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Development Aid in Europe: Set to Miss the 2010 Target(*)

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Abstract

2010 is a crucial year for development, as it has seen a UN summit assessing progress towards the MDGs and is the target year for the European Union's aid commitments, and yet the EU is clearly off track on its aid pledges. While the official figures for 2010 will only be released in a few months, it is already clear that the target will be missed. Most member states, including some of the largest EU economies, are lagging behind on their promises and blame the financial crisis for their poor performance. However other countries are on track and have recently boosted their contributions, thus showing that increasing or decreasing aid is mostly a matter of political will. While aid alone will never be enough to achieve the MDGs, effective aid does remain a powerful way to fight global poverty. That is why, as many European countries are presently discussing their budget laws, this paper suggests an ambitious yet concrete agenda for the EU and its member states to get back on track on their aid commitments.

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(*) The opinions expressed herein are strictly personal and do not necessarily reflect the position of ISPI

2010 is a crucial year for aid and in general for development, both in Europe and worldwide. In September a UN "MDG +10" summit took place to assess progress towards the Millennium Development Goals ten years after they were launched and five years before the 2015 target date. While it is clear that achieving the MDGs requires much more than financial resources, providing more and better aid is one of the most tangible and concrete ways for donors to show their commitment to eradicate global poverty.

In Europe, 2010 is also the deadline by which the European Union as a whole is supposed to provide 0.56% of its collective GNI as ODA[1], as a step towards the 0.7% figure which should be achieved by 2015. These pledges were made precisely in the framework of the EU's contribution to the MDGs, yet in the MDG review year Europe is clearly off track on its own pledges. Official aid figures for 2010 will only be released in April 2011, however the 2009 figures and the projections for next year clearly show that the goal will be missed.

Most European member states are behind schedule, having insufficiently increased their aid or having even further cut their already meagre contributions. On the other hand, some countries are on track, having already reached their target or having made important efforts to increase their aid budgets. Though it is not easy to find one-size-fits-all explanations on why some countries are on track and others are not, the mere fact that not all EU member states are following the same trend does indicate that changes in aid budgets are mostly a matter of political will.

This paper assesses the current situation of aid in Europe, analyses the data and suggests an agenda which could put the EU, the world's first donor[2], back on track on its aid pledges[3]. Even though there are no ODA figures for

[1] Official Development Assistance. In this paper, "ODA" and "aid" are used as synonyms.

[2] The European Union, including the 27 member states and the European Commission, provides more than half of the world's total aid.

[3] This paper assumes that aid, even though is not enough to reach the MDGs, remains a powerful means to fight global poverty. However it must be acknowledged that recently a number of publication characterised by strong critiques of aid have emerged, including W. EASTERLY, *The White Man's Burden*, 2007 and D. MOYO, *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*, 2009.

2010 yet[4], the debate on aid is particularly timely as most European countries are presently discussing their budget laws.

Overview of EU member states' aid performance

The target of providing 0.7% of GNI as ODA was first mentioned in the United Nations General Assembly in 1970. In 2005[5] the EU member states agreed on a timetable to reach the 0.7% target by 2015: in 2010 the EU as a whole is supposed to reach 0.56% collectively, while the 15 older member states committed to reach 0.51% and the 12 newer member states[6] committed to 0.17%. In 2015 the EU should achieve 0.7% collectively; the EU-15 individual countries have the same 0.7% target, while the EU-12 countries, which on average are slightly less rich and have become donors only recently, set a more modest target[7] of 0.33% (table 1).

Table 1: EU aid commitments

	Target (ODA/GNI)	Deadline
EU collective target	0.56%	2010
	0.7%	2015
EU-15 individual targets	0.51%	2010
	0.7%	2015
EU-12 individual targets	0.17%	2010
	0.33%	2015

Table 2: EU member states with more ambitious aid targets

	Target (ODA/GNI)	Deadline
Belgium	0.7%	2010
Denmark	0.8%	2010
Luxembourg	1%	2010
Netherlands	0.8%	2010
Sweden	1%	2006
UK	0.7%	2013

Some countries have decided to adopt their own more ambitious timetable (table 2)[8].

