EU Aid Architecture:
Recent Trends and Policy Directions

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January 2010

The World Bank Group
Concessional Finance and Global Partnerships Vice-Presidency
ABBREVIATIONS AND ACRONYMS:

ACP  African, Caribbean and Pacific States
CoC  Code of Conduct
DAC  Development Assistance Committee
EC  European Commission
ECA  Economic Commission for Africa
ECHO  European Aid Cooperation and Humanitarian Assistance Office
EDC  European Development Consensus
EDF  European Development Fund
EIB  European Investment Bank
ENP  European Neighborhood Policy
EU  European Union
GNI  Gross National Income
HIPC  Heavily Indebted Poor Countries
IBRD  International Bank for Reconstruction and Development
IDA  International Development Association
IFI  International Financing Institutions
LDCs  Least Developed Countries
LICs  Low Income Countries
LMIC  Lower Middle Income Countries
MADCT  More Advanced Developing Countries and Territories
MDG  Millennium Development Goals
MIGA  Multilateral Investment Guarantee Agency
MNA  Middle East and North Africa
NGOs  Non-Governmental Organizations
NIF  Neighborhood Investment Facility
ODA  Official Development Assistance
OECD  Organization for Economic Cooperation and Development
TF  Trust Fund
UMED  Union of the Mediterranean
UMIC  Upper Middle Income Countries
UN  United Nations
VAT  Value Added Tax

This report was prepared by Florian Kitt (EASER) under the guidance of Rocio Castro (Lead Economist CFPVP), with contributions from Bernard Petit (former Deputy Director General, DGDEV, European Commission). The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s). They do not necessarily represent the views of the World Bank Group, its Executive Directors, or the countries that they represent and should not be attributed to them.
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Executive Summary

1. This report examines recent trends in official development assistance (ODA) flows from the European Union (EU) as well as related policy directions. It looks at the EU Member States collectively and at the European Commission (EC) separately, given its coordinating status and importance in terms of aid volumes.

2. The EU is the largest collective donor worldwide, accounting for over half of total ODA provided by the Development Assistance Committee (DAC). The EC ODA levels have increased continuously and became the largest EU donor in 2008.

3. The EU has followed up on its pledge to scale up aid which, except in 2007, has increased steadily in real terms. Aid allocation to the social sectors has increased since 1991 from 45 to 60 percent, focusing on the poorest countries, particularly in Africa (45 percent).

4. In contrast, the EC has focused more on middle income countries reflecting its policy to support accession and neighboring states. As a whole, the composition of EC assistance by sector is similar to that of the EU.

5. Following the endorsement of the Paris Declaration in 2005, the EU aims to reform its aid management increasing the use of country systems, making aid more predictable and relying on outcome-based conditions. In addition, EU Member States have agreed to implement lead donor arrangements at the country and sector level to reduce the number of donors. A more coordinated EU in-country and sector approach has the potential to significantly reduce fragmentation and proliferation of aid flows on the ground.

6. Currently, the total of EU multilateral ODA stands at 35 percent, but this drops to 20 percent if contributions to the EC are excluded. The EU is the largest IDA contributor. The recent creation of European trust funds tips the current balance between global and European multilateral ODA in favor of the latter.

7. However, the EU is still far from being a unitary actor and each member state still fields its own aid management structures, personnel and preferences. Likewise the EC’s institutional setting remains complex and at times opaque, and implementation of the Lisbon Treaty which came into force in December 2009, may further complicate matters.

8. Finally, questions remain on whether the EU will continue to increase aid levels as the financial crisis has burdened national budgets. 2010 will certainly be a key year to check up whether the EU will keep its promises.
Introduction

1. The Member States of the European Union (EU) have been major players of the international aid architecture since the times of the Cold War and decolonization. At present, the EU comprises 27 Member States\(^1\) and an executive arm, the European Commission (EC)\(^2\). Collectively the EU is the largest source of official development assistance (ODA). In 2008, the fifteen EU DAC Member States provided US$ 70.2 billion or 58 percent of total DAC ODA. Adding US$1.2 billion from the remaining twelve Member States, total EU ODA amounted to US$ 71.4 billion.\(^3\)

2. The EU does not function as a unitary actor on ODA policy, as it does in trade policy. One of the main reasons lies in the fact that development policy within the Union is a shared competence between each Member State and the Commission. Therefore, bilateral development policies co-exist with community policies managed by the EC, each with its own agencies, administration and institutions. However, since the turn of this decade, EU Member States have started to develop a “common vision” and to increase the coordination of policies and actions along their common pledge to increase ODA, reach the Millennium Development Goals (MDGs), and implement the Paris Declaration on Aid Effectiveness.

