Aidwatch Update:
EU Aid in Jeopardy?

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AidWatch

European NGO confederation
for relief and development

CONCORD

Confédération européenne des ONG
d'urgence et de développement

1. Introduction: Aidwatching in times of crisis

The annual Aidwatch report "Lighten the Load: In times of crisis EU aid has never been more important"[1], published in May 2009, showed that, collectively, EU aid stood at 0.4% of GNI, meaning that, even at that stage, the collective interim target of giving 0.56% of GNI as ODA by 2010 was looking far out of reach unless significant efforts to increase aid were made.

The report also showed that the tendency of many Member States to "inflate" their official aid figures with items such as debt relief, student and refugee costs which do not directly target poverty is continuing. Discounting these items, collective EU aid stood at only 0.34% of GNI in 2008.

The figures on which the May report were based corresponded to preliminary ODA levels for 2008, i.e. before the worst effects of the financial crisis became apparent. Since then, the aid landscape has been severely altered. This briefing, compiled using information gathered by NGOs from the CONCORD "Aidwatch" network across the twenty-seven EU Member States, seeks to provide an update on aid trends in Europe in advance of the publication of the official OECD aid figures in early 2010.

Section five outlines likely 2009 aid levels for those Member States where information was available, showing a mixed picture with some countries' aid figures being buoyed by falling GNI, enabling them to stay on track towards their percentage targets whilst others are still lagging far behind. There is some good news in that, despite the crisis, a few EU Member States, for example the UK and Belgium, have increased aid in real terms. Amongst the top EU donors, Sweden, Denmark and the Netherlands, which have all already reached their higher ODA targets, are set to remain around the same levels for 2009 albeit with some cuts due in volume terms. Luxembourg is also likely to maintain its higher aid level (currently at 0.92%). However, Ireland (which has its own target of 0.6% by 2010) looks likely to decrease its ODA ratio from 0.58% of GNI in 2008 to around 0.52% in 2009. Spain and Finland are likely to increase in % terms whilst France, Germany, Italy, Portugal and Greece are still far off track towards the EU target.

Information on final 2009 ODA levels was not readily obtainable for many of the newer Member States, which have a lower common interim target of 0.17% by 2010. However, indications are that many will decrease or stagnate around existing levels and very few are on track towards the target.

The briefing argues that aid is needed now more than ever out of solidarity and justice but also as a crucial element of global recovery. It calls on all EU Member States urgently to deliver on their internationally agreed aid commitments.

"Aid is not a matter of charity but one of the drivers of recovery"
European Commission COM(2009) 160 final

2. Developing countries hardest hit by the financial crisis

2009 has been a year of significant upheaval worldwide. The food, energy and financial crises have bitten hard and the international community has been focussed on designing a global recovery strategy which will restart the world economy. As a result of the global economic crisis, rich countries have been faced with rapidly rising unemployment, house repossessions and social welfare cuts. Developing countries have experienced declines in inward investment, huge fall-offs in remittances, a reduction in trade flows and increasing debt as they struggle to fill the holes in their national finances. The effects of the financial crisis have been well-documented[2] and it is clear that the developing world is being worst hit by a series of crises not of its own making with already extreme poverty being further entrenched.

There have been some startling predictions of what will happen in poor countries as a result of the downturn and the likely impact on the Millennium Development Goals (MDGs), with the most vulnerable sectors of the population, especially women, set to bear the brunt of the crisis. According to the World Bank, by the end of 2010, 89 million more people will be living in extreme

[1] See www.concordeurope.org

[2] See for example "Supporting developing countries in coping with the crisis". Commission Communication COM (2009) 160 final, April 2009. Also Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession. Background paper prepared by the World Bank Group staff for the G-20 Leaders' Meeting, Pittsburgh, USA, September 24-25 2009.

poverty, on less than US$1.25 a day, than would have been the case if the crisis had not happened. Infant mortality is also predicted to increase dramatically with 30-50 thousand more babies likely to die before the end of their first year in Africa as a consequence of the crisis.[3] The Bank estimates that some US$11.6 billion will be needed to cover financing shortfalls in core areas such as health, education, social safety nets and infrastructure in the poorest countries.[4] Overall the financing gap faced by developing countries is estimated to be in the region of US$270 to US$700 billion this year.[5]

Whilst some are already speaking of emerging recovery,[6] developing countries are by no means out of the doldrums and will continue to feel the pain of the crisis for some time to come. They are also likely to take longer to recover than their richer counterparts.

