WHAT IS THE EUROPEAN COMMUNITY’S (EC) COMPARATIVE ADVANTAGE WITH RESPECT TO AID?

I am delighted to have the opportunity to discuss the important contribution the European Union can, and indeed must make to global poverty. Earlier in this series of discussions, Valerie Amos spoke about scenarios for the Future of European Development Co-operation. The key message of her speech was the need to get EC development assistance right. The world faces an enormous challenge in tackling poverty. Time is running out. We need more aid, which is better targeted and better spent, if we are to achieve the Millennium Development Goals and halve world poverty. Development co-operation is one area where Europe has the potential to be a tremendous force for good. We need to unify Europe around the common goal of poverty reduction. Simple economic development is not enough. Poverty reduction must be the focus.

Getting EC aid right does require clarity about where the EC’s comparative advantages are or should be. Essentially the EC’s aid needs to be more focused, more coherent (across policy areas) and better coordinated, and now is an important to find time to focus on this particular topic.

I think we need to identify not only what the EC is the best at, but also what the EC is relatively good at when compared to other multi-lateral and bilateral donors. Using that knowledge, we can then identify where the EC can “add value” in terms of the fight against poverty.

In thinking about where the EC can add value and how it’s aid should be focused we need to think about:

Firstly, the context in which this debate is taking place;
Secondly, where the Commission thinks it has an advantage;
Thirdly, outline where we think the future added value in EC intervention may lie.

There is always a temptation to attack the way the EC spends its resources but EC aid spent efficiently can be a force for good. An example of this is
found in the Western Balkans where programmes are prepared, implemented and evaluated by an effective decentralised EC body – the European Agency for Reconstruction (EAR). Especially in Kosovo where the EAR has supported an allocation of €3 million to establish a civil legal aid system. To date this has assisted some 11,000 vulnerable people.

A. Context

Aid works

If we are to meet the Millennium Development Goals then more aid is needed. The Monterrey Commitment for European donors to achieve an aid target of 0.39% of national income by 2006 is a step in the right direction. We know from the evidence that aid can make a difference – particularly when the policy and institutional environment is favourable. But a case for aid does not necessarily translate into a case for EC aid unless we can identify its added value.

There are sadly many examples of EC aid projects which haven't been as effective and lessons need to be learned from this. The Prodechaco project in Paraguay highlights this. The project involved providing technical and legal support to Indi people in establishing land rights, beginning in November 1996 and was granted a 2 year extension in 2002. By 2001 70% of the lands in question remained unaffected. The establishment of land rights required participation by the government of Paraguay as a partner for the project for success but this was not forthcoming. An independent review of the project in 2001 took a highly critical view of project implementation, efficiency and effectiveness and the poor results achieved to date. For example for every €3 spent less than €1 directly reached the beneficiary group; the larger part being spent on technical assistance, vehicles and offices.

Reform
EC aid has been going through a major and creditable reform programme aimed at improving efficiency and delivery, as Tony and the International Development Committee identified. The debate on this is continuing within Europe and there is an opportunity to push further and promote deeper reform which is clearly necessary.

Future of the EU

The EU is on the brink of change. With the historic enlargement of the EU to 25, it will be more important than ever that the Union acts as a uniting force in development. Through the Convention on the Future of Europe and the forthcoming Inter-Governmental Conference, Europe is seeking to make its institutions more transparent, more accountable and more effective. Identifying the EC’s added value will help define the best focus for future EC aid. The recently published UK White Paper on the IGC supports key DFID objectives for EU development policy, such as the commitment to poverty reduction as the main objective for development co-operation and taking into account the impact on development of EU internal and external policies.

Harmonisation agenda

One also recognises that the harmonisation agenda will have a serious impact. Led by the OECD Development Assistance Committee (DAC) the Harmonisation Task Force was set up in 2000 to improve aid effectiveness by simplifying and harmonising donor policies, procedures and practices. One recognises that this was in response to recipient country concerns that too many donors acting in the same sector was leading to a significant financial and human resource burden and reducing the impact of aid on poverty reduction, as I am sure you are all aware. More recently, the DAC set up the Working Party on Aid Effectiveness and Donor Practices to take work further. We are gradually moving towards more harmonised development practices, so a natural division of labour in the development community should emerge whereby partners and donors work where they can add value.
Vision work

Internally within DFID, along with other donors, we are increasingly looking to use our resources better, by delivering aid through the most effective channels, to maximise impact- not just through our own tools and instruments. We are currently thinking internally about options for the future of the international aid system and, in particular, we are reflecting on the bilateral/multi-lateral aid split. Clearly Multi-lateral aid has a number of distinct advantages, for example by offering economies of scale and a potentially less confusing range of partnerships for recipient countries. DFID is considering what the right amount of resources to channel through multi-laterals should be – including through the EC. However, any increase would have to be conditional, depending on improvements in multilateral behaviour.