3. The EU’s common vision to development cooperation was formalized by the European Consensus on Development (EDC) agreed in 2005 by the EU Heads of States and governments, the European Parliament and the Commission. Under the EDC, Member States and the Commission are committed to poverty reduction and the pursuit of the MDGs as the primary objective of EU development cooperation, and to act under the principle of complimentarity. The consensus also clarified the Commission’s role in ensuring policy coherence, promoting development best practices, facilitating coordination and harmonization, promoting democracy, human rights, and good governance. The EU’s emerging common approach is apparent when looking at the requirements new members have to fulfill. Every state joining the EU is expected to set up a bilateral aid program and to honor existing EU commitments such as those under the Paris Agenda on aid effectiveness.

4. This report aims to examine the role of the EU in the international aid architecture. The first part maps out the evolution and uses of EU official development assistance since 1991 providing aggregate data for the EU 27 member states and the EC. The second part focuses on the evolution and use of ODA of the EC only. The EC has been acting in development since the beginning of European integration with the management of the first European Development Fund (EDF) in 1958. Congruent with a rise in EU ODA, the EC has increased its weight in the global aid architecture and become a unique entity which acts as a traditional donor and plays a federating role within the EU.\(^4\) Finally, the paper discusses briefly the EU’s standing vis-à-vis the implementation of Paris Declaration principles.

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\(^1\) Austria, Belgium, Bulgaria, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom (underlined, the 15 EU DAC members)

\(^2\) The EC is responsible for proposing legislation, implementing decisions, upholding the EU’s treaties and the general day-to-day running of the Union


\(^4\) All ODA numbers are given as Net ODA if not otherwise specified.
Overview of EU Aid Architecture

The European Union (EU) aid architecture comprises the 27 Member States, the European Commission (EC), and the European Investment Bank (EIB). The Member States provide the bulk of the funding for the EU’s bilateral and multilateral development cooperation, including the EC, as well as capital for the EIB.

The EC’s funding for development cooperation comes from two separate sources: (i) the European Development Fund (EDF), representing voluntary contributions from Member States; and (ii) the Community (i.e., a share of Member States VAT, GNI and customs duties) Each source has its own rules and processes. Through the EDF, which accounts for about 30 percent of EC’s development cooperation funding, the EC provides support to 78 developing countries in the African, Caribbean and Pacific (ACP) regions. Through the Community budget, the EC supports developing countries in other regions as well as five thematic programs. The EC also provides risk capital guarantees, interest rates subsidies, and trust fund contributions to the European Investment Bank (EIB).

The Cotonou Agreement mandates the EIB to provide reimbursable aid to projects, alongside grant aid from the EC in ACP countries. The EIB receives funding from the EDF for this purpose. However, the annual volume of concessional finance provided by the EIB is relatively small, less than US$ 500 million a year. (See Annex 1 for further details).

5 The five thematic programs are: (i) investing in people; (ii) environment and sustainable management of natural resources; (iii) non-state actors and local authorities; (iv) food security; and (v) migration and asylum.
**Overall EU ODA Volumes**

Official development assistance (ODA) from the European Union has accounted for over half of total ODA since 1991. According to preliminary data from the OECD-DAC, net ODA disbursements from the fifteen Member States of the European Union amounted to US$70.2 billion in 2008, or 58.6 percent of overall ODA. Including US$1.2 billion from the remaining 12 Member States, total EU ODA amounted to US$71.4 billion.

![Fig. 1.1: Total ODA and EU ODA (US$ billions)](image)

Following a period of decline during 1993-97, EU development aid showed a positive trend until 2006, mostly reflecting the impact of increased debt relief. Although EU aid declined in 2007, in line with lower levels of debt relief, core development assistance continued to increase in real terms. For 2008, preliminary data show that overall EU aid increased by 8.6 percent in real terms, and was slightly above the level reached in 2006.

![Fig. 1.2: EU Core Development Assistance at constant prices (US$ billions)](image)

Among the EU Member States, the largest donors in 2008 were Germany (US$13.9 billion), the United Kingdom (US$11.4 billion), France (US$10.9 billion) and the Netherlands (US$7 billion).

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6 Core development assistance excludes debt relief, emergency aid, and donor administrative costs.
But if the contributions from Member States to EC are netted out, the EC was the largest EU donor in 2008 with US$13.4 billion.