The official 2009 figures released in spring 2010[9] showed that the European Union as a whole performed quite poorly in 2009. In total EU aid in 2009 was €49bn, down from €50bn in 2008. Despite the €1bn decrease in absolute terms, aid as a percentage of GNI increased from 0.40% in 2008 to 0.42% in 2009. This is no cause for celebration, however, as the increase was mostly due to the fact that European GNIs shrank because of the global financial crisis. Moreover, this increase is far too small to achieve the 0.56% collective target by 2010.

This disappointing EU performance is the result of poor performance by several EU member states. However the picture is very nuanced and performance varies across countries:

- In a number of countries aid increased (compared to 2008) both in absolute terms and as a percentage of GNI: Belgium, Denmark, Finland, France, Hungary, Latvia, Luxembourg, Romania, Slovenia, United Kingdom.
- In other countries, ODA increased as a GNI percentage but decreased in absolute terms: Estonia, the Netherlands, Spain and Sweden.
- In Cyprus aid stagnated in percentage terms and increased in absolute terms.

[4] The briefing is therefore based mostly on 2009 figures complemented by some projections.

[5] *European Council conclusions*, 18 June 2005, Doc. 10255/05.

[6] EU-15 (older member states) are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. EU-12 (newer member states which joined the EU in 2004 or 2007) are Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

[7] The EU is supposed to reach 0.56% by 2010 and 0.7% by 2015 even if 12 of its member states will only be at 0.17% and 0.33% respectively because some EU countries were already providing higher aid levels when the commitments were made in 2005 and they promised to maintain those higher levels.

[8] Ireland and Spain had committed to reach 0.7% by 2012 but have recently announced they will not reach it until 2015.

[9] The source of all aid data used in this briefing, unless specified, is: OECD preliminary ODA data for 2009 (released on 6 April 2010) and European Commission staff working document on financing for development (released on 21 April 2010).

- In Lithuania aid stagnated in absolute terms and increased as a percentage.
- In Malta aid stagnated in both percentage and absolute terms.
- In some countries aid stagnated in percentage terms but decreased in absolute terms: Bulgaria, Czech Republic and Poland.

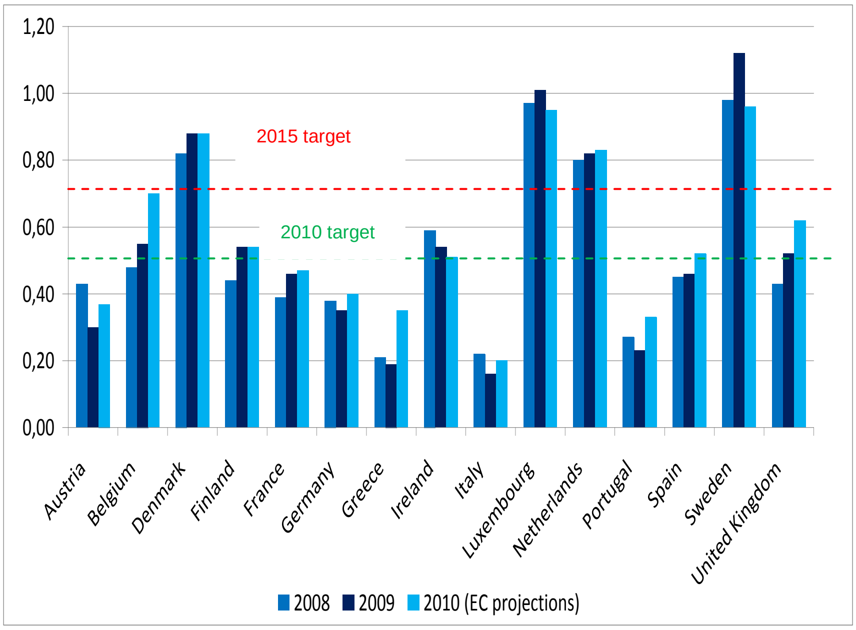

Figure 1 - EU-15 ODA figures for 2008 and 2009, projections for 2010

- Finally, in several countries aid decreased in both percentage and absolute terms: Austria, Germany, Greece, Ireland, Italy, Portugal and Slovakia.