3. The international response to the global crisis

The international community has recognised the particularly adverse impact of the financial crisis on developing countries.[7] However, to date, measures to assist developing countries in finding a way out of the crisis have fallen short, particularly as regards low-income countries.

At its London summit in April of this year, the G20 announced a headline package of US$1.1 trillion to assist with global financial recovery. However, only a maximum of US$240 billion will go to developing countries with US$50 billion going to low-income countries.[8] The G20 Pittsburgh summit in September proposed to set up a new trust fund to improve global nutrition and promote sustainable agriculture but it failed to deliver on additional short-term financial support for low-income countries.

Furthermore, many of the major systemic issues underlying the crisis such as reform of the international financial system, the IFIs and reform of global trade have not been adequately addressed.[9] On the crucial issue of illicit financial outflows from developing countries, the G20 Pittsburgh communiqué fails to put forward specific and ambitious measures to combat tax evasion and avoidance (which constitute the majority of such flows).[10]

Over and above the substance of the international response, the legitimacy of the G20, which has positioned itself as the main global forum for international economic cooperation, is fundamentally questionable as it represents only the world's largest economies. The much-needed comprehensive reforms of the international economic system should be carried out within the United Nations in which all governments are represented.

4. The EU response: global leader or playing dodgems?

As the world's largest donor to developing countries[11] and with a value system which is legally rooted in human rights and sustainable development, the EU has a responsibility to play a leadership role worldwide on development. European citizens expect nothing less. In fact, the recent development Eurobarometer showed that, despite the economic crisis, around 90% of EU citizens still believe development is important and 72% of Europeans are in favour of honouring or going beyond existing aid commitments to the developing world.[12] However, despite this, there are increasing signs that the EU may be shirking its responsibility to developing countries.

Following the April meeting of the G20, the EU came out with a support package for helping developing countries to cope with the crisis.[13] Key elements of this package were the proposal to speed up delivery of aid through frontloading, to strengthen work on aid effectiveness, to provide support for social spending

[3] Protecting Progress (see footnote 2 above)
[4] ibid
[5] Supporting developing countries in coping with the crisis. Commission Communication Brussels 8.4.2009. COM (2009) 160 final.
[6] Economic crisis roundup: recovery emerging, but not yet for all. World Bank Press Release 1/10/09. www.worldbank.org
[7] Leaders' Statement: The G20 Pittsburgh Summit, September 24-25, 2009
[8] "The Global Plan for Recovery and Reform." Communiqué from the G20 Summit, London, 2 April 2009.
[9] Motion for a Resolution on the effects of the global financial and economic crisis on developing countries and on development cooperation. European Parliament, B7-0078/2009
[10] G20 remains vague on crisis social impact measures: Eurodad, 03 October 2009. www.eurodad.org
[11] EU Member States and the European Commission collectively give 60% of world aid.
[12] Development Aid in times of economic turmoil. Special Eurobarometer, European Commission, October 2009.
[13] Supporting developing countries in coping with the crisis. Commission Communication Brussels 8.4.2009. COM (2009) 160 final.

through an ad hoc vulnerability "FLEX" mechanism and to speed up financing for agriculture through frontloading of the €1 billion food facility. The package also focuses on promoting green growth, stimulating trade and private investment, strengthening tax governance, avoiding debt and reform of global governance.

However, whilst frontloading is to be welcomed, the package does not foresee any mechanism for making up the loss in aid to developing countries which will occur in future years as a result of more money being made available now. The crisis has meant developing countries are experiencing huge financial shortfalls (to the tune of US$270 to US$700 billion this year alone as mentioned in section 2 above) so it is vital that new money is put on the table rather than simply frontloading aid from the existing pot. On top of this, EU aid volumes are not increasing in line with commitments and, in some cases, are going down due to severe cuts in aid spending by EU Member States (see section five below).