As a share of GNI, EU aid stood at 0.40 percent in 2008 which was up on 0.37 percent recorded in 2007, but down on the 0.42 percent of 2006. It should be noted that ODA levels in some EU member states such as the Netherland, Sweden, Luxemburg and Denmark are already above the 0.7 percent of GNI benchmark. The EU’s ODA to GNI ratio is however well above the DAC average (30 percent in 2008).

In 2005, the EU committed to collectively reach ODA levels of 0.56 percent of GNI by 2010 and 0.7 percent by 2015. This means that in order to keep up with these commitments, the EU will need to increase ODA levels significantly in the coming years. Reaching the 2010 target would require additional net disbursements of US$28 billion by 2010 from current levels.

**Multilateral ODA**

The EU member states and the EC together channel approximately 20 percent of its development assistance through multilateral organizations. If the EC is treated as a multilateral agency, the contribution of EU member states toward multilaterals amounts to around 35 percent of total EU ODA.

EU member states’ contributions to the EC are far larger than contributions to any other multilateral organization. Indeed, the share of the EC in total EU multilateral aid has increased from 45 percent in the early 1990s to over 50 percent in the current decade. On the other hand, contributions to the United Nations (UN) and the World Bank Group (IDA/IBRD/MIGA) in the recent period of 2004-2007 have declined compared to the early 1990s. EU’s contributions to regional banks have remained at around 10 percent throughout the period.

**Fig. 1.3: EU Multilateral ODA (current prices)**
The share of EU ODA to low income countries\(^8\) increased from around 40 percent in the 1990s to approximately 50 percent in 2004-2007. This trend was accompanied by a decrease in the share of least developed countries (LDCs)\(^9\) relative to other low income countries. In the meantime, the share of middle income countries\(^10\) (MICs) has decreased from about 40 percent in the 1990s to approximately 25 percent. Aid to advanced developing countries was phased-out completely in the current decade. The remaining 20-25 percent of EU ODA is not tied to any specific grouping of countries, but to global thematic programs.

**Fig.1.4: EU ODA by Income Group (current prices)**
Distribution of EU ODA by Region

Around 45 percent of EU aid goes to Africa and this share has remained relatively stable since the 1990s. The share of Asia has increased in recent years, reflecting greater support to Afghanistan; Indonesia (Aceh/Nias) following the tsunami disaster; and East Timor to prepare and support secession and Independence. On the other hand, the share of EU aid to America, Europe, and Oceania has declined over the period.

Fig. 1.5: EU ODA per Region (current prices)
Sector-wise, the EU aid focuses primarily on the social sectors. The share of this sector in sectoral allocable commitments increased significantly from about 45 percent in the early 1990s to about 60 percent in the period of 2004-2007. At the same time, the share of economic infrastructure and production sectors saw a sharp decline compared to the early 1990s. (see Figure 1.7).

Fig. 1.7: EU ODA per Sector (constant prices)
Table 1.1: EU Development Staff, 2006

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<th>Field Local</th>
<th>Total</th>
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<td>559</td>
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<tr>
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<tr>
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<td>503</td>
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<td>France</td>
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<td><strong>4446</strong></td>
<td><strong>8439</strong></td>
<td><strong>22889</strong></td>
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</table>


At present, the EU fields at least 46 agencies charged with development policy and implementation. It should be noted that these include only the top-level national organizations. Countries that have a strong degree of decentralization, i.e. Spain or Belgium, do often replicate national structures at regional levels, further increasing the amount of donor agencies. As shown in Table 1.2, many EU member states and the EC have more than one agency active in development aid. Often this is due to a split between the implementation and the policy level.

Administrative costs increased steadily from US$2.2 billion in 1991 to US$2.9 billion in 1995 and US$3.1 billion in 1999. These costs continued to rise thereafter, although in the context of growing ODA levels, reaching US$4.6 billion in 2007. On average, annual administrative costs as a share of total net ODA disbursements amounted to 7 percent; while disbursements per employee amounted to US$2.7 million. Both indicators are in line with the average estimated for bilateral aid, although there is great degree of variability between countries.  

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### Table L.2: EU Institutions and Agencies for Development

<table>
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<tr>
<th>EU Member</th>
<th>Development Policy</th>
<th>Separate Implementation</th>
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<td>Development Cooperation (DGDC)</td>
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<td>Foreign Ministry</td>
<td>Czech Development Agency</td>
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<td>Estonia</td>
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<td>European Investment Bank</td>
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<td>Finland</td>
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<td>Development Ministry</td>
<td>GTZ, KfW, Inwent</td>
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<td><strong>Total</strong></td>
<td></td>
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</table>

Source:

Donor proliferation at the country level is an issue. A recent document from the EC to the Council indicates that in a sample of 108 countries, more than ten EU donors are providing programmable aid. Fragmentation of ODA is also acute within the EU and has been growing in recent years. The same document notes that the number of EU-funded activities doubled from 30,000 in 2000 to around 60,000 in 2007 with an average value of US$0.55 to 1.1 million per activity (or €400 to 800,000). This value has been fairly constant since 2000. By comparison, the number of activities funded by all DAC donors in 2007 was about 70,000 with an average value of US$1.7 million per activity, in the same year.