However it is clear that it is not enough to look at which countries increased or decreased their aid compared to 2008, for a number of reasons. The first and most obvious is that it is necessary to look at the country's aid level, in order to assess whether the 2009 increase (or decrease) puts it on or off track to achieve the 2010 individual aid target (0.51% for EU-15 and 0.17% for EU-12). Official aid figures for 2010 will only be released in spring 2011 but according to projections by the European Commission[10] (table 3), only 11 out of 27 countries are set to meet the target: Belgium, Cyprus, Denmark, Finland, Ireland, Luxembourg, Malta, the Netherlands, Spain, Sweden and the UK[11]. These are the traditional leading donors from Scandinavia and northern Europe but it is important to note that this "obvious" club has been joined by Belgium, Ireland, Spain and the UK, which have made noteworthy efforts recently[12]. Among the EU-12 countries, it is interesting to see that only the 2 "southern" countries are set to achieve the 0.17% target.

Table 3: 2010 aid projections by the European Commission

Country	2010 ODA in % of GNI (EC forecast)
Austria	0.37%
Belgium	0.70%
Bulgaria	0.05%
Cyprus	0.17%
Czech Republic	0.13%
Denmark	0.88%
Estonia	0.10%
Finland	0.54%
France	0.47%
Germany	0.40%
Greece	0.35%
Hungary	0.09%
Ireland	0.51%
Italy	0.20%
Latvia	0.12%
Lithuania	0.15%
Luxembourg	0.95%
Malta	0.19%
Netherlands	0.83%
Poland	0.13%
Portugal	0.33%
Romania	0.08%
Slovakia	0.08%
Slovenia	0.15%
Spain	0.52%
Sweden	0.96%
United Kingdom	0.62%

The performance of some of the largest European economies is worrying: France, Germany and particularly Italy were lagging behind in 2009

10 European Commission staff working document, cit.

11 However, some of these countries have committed to a more ambitious target for 2010 and might not reach it even though they will largely be above the EU target: for example Luxembourg and Sweden, though largely above 0.51%, might not be able to reach their own target of 1%.

12 However Spain has announced aid cuts during 2010 which will probably mean that it will not reach the target. In May 2010 (therefore after the EC issued its projections) the Spanish government announced a € 600m cut over two years and a recent proposal for the 2011 State budget includes further cuts.

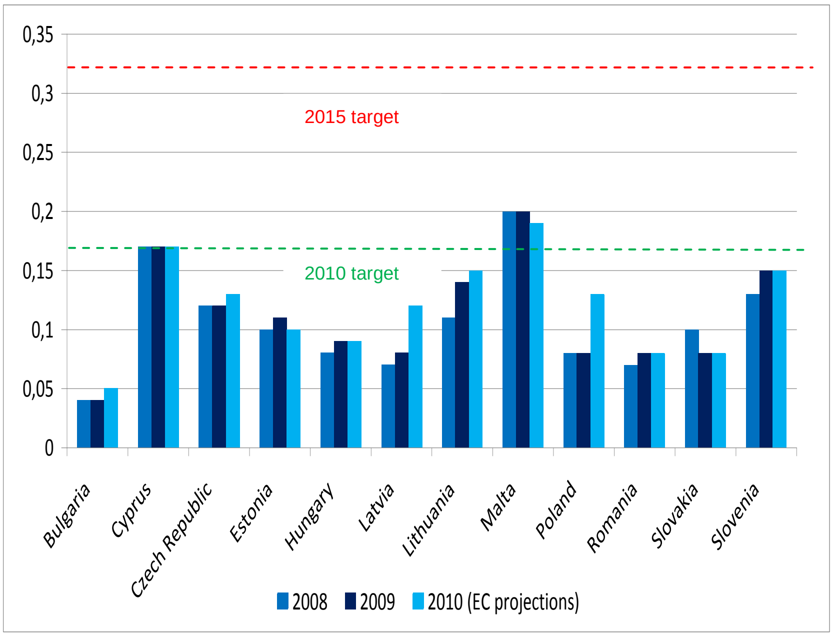

Figure 2 - EU-12 ODA figures for 2008 and 2009, projections for 2010

and will not do any better in 2010. An interesting analysis[13] shows that, based on European Commission estimates, these three countries will be responsible for almost 8 of the 11bn shortfall in aid expected in 2010. In other words, the EU as a whole is expected to be €11bn short of its collective target in 2010, and over three quarters of this shortfall is the result of insufficient funding by Italy (€ 4.5bn), Germany (€2.6bn) and France (€800m).

