid for the prevention of extremism or terrorism as well as to control insurgency and migration.

In 2016, the OECD DAC clarified the reporting rules for peace and security related ODA spending. Contrary to the original intention of this exercise, the revision expanded ODA eligibility for peace and security spending into new areas. Although is too early to examine the influence of the new DAC rules on aid figures, the risk remains that scarce aid resources will become diverted from other development priorities, such as poverty reduction. The implications for what it will mean if donors begin to align their aid policy more closely to domestic security agendas is not yet clear. However, there are worrying signs, as seen in the EUs rhetoric when discussing the next EU multi annual budget.

EU relying heavily on the private sector to realise the SDGs

It's not new for the EU to resort to the private sector to finance and realise the Sustainable Development Goals. Since 2011, the EU and its Member States have been promoting a growing role for various elements of the private sector in development cooperation. In recent years this trend has been reflected in the European External Investment Plan (EIP) and its European Fund for Sustainable Development (EFSD). The European Fund for Sustainable Development is expected to mobilise €44 billion in private sector investments with the help of EU ODA.

Looking into the future, it is likely that the EU will be transferring even more EU ODA to Development Finance Instruments (DFIs) and through mechanisms such as blending and guarantees (for example through the EIP and EFSD). Concerns have been raised over this approach, as it is yet to be explained why the EU is allocating its relatively small ODA budget in support of the private sector. For example, in its the current design, the External Investment Plan does not deliver its stated sustainable development objectives.

Evaluations confirm that the design and implementation of EU blending projects generally did not have strong pro-poor dimensions[3]. It is important that ODA is not used to subsidise the European private sector whereby shareholders in Europe – rather than people living in poverty – become the biggest beneficiaries. While a responsible private sector is rightly identified as an important partner to finance and realise the Sustainable Development Goals, rigorous safeguards need to be put in place to ensure that inequalities do not occur.

In addition, it is important that the EU and its member states abandon the "one-size fits all" approach to the role of the private sector in development. Instead they should focus on micro, small and medium enterprises (MSMEs) and social economy enterprises in local and regional value chains and trade.

Conclusion

- The EU remains the biggest donor bloc but is failing to apply the 'leave no one behind principle'. More ODA is being spent on costs within the donor country (for in-donor-refugee-costs) than on the Least Developed Countries and there is a relative shift away from spending on LDCs.

- The EU is still facing the challenge to increase its aid levels to meet the 0.7% target, by only providing genuine aid. Total EU ODA levels should not depend on unforeseen events and decrease when, for example, refugee costs are decreasing. EU ODA levels should be set on a stable and predictable path for reaching the 0.7% target consistent with Agenda 2030.
- Knowing that gender equality is a prerequisite for sustainable development, it is welcomed that the EU has stepped up its gender commitment. However, progress is slow and the share of projects with gender as a principal objective is at low levels.
- EU ODA is increasingly used to serve EU domestic interests at the expense of people in developing countries. There are concerns that EU domestic security priorities, such as unproven investment schemes and migration control, will overshadow the EU's commitments to promote human rights, sustainable development and the fight against poverty in its development cooperation programmes and actions.
- While a responsible private sector is rightly identified as an important partner to finance and realise the Sustainable Development Goals, rigorous safeguards must be put into place to ensure that inequalities are not amplified and that people living in poverty are the biggest beneficiaries of development efforts implemented by the private sector.

Recommendations

Regarding European aid, the EU and its member states should:

- Ensure that ODA remains focused on poverty eradication in developing countries, through "genuine" ODA consistent with the Busan aid and development effectiveness principles;
- Meet their aid targets (0.7% ODA/GNI by 2030, at least 0.15% of GNI to Least Developed Countries (LDCs) by 2020 and 0.2% of GNI to LDCs by 2025);
- Avoid using aid to cover a country's national costs of receiving refugees and, ultimately, phase out the reporting of in-donor refugee costs as ODA. In the meantime, donors should closely monitor their increased spending on in-donor-country refugee costs by using a transparent reporting system, and should apply existing OECD DAC rules strictly; and
- Ensure that the modernisation of ODA rules is designed primarily to increase the system's consistency and transparency and its alignment with development effectiveness principles. It should not be designed to suit donors by relaxing ODA definitions and restrictions and thereby allowing them to report spending not geared towards poverty eradication and sustainable development as ODA.

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[1] According to the AidWatch methodology, "inflated aid" refers to all financial flows that – although formally reported as aid by donors under DAC rules – do not genuinely contribute to development. https://concordeurope.org/wp-content/uploads/2017/10/CONCORD_AidWatch_Report_2017_web.pdf p.

[2] CONCORD Europe report "*Partnership or conditionality? Monitoring the Migration Compacts and EU Trust Fund for Africa*" (January 2018)

[3] Evaluation of Blending, Final Report, Volume 1 – Main Report, December 2016, p.14 (available at: https://ec.europa.eu/europeaid/sites/devco/files/evaluation-blending-volume1_en.pdf)