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The European Commission

"The EC is unique among the members of the DAC in that it both provides direct donor support to developing countries and plays a federating role with the other institutions and Member States of the European Union".14

The EC is the largest provider of ODA within the EU and the second largest among DAC donors. In addition, the EC has an increased role as coordinating and monitoring agent for the EU vis-à-vis pledges to scale up ODA and the EU aid effectiveness agenda.15 The EC is present in 145 countries and providing more than US$13 billion of development assistance (2008).

Funding Sources

It is funded through the EU budget (Community Budget) and the European Development Fund (EDF).

The EDF, created in 1958, is financed through voluntary contributions from EU countries and is managed outside the framework of the Community Budget. Funding for the 2008-2013 period amounted to €22.7 billion. The EDF is used to support the 78 African, Caribbean and Pacific States (ACP) in the framework of the Cotonou Agreement. Most of the beneficiaries from EDF are low income countries, but some are also middle income countries (Caribbean countries, Nigeria, Botswana). The multi-year budget is decided by the Council of Ministers at the beginning of the budget cycle, with specific envelopes for national and regional programs, and amounts to be managed by the EIB.

The Community Budget is financed through own resources (i.e., custom duties, part of VAT, percentage of GNI). The Budget for the period 2007-2013 is estimated at €42 billion. Through this source the EC provides support to countries in other regions (in Asia, Latin America, and neighborhood countries) and to specific thematic programs (e.g., food security, human and social development, environment). Most of the recipients are middle income countries with some notable exceptions such (Afghanistan, Bangladesh, Laos, Nepal, Tajikistan, Uzbekistan, Yemen).

Allocations from the Community Budget to different regions and themes are made upfront in the cycle. For instance, the overall budget in favor of neighboring countries was set at €2 billion for the period 2007-2013. Similarly, a total budget of €990 million is foreseen for the thematic program on “environment and sustainable management of natural resources”. The resources available every year are then decided within the annual budgetary process, which involves the Council of Ministers and the European Parliament.

Overall EC Aid Volumes

The EC is the main provider of net ODA within the EU, with aid levels close to those provided by the largest EU member states (Germany, France, and the UK). Internationally, the EC was in

14 DAC peer review of the European Community; 2007
2008 the second largest donor, after the US ¹⁶ amounting to US $13.4bn. This represents 11.2 percent of total global ODA or 19.2 percent of EU ODA.

Fig. 2.1: EU vs. EC ODA (constant prices)

1.8 On the other hand, since 2007, the EU financial rules (under the 2007-2013 budget-cycle) provide for the possibility of co-financing and trust fund arrangements between Member States and the EC which would let the EC (and vice versa) to manage resources coming from the Member States bilateral policies. Accordingly, the EC has set up two trust funds: the EU Africa Infrastructure Trust Fund and the European Neighborhood Investment...

The OECD DAC’s aid statistics still include EC ODA in the numbers given for each EU member state. Subtracting the EC share of each member state, the EC emerges as largest EU donor in 2008. See table below for adjusted aid statistics.
Facility. To date, EU member states have not committed large sums of funding and some have not even joined. A short description of both initiatives is outlined below:

- The EU-Africa Infrastructure Trust Fund (€135mn) intends to facilitate the blending of grant resources from the EC and member states with the lending and technical capacity of the EIB and member state development financiers. Nine member states\textsuperscript{17} contributed a total of €27mn to start up the trust fund. The trust fund was given a new push by the decision of the UK, which traditionally is skeptical of ceding competences to the EU level, to join donors with a €10mn contribution. The EC contributes the bulk of grant funding, namely €108mn, and will double its current inlay in allocating €200 million for the period 2009-2010\textsuperscript{18}

- The Neighborhood Investment Facility (NIF) follows the same concept as the EU Africa Trust Fund, but is not managed by or tied to EIB loans, but open to bids from EU consortia for blending grant subsidies. The NIF has also been slow to attract contributions from member states. Although 15 EU member states have committed to contribute to the NIF, their contributions ($37mn) are still far from matching the EC’s. France and Germany both pledged €10mn.