There are other reasons why looking at increases and decreases in aid in 2009 compared to 2008 is not enough to provide an accurate picture of the ODA situation in Europe. The second reason is "aid inflation": many countries report as ODA some items which many observers[14] believe should not be counted as aid, namely debt cancellation, costs for students from developing countries and refugee costs in donor countries. Expenditure related to these items, though probably positive, does not represent a real transfer of money to southern countries and does not necessarily have development aims. Although the OECD allows these items to be reported as ODA, it still keeps them separated, thus suggesting that they have a slightly different nature. Some European countries have decided not to report some of these items as ODA, but in general donors report varying amounts of such expenditure as aid. In 2009 the worst "inflators" in percentage of total disbursement terms were Cyprus, Romania, Greece, France, Austria, Slovenia, Belgium and Germany in that order (with percentages of inflated aid ranging from 43% to 9%). Let us compare the official figures with "genuine" aid figures (e.g. discounting the three inflating items) for the 8 countries expected to reach the EU aid target in 2010: Denmark, Luxembourg, Sweden and the Netherlands will still be well above target (though the latter two reported a significant amount of inflated aid), the UK is likely to still reach the target but Belgium might fall slightly short, while it is obvious that Cyprus (the worst EU inflator) will be very far from achieving good "official" performance, and the same might be the case for Malta even though data is not available[15].

A third reason why 2009 aid figures are not enough to provide an accurate picture of ODA in Europe is that there are differences in how aid is provided. The crucial issue of the quality of aid will be briefly discussed below, but here it suffices to state that some countries which at first glimpse look like good performers, in reality provide less cause for celebration when we look beyond the figures. A good example of this is France, the country which registered the highest aid increase in 2009 but whose additional aid has been mostly disbursed through loans (instead of grants) and to middle-income emerging countries[16].

Behind the cuts: a matter of political will

[13] Penalty Against Poverty. More and better EU aid can score Millennium Development Goals (CONCORD AidWatch report 2010), p. 9.

[14] For example European development NGOs, see Penalty Against Poverty, cit., pp. 10-12.

[15] *Penalty Against Poverty*, cit., p. 10-12.

[16] *Le paradoxe de l'APD française - Plus elle augmente, moins les pays les plus pauvres en bénéficient*, press release by the French NGO platform Coordination Sud, 14 April 2010. www.coordinationsud.org/Le-paradoxe-de-l-APD-francaise.

It is extremely complicated, if not impossible, to find a clear answer to the question, "why does a government increase or cut its country's aid budget?" The most common reason usually provided to explain such cuts is the financial crisis: governments say they "have" to decrease their aid as a consequence of the country's economic downturn. This "official" argument is quite weak, however. First of all, the fact that ODA is calculated as a percentage of GNI already guarantees that if GNI shrinks, the aid budget will accordingly shrink in the same proportion, and the consequent reduction of aid in real terms, as painful as it may be for projects in the South, could be somehow accepted. Secondly, we have seen that some countries have decided to maintain their aid levels or even increase them notwithstanding the crisis, clearly showing that cutting the aid budget is far from unavoidable[17].

It seems, then, that the decision to cut ODA is purely political. In times of crisis a government has to decide which budget items it wants to cut, and aid is often chosen as it tends to be a soft target. This impression is confirmed by the fact that some governments tend to cut aid disproportionately compared to other budget items[18]. It is of course understandable that a government will reduce expenditure in hard times but what is unacceptable is that aid be regarded as the easiest part to cut.