B. EC added value

The EC’s perspective

What does the Commission think? We have not formally had this debate with them, but it will be interesting to hear what Chris Patten has to say at the ODI seminar in November. As they often tell us, that the Commission manages some €10bn of external assistance with only 1900 staff. It cannot do everything. This is why it is so important for the Commission to concentrate energies on where it can specifically add value. The Commission Communication in 2000 on the European Community’s Development Policy identified areas where the EC could add value. As Tony Baldry will I hope agree, having led the International Development Select Committee’s inquiry into EC aid reform, this Development Policy was a great leap forward for EC development assistance – improving its focus and moving poverty reduction towards the centre of EC external policy.

It identified 6 areas of engagement based on the Commission’s expertise, experience and preferences. The danger I think is that this might suggest something of a supply led approach. If this is applied within PRSP
frameworks, it makes sense for the EC to support country priorities, but only those where it is likely to be able to deliver. The chosen sectors are:

1. *Trade and development*

The EC can certainly add value here mainly because of the EC’s exclusive competence in trade. It has a tremendous advantage in offering trade capacity building and this is the major focus of their regional programmes. But as we saw in Cancun, the other level on which the EC can assist poor countries is much more difficult. The EC is the largest trading partner and market for most developing countries and it should offer a mixture of coherent policies, market opportunities and expertise/experience (establishment of trade liberalisation framework and policies, capacity-building for international trade negotiations, trade promotion schemes, etc) in this field. The “Everything but Arms” initiative is a good example, but despite progress, more needs to be done.

2. *Regional integration and co-operation*

A second area where the EC can add value is regional integration and co-operation. The history of the European Union project suggests that the EC is very well placed to assist with the establishment of zones of free trade and regional economic integration. The history of this region might be very different to the developing world, but the principles and challenges are very similar.

3. *Macro-economic support and equitable access to social services*

A third area is macro-economic support and equitable access to social services. The EC is one of the few donors to use cutting edge aid delivery instruments like direct budget support and sector-wide approaches. Almost one quarter of EDF9 will be spent as budget support, or to health and education sector support. DG Development, under Poul Nielson, is leading work on producing indicators to measure the success of PRSPs. This work
provides an important contribution in the pursuit of MDGs at country level. In relation to HIV/AIDS the Commission is a large contributor to the Global Health Fund, making it a leading player in directing the future of the Fund. And perhaps more importantly has made mainstreaming of HIV/AIDS in its development programmes in every region a priority.

4. Transport

The EC has been a major donor in transport infrastructure for years with considerable experience and expertise. Road building in every part of the world – for example in Mozambique, in Peru, in Georgia, and now even rebuilding trade routes in Afghanistan has been important in helping poverty reduction and economic development. The EC can mobilise the substantial initial investments needed for transport networks, which is difficult for any single donor to achieve, and at the same time could ensure sustainability by integrating transport policies with macroeconomic and fiscal reform. Around a third of EDF9 resources have been allocated to transport following consultation with partners.

5. Food security and sustainable rural development

Fifthly in terms of food security and sustainable rural development the EC clearly adds value again through its critical mass in financial terms and its ability to work at a regional level. The EC is also able to provide considerable amounts of assistance in a more cost-effective way- as a co-ordinating body. The EC’s main budget allocates around €800m every year to food security and food aid, on top of contributions through its country programmes.

6. Institutional capacity-building

Building democracy and democratic institutions is important for developing countries. The Commission is also often perceived as a more neutral broker than bilateral donors and even individual EU member states. As such, it has been able to send election monitors into situations where bilateral
governments could not operate with the same freedom, like in the Zambian presidential elections in 2001, where the EC was able to produce an accurate report. In addition, bilateral sanctions against poor performing governments have less credibility in general; the EC, on the other hand, has been able to do this representing a block. To be really effective, the Commission would have to build up more capacity in these politically sensitive areas but they could represent a growing and important niche for the EU.

Our perspective

What is our perspective in DFID. Some thoughts we would add:

Voice

There is no effective voice for the poorest countries within the bilateral aid system. Under Cotonou, there is real commitment and a process – in the form of the Joint ACP-EU Ministerial Council - for including poor country voice in decision-making on EC aid. I accept it is not perfect - we need to improve efficiency of decision-making for this voice to be effective - but it does suggests a far stronger sense of partnership than is apparent in the work of some other donors.

European leveller

EC aid has often been criticised as ineffective. But we cannot ignore the fact that the Commission played a key role in the run-up to Monterrey, mobilising Member States and getting a firm pledge of 0.39% by 2006 from them. The EC has made it possible to win additional funds for development from the smaller European donors. The accession countries of Eastern Europe will have to step up their contributions as part of their membership obligations, but will also hopefully benefit from the expertise and good practice already accumulated, for example on untying.
**Engagement with Middle Income Countries (MICs)**

Thirdly the Commission has an opportunity in its engagement with Middle Income Countries. European enlargement has been very successful in terms of development. As a number of donors move increasingly towards a low-income country focus, the EC maintains a broad range of relationships with both low and middle-income countries. Given the EC’s experience, it has the potential to add value through targeting the causes of poverty within MICs. It can also lead debate on appropriate instruments, for example enhanced use of European Investment Bank loans and technical co-operation, rather than large resource transfers, which would be more effective in a low-income environment. To this end the EIB could learn lessons from the work of the European Bank for Reconstruction and Development (EBRD).