The NIF and EU-Africa Infrastructure Trust Fund “... can be considered as a European variant of initiatives traditionally falling within the scope of the World Bank”\textsuperscript{19}. The EC, hence, is venturing into a new role as development actor as financial circuit for multi-donor contributions outside of its seven year fixed budget cycle.

**Allocation by Income Group**

In contrast to the overall trend for the EU Member States, the share of EC assistance directed to poor countries has fluctuated significantly. It fell from 50 percent in the first half the 1990s to about 33 percent in the second half. It then increased in the course of the decade reaching over 40 percent.\textsuperscript{20} The EC’s greater focus on middle income countries, relative to the EU Member States, reflects the EC’s policy to support accession and neighboring countries. Like the EU, the EC has increased its aid levels unallocated by income and has phased out ODA to most advanced countries.

\begin{footnotesize}
\begin{enumerate}
\item Austria, Belgium, Spain, Italy, the Netherlands, Luxembourg, France, Germany, and Greece.
\item See e.g.: [http://ec.europa.eu/europeaid/infopoint/conferences/2008/06-24_mdcontractn.htm](http://ec.europa.eu/europeaid/infopoint/conferences/2008/06-24_mdcontractn.htm)
\item Orbie/Versluys, The European Union’s International Development Policy, in Orbie, Europe’s Global Role, 2008, p.73.
\item EC Annual Report 2008
\end{enumerate}
\end{footnotesize}
Fig. 2.3: EC ODA by Income Group (current prices)

Africa – and in particular Sub-Saharan Africa – has always been the region benefitting the most of Community assistance. This aid fluctuated considerably. It fell in the late 90s, recovered after 2000, and fell again for 2004-2007. The fall between 2004-2007 may be attributed to unspent funds under the 9th European Development Fund. It needs to be noted that aid to Sub-Saharan Africa, however, is expected to increase substantially from 2008 on as the 10th European Development Fund (22.8bn for 2008-2013) starts operations.

Fig. 2.4: EC ODA per Region (current prices)

ODA disbursements to Asia increased during the last three years while ODA to Latin America remained relatively stable as a percent share of the total. Whereas, ODA to Europe increased...
substantially between 1997 and 2001, it decreased again from 2002 on. This sharp increase of ODA to European countries followed by a subsequent fall is rooted in the accession of 10 European states to the EU in 2004. Whereas, the EU invested considerable sums to prepare European states for enlargement, these levels fell compared to ODA to other regions as enlargement came to completion.

**Sector Allocation**

Although the EC is perceived to have a comparative advantage on economic infrastructure, the composition of its assistance by sector is similar to that of the EU as a whole. Nevertheless, while the bulk of EC’s assistance is focused on the social sectors (over 50 percent), the share of economic infrastructure, production, and cross-cutting sectors is more significant.

![Fig. 2.5: EC ODA per Sector (constant prices)](source: OECD DAC online)

The amount of budget support (including both general and sector support) increased from $1bn in 2000, to $3.8 billion in 2008, the bulk was provided to the ACP countries through the EDF. The share of budget support in total commitments increased from 14.3 percent in 2000 to 42 percent in 2008.
The EC views budget support as the key instrument for operationalizing "ownership, alignment and the use of country systems", essential elements of the aid effectiveness agenda. With the implementation of the 10th EDF (2008-2013) the share of budget support will increase further and 42.5 percent of the aid allocated through country strategy papers will be in the form of budget support.

**Complexity and Fragmentation**

Despite several reforms, the management structure of the Commission remains complex. In addition to the three policy department (development, external relations, enlargement), the implementation of development cooperation is managed by the European Aid Cooperation Office, while humanitarian assistance is the responsibility of another department, ECHO, the Directorate General for Humanitarian aid. Other departments are also involved in development policy (trade, economic and financial affairs). The fact that development cooperation is funded from two distinct instruments, the EDF and the Community Budget each with its own rules and procedures adds to this complexity.

Despite continuous efforts from the EC and the European Parliament, the Council of Ministers has not agreed to the inclusion of EDF in the Budget. Some Member States rejected this idea of "budgetisation" of the EDF for political reasons: keeping the specificity of the EU-ACP relationship. Some others for financial reasons, their relative contribution within the EDF being lower than in the budget.