It is very difficult to find a link between the political orientation of governments and their aid performance. In 2009 some centre-right governments increased aid (Denmark, Finland, France) while others decreased it (Italy, Germany), just as some centre-left governments augmented ODA (UK, Hungary) while others cut it (Portugal). As for wider or grand coalitions, again some increased aid (Belgium) while others slashed it (Austria). In some cases the same government has shown mixed performance, such as Zapatero's in Spain or Fianna Fail's in Ireland, which increased aid steadily over several years but have both announced severe reductions recently. In other cases, rival political parties share the same view on the importance of the amount of aid, such as in the case of the UK where the three major parties made a commitment prior to the 2010 elections to continue the path of aid increases regardless of who would win. It therefore seems that the best antidote to aid cuts is a mix of two elements: a government politically and ideologically convinced of the importance of aid[19] on the one hand, and public opinion (including civil society, media, academia etc.) interested in development and committed to helping the world's poor on the other.

Notwithstanding several aid cuts across the continent, European citizens' support for development aid still appears to be very high: a "special Eurobarometer on Development Aid in time of economic turmoil"[20] carried out by the European Commission in October 2009, shows that around 90% of Europeans believe that development is important and 72% of the continent's population is in favour of honouring or going beyond existing aid commitments[21].

As mentioned above, the most worrying element is that many leading EU economies are among the bad aid performers: Italy is by far the worst of the older 15 member states and has recently announced further cuts, Germany is very far from its targets and further slashed its aid in 2009, France is off track despite some encouraging signals, and Poland, often considered the leading country among the EU-12, is way behind schedule and does not show much commitment. Among the largest EU member states, Spain was a success story until 2008, whereas now only the UK is pulling its weight and is leading on aid quantity.

The other side of the coin: aid effectiveness

As stated in the introduction, aid alone will never be enough to eradicate poverty. It is clear that other elements are needed, including redesigning other policies to be more coherent

[17] Though not the main focus of this paper, it seems appropriate to point out that blaming the crisis is a weak argument also from a moral point of view, as it is clear that developing countries are suffering more than rich countries from the crisis, an economic downturn they are not responsible for.

[18] For example the Irish government in 2009 slashed the ODA budget by 24% while the average reduction of State budget was less than half that percentage.

[19] Including, of course, for non-development reasons: a government may decide to increase the ODA budget in order to boost political or economic interests.

[20] http://ec.europa.eu/public_opinion/archives/ebs/ebs_318_en.pdf.

[21] Unfortunately the survey did not include a question on which items of the State budget should be reduced instead.

with development objectives, a renewed commitment to human rights, a fairer international financial and economic system, governance reforms in developing countries and so on. However aid does remain a powerful means with which to fight poverty, as long as it is used effectively.

An analysis of aid effectiveness goes well beyond the scope of this paper. However it is important to mention that the debate on quantity of aid is just one side of the coin, the other being the debate on aid quality. In the last few years this issue has gained momentum, with several international commitments being signed by donors and recipient countries with a view to improve the effectiveness of aid, the most important being the Paris Declaration in 2005 and the Accra Agenda for Action[22] in 2008. These two documents, though far from comprehensive, were an important step forward, but unfortunately progress since then has been insufficient in most areas.

On the one hand, there are some rather technical issues: aid must be delivered in a transparent and predictable way, donors should coordinate and divide labour better among themselves, and technical assistance must be demand-driven and not imposed by donors. Other issues are more political: donors should align themselves with recipient countries' priorities, promote mutual accountability with the beneficiaries, fully untie their aid[23], and eliminate policy conditionality, as well as spend aid money with the aim of eradicating poverty and not to pursue political influence or economic interests. Perhaps most importantly, donors and partner countries should promote democratic ownership, ensuring that development plans take into account southern citizens' priorities and concerns (and not just those of their governments).

Conclusions and recommendations

The debate on aid sometimes appears abstract and disconnected from reality in developing countries. However it is crucial to make the link between this debate and the activities in the field explicit: aid cuts translate into projects being shut down and programmes not being renewed. Few organisations have carried out this type of analysis, which is why it is interesting to look at those who have done so, such as some Irish NGOs[24]. As a result of the 2008 and 2009 cuts in Irish aid, Trócaire laid off almost 30 staff and pulled out of four countries (Zambia, Nigeria, Peru and Indonesia), while Concern cut 20 programmes and made over 500 staff redundant, and for example could not build five wells and water systems in Sudan as planned, thus depriving over 40,000 people of access to clean water.