In another recent development, the EU has begun promoting a "Whole of the Union"/ODA+ approach which has the potential to significantly undermine EU aid. Although there is a lack of clarity around the meaning of ODA+, this approach implies the EU would count not just its Official Development Assistance (ODA) but a host of other "financial flows" such as private investment, technology transfer and research as its overall contribution to development. The problem with these non-ODA flows is that they have no official or proven poverty reduction function. EU aid, on the other hand, is legally required to be directed at the eradication of poverty.[14] Furthermore, whilst ODA is counted along specific criteria set by the OECD's Development Assistance Committee (DAC), it is unclear how these other types of financial flows would be measured and assessed in terms of their contribution to development.

Coming at a time when many EU Member States are failing to meet their international commitments to increase aid, the "ODA+" approach is a politically dangerous concept. It potentially distracts from Member States' failure to deliver promised aid increases at a time when they are badly needed. Furthermore, it lays the groundwork for opening up the official definitions of aid as set by the OECD to allow bad-performing EU Member States to cover up their lack of progress on aid by including as their "contribution to development" a host of other activities which do not necessarily have a poverty reduction impact.

5. EU aid donors: a long road to the 2010 aid target

2010 is the year when the EU is supposed to reach its interim target of giving 0.56% of collective GNI as aid. To reach this target EU aid would have to increase from its current €50 billion to around €70 billion by 2010 which means a major effort is needed by all EU donors. However, 2009 has been a difficult year for European aid with several Member States announcing outright cuts to this year's budget and others predicting falls in their ODA in absolute terms in 2010. Whilst falling GNI figures may enable some Member States still to reach the 2010 target as ODA is calculated relative to GNI, it is clear that real aid volumes across Europe are under severe threat. Pressure to include climate change financing as part of ODA budgets is also casting a shadow over genuine aid increases in the future.

On track towards 2010 aid target

Despite the economic crisis, there is some good news from a limited number of EU countries. **Belgium**, which takes over the EU Presidency in July next year, is likely to increase from 0.48% in 2008 to 0.56% in 2009. It has reaffirmed its commitment to reaching 0.7% by 2010 (earlier than the EU target) and an increase of €96 million in the federal development budget for 2010 has just been approved. However, it remains to be seen whether overall increases will be enough for Belgium to achieve its higher target by 2010. The **UK**'s April 2009 budget confirmed the aid spending plans it had set out in 2007, covering the period to 2010/11. Although these spending plans had aimed to deliver 0.56% of GNI as aid by 2010, because the UK's GNI has been lower than expected in recent years, they are likely to deliver 0.6% of GNI as aid by 2010. The UK is therefore on target to achieve 0.7% by 2013 (two years early).

According to current information, traditional high achievers Denmark, Luxembourg, the Netherlands and Sweden will all maintain their high levels of aid in percentage terms in 2009. **Sweden** has been giving around 1% of its GNI as aid for several years and the target is still being upheld. However, in real terms, Swedish aid will decrease from €3.22 billion in 2009 to €2.99 billion in 2010. **Denmark** is upholding

[14] Article 188d of the Lisbon Treaty unequivocally states that the "primary objective" of the EU's Development Cooperation policy is "the reduction and, in the long term, the eradication of poverty".

its higher target of 0.8% of GNI as aid by 2010. In 2008, Denmark already surpassed this target, giving 0.82% of GNI as aid in 2008. **Luxembourg** also has its own higher target of giving 1% of GNI as aid by 2010. In 2008, Luxembourg's aid stood at 0.92% and it looks likely it will maintain this aid level in 2009. **The Netherlands** reached its higher target of 0.8% in 2008 and is sticking to this commitment. However, it is expected that Dutch ODA in 2010 will be €595 million less than expected but a drop in GNI means that the country will still maintain its ODA to GNI ratio.

As holder of the EU Presidency from January-June 2010, **Spain** will have a solemn responsibility to chart the EU towards delivering on aid promises. So far, the Spanish government has announced it intends to uphold its commitment to reaching 0.7% of GNI as aid by 2012, ahead of the EU target, with a figure of 0.5% looking likely for 2009, up from 0.43% in 2008. However, in real terms the Spanish aid budget has been cut by €285 million. **Finland's** aid relative to GNI will also increase from 0.43% to about 0.53% in 2009, aiming for 0.55% in 2010 but, in monetary terms, aid will be about €30 million less in 2010 than had been previously planned.