In terms of activities at the country level, the **fragmentation** of EC’s development cooperation is not as acute as that identified for the EU as a whole. At the end of 2008, around 9,900 projects were in execution for an average amount of EUR 4 million. The number of projects funded under the EDF is however much lower (1,380 activities for an average amount of EUR 17 million). The reason lies in the strong focus in EDF of budget support and infrastructure operations.
EU and the Aid Effectiveness Agenda

Beyond this role as donor, EC has specific competencies according to the EU Treaty, and in particular, fostering the debate on development within the EU, and promoting coordination, complementarities and coherence between the Member States.

The EC has been playing a central role in the EU development agenda. Since the adoption of the European Consensus, the EC has led in the formulation of several proposals to improve EU aid effectiveness, including by endorsing the implementation of the Paris Declaration agenda of 2005. More recently, the EC put forward a joint EU position on aid effectiveness, at the Accra High Level Forum, held in September 2008.

Implementation of Paris Declaration

Table 3.1 below provides an indication of the current state of the EU as a whole and of EC in achieving some of the key targets of the Paris declaration.

<table>
<thead>
<tr>
<th>Paris Indicators</th>
<th>EU (Member States and EC)</th>
<th>EC</th>
<th>2010 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aid flows are recorded in countries’ budgets</td>
<td>44%</td>
<td>57%</td>
<td>85%</td>
</tr>
<tr>
<td>Technical assistance is aligned and coordinated</td>
<td>53%</td>
<td>43%</td>
<td>100% (EU target; Paris target is 50%)</td>
</tr>
<tr>
<td>Donors use country systems for public financial management</td>
<td>47%</td>
<td>35%</td>
<td>50-80 (EU and Accra)</td>
</tr>
<tr>
<td>Donors use country procurement systems</td>
<td>54%</td>
<td>34%</td>
<td>55-80 (EU and Accra)</td>
</tr>
<tr>
<td>Donors reduce stock of parallel plus by two-thirds (per Member State: 5%)</td>
<td>790</td>
<td>203</td>
<td>Indicative EU: 68; Indicative EC: 68</td>
</tr>
<tr>
<td>Aid is more predictable</td>
<td>43%</td>
<td>53%</td>
<td>71%</td>
</tr>
<tr>
<td>Aid is united</td>
<td>94%</td>
<td>NA</td>
<td>Indicative 100%</td>
</tr>
<tr>
<td>Donors use coordinated mechanisms for aid delivery (through program-based approaches)</td>
<td>46%</td>
<td>44%</td>
<td>66%</td>
</tr>
<tr>
<td>Donors coordinate their missions</td>
<td>33%</td>
<td>33%</td>
<td>66% (EU target; Paris target is 40%)</td>
</tr>
<tr>
<td>Donors coordinate their (country’s) studies and analytical work</td>
<td>62%</td>
<td>72%</td>
<td>66%</td>
</tr>
</tbody>
</table>

See: An EU Aid Effectiveness after Accra (April 2009), [http://ec.europa.eu](http://ec.europa.eu)
The Paris declaration survey 2008 showed that while progress has been made, much remains to be done. All donors, including the EU, need to step up their efforts dramatically if they are to achieve the Paris targets. Within the EU, the EC is working on an “aid effectiveness road map” for 2009, giving a priority to the four drivers for change, agreed by the EU in the run-up to Accra: division of labor, use of country systems, predictability, conditionality.

- **Division of labor**

The EU has promoted division of labor through the adoption in May 2007 by the European Council of a Code of conduct (CoC) on complimentarity and division of labor in development policy.

The CoC is an important litmus test not only for the EC’s commitment to federating EU development aid, but also for EU member states to lead the path in this area of reform. The CoC addresses the various dimensions of complimentarity, including in-country complimentarity (concentration of activities in a limited number of sectors; cross-country complimentarity (avoiding the concentration of EU donors on the same countries “darling countries” leaving aside “orphan countries”, often fragile States); lead donor arrangements and delegated cooperation (identification in a given sector of an EU lead donor, responsible for coordination and policy dialogue and acting on behalf of the others for the management of funds).

Implementation of the CoC is voluntary, but represents an important step widening an initial proposal from the Nordic countries to the entire EU. In order to speed up the process at country level, a Fast Track Initiative has been launched by the EC and Germany identifying in a certain number of countries the EU donor who can take the lead to support and facilitate the implementation of the code of conduct (18 countries in Africa, 5 in Asia, 3 in Central and Latin America). Most of the Member States are ready to contribute to division of labor by withdrawing from or entering into a sector and entering into delegated cooperation agreements by which Member States will manage funds from each other or the EC and vice versa.\(^21\)

The cross-country dimension touches on the very political and institutional issues, where EU donors need to revise (mostly limit) their geographic concentration (e.g., darling countries vs orphan countries). This is highly political, as implementation would reduce the influence of member states in foreign policy in a number of countries. It certainly will take time to get commitments from big EU member states.