It is with this in mind, therefore, that it must be pointed out that the EU as a whole is way behind schedule on aid and will miss the 2010 targets it set in 2005. While some member states are on track or will even exceed the agreed goals, the EU's disappointing collective performance is the result of bad performance by most countries, particularly some large economies such as France, Germany and even more so Italy, not to mention that almost all the newer member states are also off track.

It must be acknowledged that EU countries are on average still better than most other donors, as the EU's collective 0.42% in 2009 surpassed all non-European donors[25]. However it is clear that as the world's largest donor, and with a value system based on human rights and sustainable development, the EU should play the worldwide leadership role on development and bridge the unacceptable gap between the rhetoric of its commitments and the reality of missing its targets. European countries should take several concrete steps urgently, in order to get back on track on aid:

- Reaffirm their commitment to reach 0.7% of ODA as % of GNI by 2015 at any official development-related international fora, as well as in dedicated sessions of the EU Council, including at the head of state level; EU-12 countries should recommit to the 0.33% target, and those countries currently providing more aid should confirm their promise to continue providing those higher levels.

[22] www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html.

[23] Aid is considered tied when it is given on the condition that a beneficiary will use it to purchase goods and services from suppliers based in the donor country.

[24] www.trocaire.org; www.concern.net.

[25] Australia 0.29%, Canada 30%, Japan 0.18%, Korea 0.10%, New Zealand 0.29%, United States 0.20%. However non-EU European countries such Norway (1.06%) and Switzerland (0.47%) are above the EU average.

- Adopt legally-binding national timetables of annual aid increases, showing how they will scale up their aid from now until 2015. Scaling up should be linear and avoid backloads (i.e. steep increases in funding just before the 2015 deadline).
- Explore legally-binding ways to protect aid increases or aid levels at national level. Precedents in this sense include Denmark's parliamentary commitment to deliver 1% of GNI as aid which was in place between 1984 and 2001; Belgium's current budget law to deliver at least 0.7% of GNI as aid as of 2010 at the latest; and the proposed UK legislation to deliver 0.7% of GNI as aid from 2013.
- Reinforce the accountability role of the European Union with the introduction of a mechanism aimed at making sure that the member states actually deliver on their commitments, such as the "EU peer review" recently proposed by the European Commission[26].
- Reject any attempt to broaden the ODA definition[27] and to account for non aid-items, including climate change, as ODA. Progressively stop counting refugee costs, student costs and debt relief as ODA, following the example of some states which are already doing so.

These steps, together with progress on aid effectiveness and the introduction of innovative sources of financing for development[28], provide an ambitious yet concrete agenda for the EU and its member states to bridge the gap between their commitments and their actions, and to play the leadership role in development that is expected from the world's largest donor. Fighting poverty is a matter of justice and human rights but also a way of contributing to a more stable and peaceful world. Cutting aid contributions, which already account for just a small portion of Europe's GNI, has minimal impact on European countries' budgets but a devastating impact on the world's most vulnerable populations.

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[26] In its "Financing for development" staff working document, cit., the European Commission proposed to establish a "EU peer review" system to be carried out at European Council (heads of state) level. Member states seemed to agree with this proposal, as they committed to re-examine the aid level issue once a year based on a Council report (European Council conclusions, 17 June 2010, paragraph 20). Involving the European Parliament in this exercise could enhance transparency and the democratic tone and could facilitate a wider debate.

[27] For example the European Commission, backed by some member States, in September 2009 proposed to adopt an "ODA+ approach" which might have permitted to account other non-poverty-focused flows, including foreign direct investment and trade flows, as contributions to development. The proposal was not endorsed by the Council – thus by member states – but might be relaunched in the near future.

[28] Many studies suggest that, even if all the world's donors provided 0.7% of their GNI as aid, that money would still be insufficient to fully eradicate poverty, not least because there are new challenges – such as climate change – which could not be foreseen when the 0.7 target was first mentioned in 1970. That is why aid should be complemented by innovative sources of financing, such as tax on financial transaction.

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