Off track towards 2010 aid target

France increased its aid from €7.6 billion in 2008 to €8.6 billion this year, meaning a jump from 0.39% to 0.44% of GNI but it is still far from reaching the EU target and its aid is due to include a large share of debt relief and loans (mainly to emerging countries). **Germany** is likely to show a small percentage increase in 2009 from its 2008 level of 0.38% but it is still far from the EU target. **Portugal** is expected to increase its aid percentage from 0.27% in 2008 to 0.3% in 2009 in line with its own much reduced target of giving 0.34% by 2010 but nowhere near the EU target. **Italy's** aid levels were already at a meagre level of 0.22% in 2008 and the likelihood is they will fall to about 0.17% in the final 2009 tally. **Greece's** 2009 percentage also looks set to fall from the already low level of 0.2% in 2008. **Ireland**, which gave 0.58% of its GNI as aid in 2008, has cut its aid budget by €224 million (24%) this year, meaning its 2009 aid ratio is likely to come in at about 0.52% on current GNI projections. Although this reaches the EU target, it is far below Ireland's own target of reaching 0.6% by 2010 and means a huge step back in terms of ODA/GNI ratio.

EU-12: Newer Member States

Amongst newer Member States (whose individual target is 0.17% by 2010) the **Czech Republic** is forecast to increase its aid percentage to 0.13% this year from 0.12% in 2008, although cuts have been made in real terms and this is still below the EU12 target. **Slovenia** is likely to go from 0.13% to 0.14% in 2009. **Poland** looks set to stagnate at around 0.08% of GNI. **Estonia** is forecast to remain on a level of around 0.1% in 2009 despite cuts to its aid budget. **Latvia**, which has experienced severe economic turmoil due to the crisis, has cut its bilateral aid to almost zero although multilateral aid commitments (to the EU and the UN) are being maintained. Its aid to GNI ratio is likely to remain at around 0.06% this year.

EU AID QUANTITY COMMITMENTS

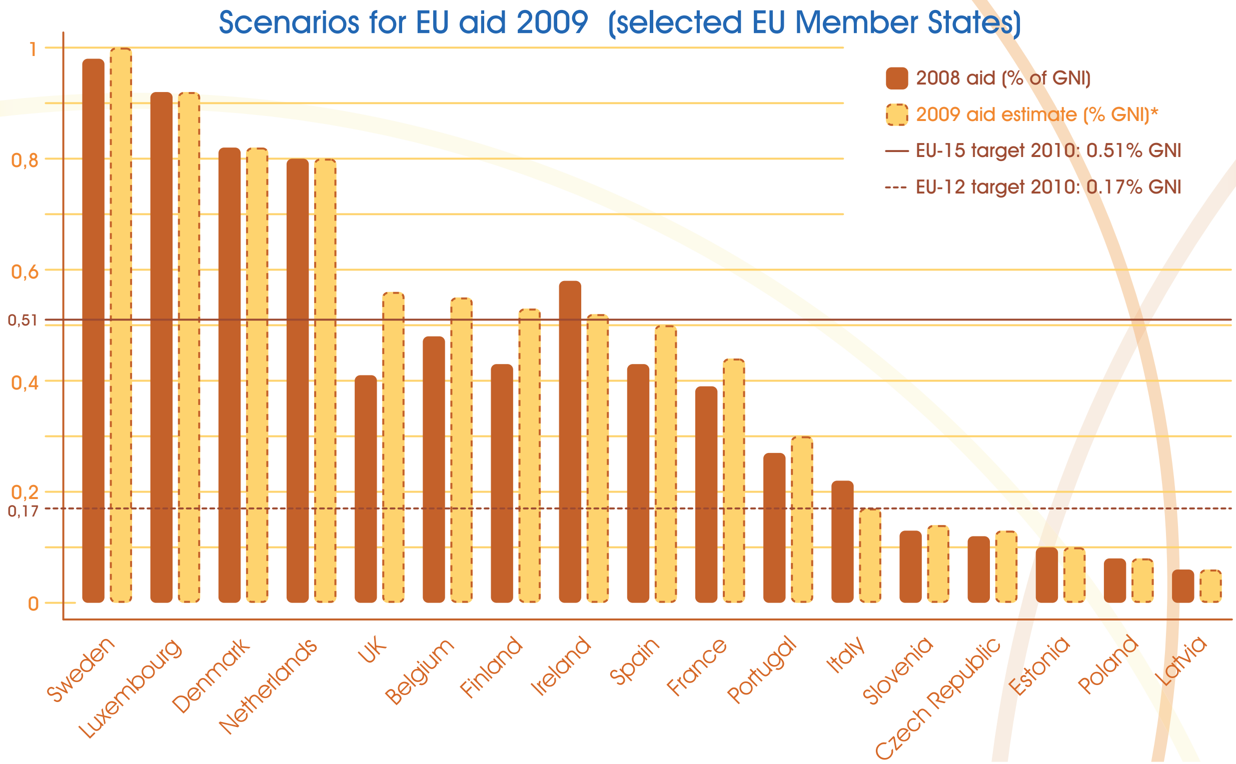
Overall EU aid target:
0.7% of GNI by 2015
0.56% of GNI by 2010*