A cross-sector division of labor is also sensitive and expected to be a medium-term goal. Although large EU member states, such as Germany, have announced their intention to review their sector engagements only very few donors, e.g. Denmark, have so far engaged in an in-depth sector concentration process.

- **Use of country systems**

This is an issue which remains challenging for all the donors including the EU. But 8 EU donors\(^22\) exceed the target for the use of public finance management systems, and 7\(^23\) exceed the

\(^{21}\) The concept of delegated cooperation has so far led to 47 projects = 26 for delegations by the Commission to Member States in a sector in a total of 21 countries – There are 9 concrete projects for delegations from a Member State to the Commission. (aid effectiveness after Accra; EC, March 2009)

\(^{22}\) DK, IE, FI, FR, NL, ES, SE, UK

\(^{23}\) DK, IE, FI, FR, DE, NL, UK
target for country procurement. Use of country systems is certainly a two-way street where partner countries must do their part to deliver the necessary changes in order to facilitate the use of country systems by donors.

EU intends to increase the use country systems by providing assistance through direct budget support (general or sectoral). This is one of the reasons why it has decided to increase significantly the use of budget support in particular for ACP countries. Within the EU, five donors (the EC, the UK, Germany, Luxemburg, and the Netherlands) provide a quarter or more of their ODA through program-based approach, including budget support. In 2007, Ireland delivered 42 percent of its aid through program-based approaches, excluding budget support.24

- **Predictability**

EU donors are either making multi-annual commitments towards their partner countries or are intending to move into this direction. But, progress remain slow towards establishing multi-year time tables illustrating how Member States intend to scale up their aid levels towards targets agreed for 2010 (0.56 percent GNI) and 2015 (0.7 percent GNI).

- **Conditionality**

In the run-up to Accra, the EU underscored the need "to move away from unilaterally imposed policy conditions towards mutually agreed commitments "and invited donors to "agree to reform, streamline and harmonize the design and implementation of conditionality". Although the EU’s intention is not to get rid of basic conditionalities, like macro stability or governance, the EU aims at improving harmonization and moving toward result-based conditionality (as opposed to ex-ante policy conditions).

Against this backdrop, the EC is plans to increase the use of budget support further and to extend its time horizon to raise predictability. In addition, it is recasting the use of conditionality in the form of a new mechanism called the "MDG" contract".

The **MDG Contracts** target well-performing ACP countries that have successfully implemented budget support and show a commitment to achieving and monitoring the MDGs. This form of budget support would last six years; provide a minimum, virtually guaranteed level of support; entail annual monitoring with a focus on results; assess performance in a medium-term framework; and be targeted to strong performers. The contractual nature of the agreement sets it apart from other long-term forms of “commitment” and implies more binding financial engagement, offering long-term predictability in return for greater commitment to results by partners. So far, 7 African countries are receiving this form of support in the amount of ₦1.8bn (Burkina Faso, Ghana, Mali, Mozambique, Rwanda, Uganda, and Zambia).

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24EC, Staff working paper on aid effectiveness after Accra. SEC(2009)443; 8 April, 2009)
Conclusion

The EU has so far followed up on its pledge to scale up aid, which except for 2007, has increased steadily in real terms. About 60 percent of EU ODA goes to the social sectors and in support of the poorest countries, particularly in Africa.

The EU is taking steps to increase its policy coherence in development aid. A significant indicator of the EU’s willingness to increase common action and strengthen the unity of the EU aid architecture is its commitment to Paris Declaration as a unified actor and not just on an individual bilateral basis.

Looking ahead, the EU faces several challenges. First, Member States will need to deliver on their commitment to scaling up aid. This does not affect the EC, since the resources for development assistance have been already decided up to 2013. Despite the upward trend reported in 2008, significant political and budgetary efforts remain necessary to reach the individual and collective targets decided in 2005 to achieve the ODA/GNI ratio of 0.7 percent in 2015. To reach the collective target of 0.56 percent ODA/GNI in 2010, US$28 billion additional would be required. Therefore, it remains to be seen how the crisis and the economic downturn will affect the Member States’ ability to scale up ODA.

The second challenge concerns the aid effectiveness agenda. The EU has taken ambitious decisions to fight fragmentation of assistance and proliferation of donors at the country level. In particular, its code of conduct on division of labor is a significant step toward achieving this goal, but much of the success would depend on strong political will.