**“3 Cs”: Coherence, co-ordination, and complementarity**

I think the key added value for us lies in the 3 “Cs”: coherence, co-ordination, and complementarity. Enshrined by Maastricht Treaty, they should guide EC aid and relations between the Commission and the Member States. Though whilst the EC has been acting in this area, as I think everyone will accept, it has further to go.

**Complementarity**

Though the Country Strategy Paper (CSP) framework and deconcentration are a first step, the EC needs to go much further in ensuring it acts only where it can add value and in encouraging Member States to do the same. It also needs to ensure complementarity with other multi-laterals, in particular with the Bretton Woods Institutions, and with civil society. This means not trying to cover every issue or being seen to cover every issue, but to genuinely engage at a country level in support of local priorities, where they are best placed to do so. In particular the pursuit of EU visibility can hinder Complementarity, but the EU should provide leadership in this area.
Coherence

In terms of coherence the EC can offer countries and regions a unique combination of aid, trade and political support/relations, potentially with the huge rewards for countries’ growth and development. But this area also represents our biggest challenge and will require strong political consensus. The debate in the IGC over the next few months will shape the relationship between development and wider EC policy.

Apart from trade, the EC could have a tremendous impact on developing countries by ensuring coherence between its internal and external policies. It has shown some results on certain aspects of trade, but there is much more to do on agriculture, as I think you will all agree: for many, reforming the Common Agricultural Policy will be the single biggest impact the EC could have on poverty reduction worldwide. Coherence with Common Foreign and Security Policy by ensuring that development and foreign policy decisions are mutually reinforcing could also have a huge impact on developing countries.

Co-ordination

The Commission is uniquely placed to co-ordinate and harmonise Member States’ development policies and practices. Though this already occurs to some extent, as I mentioned earlier in relation to the DAC’s harmonisation efforts and the Monterrey conference, there is still a long way to go when it comes to co-ordination in country. The introduction of consultative Country Strategies is however a welcome and important step in this direction. The results of EC pilot projects on harmonisation in Morocco, Nicaragua, Mozambique and Vietnam will be key to exploring this further and we expect to see these soon. It can also push agreed EU positions in international development fora. This is most apparent when one thinks in of the WTO, but could equally apply to the Global Health Fund or other multilateral structures.

C. Link to Vision
So, in total, what does it amount to? On the one hand, we could have an EC that maintains only a small aid programme, but takes on a much larger coherence and co-ordinating agenda. On the other, perhaps an EC with an expanding programme portfolio- taking on the functions of smaller Member States. Where we actually end up depends on identifying where the real added value lies and in how effective the EC is as a deliverer of assistance. What we need to avoid is an expanded role for EC in spending member state development assistance, but less effectively than through bilateral or other multilateral mechanisms, for example World Bank IDA.

Have the reforms been sufficient? Greater efficiency in spending seems to becoming apparent, but is the EC delivering the most value? There is a danger of turning the EC into a 26th donor. The CSPs risk being loaded with everything, the mid-term reviews are being asked to consider 13 “new” issues, outside of the development policy. The EC risks again trying to engage in everything rather than focus on areas where it can add value. Frankly this has to stop – it is worsening the dysfunctionality of the aid system. If it is to be seen as a champion of poverty reduction it will also need to deal with the horribly skewed funding allocations - in 2001 the Mediterranean region received US$98 per capita from the EC, compared with Asia, which received just 50 cents.

I know that when Valerie spoke earlier in the series she highlighted some of the reforms needed to unlock this added value. We need an evidence base of where the EC adds value – at present, we have some evidence, and lots of conjecture and assumptions. We need to continue to examine aid effectiveness in more depth. We should also be able to assess the relative effectiveness of the different multilateral mechanisms addressing poverty. We in Government will strive to create more debate around the relative effectiveness of the multilateral system. The EC’s will be of key importance in this – effectiveness is about commitment to objectives, corporate behaviour, development impact and efficiency.
D. Conclusion

We need to reach European-wide consensus around the objectives and strategy for EC aid policy and build the capacity and systems within EU institutions. There have been real improvements in EC aid but we must go further - it is a daunting but not impossible task. We have a real interest and responsibility in getting EC aid right, responsibility towards the world’s poor and towards Europe’s citizens. A broad and honest debate about EC’s added value is an indispensable step to get there. Clearly we all have a role to play – government, parliaments, academia, civil society – and I am grateful to the ODI for kicking of this debate and am pleased to have been able to speak to you about this today.