EU Member States individual targets:
EU-15: 0.51% of GNI by 2010, 0.7% of GNI by 2015
EU-12: 0.17% of GNI by 2010, 0.33% of GNI by 2015

EU Member States with more ambitious targets:

Belgium: 0.7% by 2010	Netherlands: 0.8% by 2010
Denmark: 0.8% by 2010	Spain: 0.7% by 2012
Ireland: 0.7% by 2012**	Sweden: 1% by 2006
Luxembourg: 1% by 2010	UK: 0.7% by 2013

**The collective percentage is higher than the individual EU targets because some Member States already had higher levels of ODA when the EU commitments were made in 2005 or else committed to achieve higher levels of ODA or to reach the 0.7% target earlier than 2015. These Member States who were already giving higher aid levels when the EU commitments were made promised to maintain their aid at those levels.*
***Ireland has recently announced that it will not achieve its target until 2015.*



Scenarios for EU aid 2009 (selected EU Member States)		
	2008 aid (% of GNI)	2009 aid estimate (% GNI)*
EU-15		
Sweden	0.98	1
Luxembourg	0.92	0.92
Denmark	0.82	0.82
Netherlands	0.80	0.80
UK	0.41	0.56
Belgium	0.48	0.55
Finland	0.43	0.53
Ireland	0.58	0.52
Spain	0.43	0.50
France	0.39	0.44
Portugal	0.27	0.30
Italy	0.22	0.17
EU-12		
Slovenia	0.13	0.14
Czech Republic	0.12	0.13
Estonia	0.10	0.10
Poland	0.08	0.08
Latvia	0.06	0.06

*Estimates based on information collected by the CONCORD "Aidwatch" network.
Preliminary official aid figures for 2009 will be made available by the OECD-DAC in March/April 2010.

6. Key challenges for aid

Climate change: large-scale financing is needed but not from ODA

2009 is a crunch year for the international community to deal with the global challenge of climate change. December will see critical negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) taking place in Copenhagen. One of the major issues to be resolved at Copenhagen will be that of climate financing. It is estimated that some €110 billion a year is needed for climate change adaptation and mitigation in developing countries, a sum which far exceeds annual global ODA (in 2008, this was about €80 billion). The challenge now is to ensure that ODA is not diverted by donors to pay for their climate change obligations.

In 1970, developed countries committed to spend 0.7% of GNI in ODA in order to alleviate world poverty, decades before the international community recognised the problem of climate change. With the world off track to meet the MDGs and with poverty and hunger again on the increase, rich countries must not be allowed to divert much needed ODA to pay for the damage to the world's climate which they are primarily responsible for causing. Climate finance must be new and entirely additional to existing ODA commitments.

However, climate financing has been one of the consistent stumbling blocks during the climate change negotiations and, despite its own assumption of a leadership role on the issue, the EU has starkly refused to make a clear commitment to additionality in its negotiating position for Copenhagen.[15]

Aid Effectiveness: progress must be stepped up

Increasing aid effectiveness is a critical element of maximising returns on aid. In a context where EU Member States are failing to deliver on their commitments to increase aid, it is crucial that existing aid is spent in the most efficient and effective way for the benefits of the poor in developing countries. In a recent study commissioned for the European Commission, it is estimated that at least €3 billion a year could be saved by improving the effectiveness of European aid.[16]

However, the 2008 Paris Declaration Monitoring Survey showed that not enough progress has been made on the international community's aid effectiveness commitments. The EU was lagging behind in critical areas such as technical assistance and predictability of aid. Furthermore, little practical progress has been made with regard to transparency of aid transactions and reducing the number of conditions attached to aid.[17]

The EU Council of Ministers has recently endorsed the EU's "Operational Framework on Aid Effectiveness"[18] which focuses on joint EU action in the areas of Division of Labour, Use of Country Systems and Technical Cooperation. This is seen as a dynamic framework with further chapters envisaged on the EU's remaining priority areas of mutual accountability, predictability of aid and cross-country division of labour.