As far as the EC is concerned, some Member States may look to the EC to manage some of their scaled up aid, either through contributions to new trust funds which will be set up by the EC (like the Infrastructure trust fund for Africa) or through delegated cooperation in the framework of division of labor. Either way, the EC will need to demonstrate the added value of channeling part of the increase of Member States ODA through its own mechanisms, rather than through other multilateral organizations.

Finally, the implementation of the Lisbon Treaty, which came into force in December 2009, may affect the way the EC delivers its development assistance going forward. While DG Development will continue to oversee development policy in particular for ACP countries, the new institutional setting involves the establishment of a European external action service and the appointment of a “high representative for foreign policy”, who at the same time functions as Vice President of the EC in charge of all external affairs. Under this setting, the new EC will be challenged to ensure complementary between development and foreign policy while keeping its promises on development aid and further enhancing the coordination of the EU development aid.
ANNEX 1

The European Investment Bank

The European Investment Bank (EIB) was established in 1958 as the EU long-term lending institution to further the integration, balanced development and economic and social cohesion of its Member States. The EIB funds its operations mainly by borrowing on the capital markets where it enjoys the AAA rating.

Overall the EIB lent EUR 57.6 billion in 2008. The bulk of the EIB operation takes place in Europe, and represents in 2008 more than 90 percent of the total volume. In 2008 the EIB approved lending outside of the EU of EUR 6 billion (more than half of it for enlargement countries). It is important to note that part of the EIB’s funding outside the EU (EUR 27.8bn for 2007-2013) is covered by risk guarantees from the Member States or the EU budget. The EIB is free to lend additional resources on its own risk.

The EIB lending to developing countries is based on EU external cooperation and development policies. As EU policy focuses on supporting development in Africa, and in its immediate neighborhood (ECA and MNA), EIB lending has followed suit. EU enlargement and the importance attached to stability and prosperity in Central and Eastern Europe are demonstrated as well as ECA financing skyrocketed in the 2000s.

Concessional Finance

The Cotonou Agreement mandates the EIB to provide reimbursable aid to projects, alongside grant aid from the EC in 79 ACP countries. It was signed for a 20 year period with successive financial protocols defining the aggregate amount of Community aid to the ACP states for each period.

Under the 2003-2007 protocol the Bank was allocated EUR 2.2 billion from the European Development Fund for the provision of concessional finance as follows:

- **EUR 2.037 billion** allocated to finance the Investment Facility, a risk-bearing revolving facility geared to foster private sector investment in the ACP region;

- **EUR 187 million** as an interest rate subsidy appropriation. This is used for projects presenting strong social and/or environmental benefits or in order to increase loan concessionality for public sector infrastructure projects in countries subject to restrictive borrowing conditions under the Heavily Indebted Poor Countries Initiative (HIPC) or other similar schemes.

The volumes of concessional finance have been relatively small, amounting to only US$ 165 million in 2007.
The **second financial protocol** of the Cotonou Agreement will become effective upon ratification of the revised Cotonou Agreement, signed in June 2005 in Luxembourg. Contributions by the Member States under the tenth EDF total EUR 22 billion. EUR 20.5 billion of this will be grant aid channeled through the EC. The remaining EUR 1.5 billion the balance comprises:

- an additional EUR 1.1 billion capital contribution to the Investment Facility
- a EUR 400 million appropriation for interest subsidies & technical assistance.

**EU-Africa Infrastructure Trust Fund**

The EIB is also the Manager of the EU-Africa Infrastructure Trust Fund - an innovative financial instrument launched in 2007 supporting the implementation of the Partnership. The Trust Fund benefits cross-border and regional infrastructure projects in sub-Saharan Africa. It channels grant resources from the EC and Member States in such a way that they can be blended with the lending capacity of the EIB and Member State development financiers. The target infrastructure sectors are energy, water, transport and telecommunications.

The Infrastructure fund will provide grant-support for:

- interest rate subsidies
- project technical assistance/feasibility studies
- one-off grants for environmental or social components linked to projects
- payment of early-stage, risk-mitigation insurance premiums

<table>
<thead>
<tr>
<th>Years</th>
<th>ODA loans</th>
<th>ODA equity invest.</th>
<th>Non ODA loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>483</td>
<td>-</td>
<td>2,618</td>
</tr>
<tr>
<td>2006</td>
<td>555</td>
<td>-</td>
<td>3,286</td>
</tr>
<tr>
<td>2007</td>
<td>130</td>
<td>65</td>
<td>5,997</td>
</tr>
</tbody>
</table>

Source: OECD CRS database