However, the European Commission's own working paper "Aid effectiveness after Accra"[19] concludes that a major effort is needed if EU Member States are to meet their international aid effectiveness commitments by the 2010 deadline.[20] Crucially, it also states that political will is currently lacking to implement this important agenda. In light of the current crises the world is facing, now is the time for that political will to be mustered.

[15] The EU's agreed position for the Copenhagen Climate Change negotiations states that "while support to mitigation and adaptation in developing countries will require additional resource mobilization from a wide range of financial sources, ODA will continue to play a role, particularly for support to adaptation, including disaster risk reduction, in the most vulnerable and least developed countries." Council Conclusions on EU position for the Copenhagen Climate Conference (7-18 December 2009) 2968th Environment Council meeting, Luxembourg, 21 October 2009.
[16] "The aid effectiveness agenda: the benefits of a European approach" (October 2009)
[17] See "Lighten the Load: In times of crisis, European aid has never been more important". CONCORD Aidwatchers report, May 2009.
[18] Commission Staff Working Document. Joint Paper Commission / Presidency. An operational framework for the EU to promote aid effectiveness. 158/09 DEVGEN.
[19] (SEC(2009) 443/2, April 2009)
[20] 2010 is the deadline for achieving the commitments set out in the Paris Declaration on aid effectiveness. A new High Level Forum on Aid Effectiveness is due to be held in Seoul in 2011.

7. Conclusion

Whilst official aid figures produced by the OECD in Spring next year will tell the full story, it is clear that European aid is under severe threat at present with many countries taking the axe to their aid budgets. In several cases, reduced GNI is buoying aid percentage figures which would otherwise be much worse. The prospects for reaching the EU's collective 2010 aid target of 0.56% ODA/GNI look glum. Political will to deliver on key international aid commitments around both quantity and quality of aid is faltering at precisely the moment when it is most needed. However there is still time for EU Member States to improve their record before the MDG review next year and demonstrate to the world that, even in times of crisis, the EU takes its commitment to people in developing countries seriously.

8. Recommendations

EU Member States must:

- Urgently implement their commitment to reach **aid levels** of 0.51% of GNI individually (0.17% for the EU-12) and 0.56% of GNI collectively by 2010
- Put in place legally binding **national timetables** with incremental year on year rises in aid budgets showing how they will reach their aid targets
- Reject attempts to loosen the **OECD definition of ODA** to include financial contributions which do not specifically focus on poverty reduction
- Commit to ensuring **climate change finance** is additional to existing aid promises
- Step up work to meet **aid effectiveness commitments** particularly in the crucial areas of economic policy conditionality; ensuring development aid reaches those who are particularly vulnerable such as women and children; improving democratic ownership of aid and transparency; ensure that decisions on division of labour are taken by governments in the South and are not donor driven
- Ensure EU policies in non-aid areas such as trade, financial regulation, agriculture, justice and home affairs do not detract from European development objectives as per the EU's legal commitment to **Policy Coherence for Development**

European AidWatch Initiative and CONCORD

CONCORD is the European NGO Confederation for Relief and Development. Its 18 international networks and 24 national associations represent more than 1600 European development NGOs.

AidWatch is a pan-European lobby and campaigns initiative under the aegis of CONCORD which monitors and advocates on the quality and quantity of aid provided by EU Member States and the European Commission. Each year, AidWatch produces an annual report which investigates whether the EU is meeting its commitments on aid quantity and quality. It also engages in lobbying, media work, capacity building for NGOs on aid issues and ongoing research on EU aid.

AidWatch is a member of the Better Aid Platform on aid effectiveness and the International Civil Society Steering Group which works within the Organisation for Economic Cooperation and Development (OECD) to influence the official international agenda on aid effectiveness.

This briefing has been written by Aoife Black, EU Policy Officer, Trócaire, with inputs from the AidWatch Advocacy Group and based on information supplied by NGO coalitions across Europe.

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