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International Development Committee

EU Development Assistance

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The International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Secretary of State for International Development.

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The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

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Committee staff

The current staff of the Committee are David Harrison (Clerk), Marek Kubala (Second Clerk), Louise Whitley (Inquiry Manager), Rob Page (Committee Specialist), Anita Fuki (Senior Committee Assistant), Annabel Goddard (Committee Assistant), Paul Hampson (Committee Support Assistant) and Nicholas Davies (Media Officer).

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Summary

The UK spends approximately £1.23 billion each year on aid through the European Union. Unlike the UK, European aid and development assistance is split between two different departments: Directorate-General of EuropeAid, Development and Co-operation (DG DEVCO) which formulates policy and disperses development funding whilst Directorate-General of Humanitarian Aid and Civil Protection of the European Commission (DG ECHO) looks after the humanitarian aid brief. In addition the European External Action Service (EEAS) is responsible for development programming and oversees delegations in third countries. We are concerned that this has the potential for a fragmented approach.

The European Development Fund (EDF) (which is outside the official European Commission budget) and ECHO share the same poverty reduction objectives as DFID and are delivered in ways which represent value for money. The UK has in theory discretion over the funding of the EDF.

Official Development Assistance (ODA) spent through the European Commission budget is less well targeted at the poorest countries than that spent through the EDF. Moreover, some funding for other programmes (for example, the European Neighbourhood Partnership Instrument) administered by the Commission to middle income countries such as Turkey is reported as ODA which means that it counts towards the ODA target of 0.7% of Gross National Income. The DFID Minister told us that 'it would take forever and be difficult' to change the definition of ODA so as to exclude relatively wealthy countries and that a change in the definition would make it difficult for some countries to meet the 0.7% target. We do not accept this: the Government should be bolder and less risk averse by tackling the criteria for ODA so that more funding goes to the world's poorest people and the poorest countries, and less to the European neighbourhood. Failure to do this may undermine the UK public's support for EU institutions.

There are a number of advantages of the EU as a conduit for development assistance:

- it acts as a channel for Member States which have not previously provided development assistance;
- some Member States would spend even less on aid were it not for the European Commission, thus there is overall higher spending on aid than would otherwise be the case;
- it is able to operate large-scale regional programmes;
- it operates in sectors where the UK rarely does, for example road building;
- it has a presence in countries where the UK does not have a bilateral programme, enabling the UK to play a part, through its contribution to European Commission funding, for example to development cooperation in Niger and Haiti.

There are, however, a number of disadvantages with EU development assistance. The European Commission's administrative costs are twice those of the UK Department for

International Development (DFID), although not higher than other multilaterals. The higher costs are in part because the European Commission is present in more countries than DFID and it does more direct programming which requires more administration; nevertheless, the Commission must put more emphasis on achieving value for money.

European Commission procurement has been described by a prominent development organisation as bureaucratic, time-consuming and cumbersome. This is in part because of the need for careful checks to avoid corruption. Nevertheless, we recommend that DFID press the Commission to reform its procurement procedures. In addition, the Commission should focus more on results and on learning from them and ensure it independently evaluates its programmes.

Overall, the European Commission has improved its performance over the last decade and has recently proposed further improvements to development policy in *An Agenda for Change* and funding instruments as part of the Multi Annual Financial Framework negotiations. These include increased emphasis on governance conditionality, especially for budget support; a greater focus on results; and increasing the role of the private sector in development. We support a number of these changes, but have concerns that conditionality should not hurt the poor for the sins of their governments.

The European Commission has also proposed to cut bilateral aid to nineteen middle income countries (although these countries will still be eligible for thematic funding under other instruments). We agree with this proposal. The Commission spreads its aid too widely and this leads to inefficiencies, including high administrative costs. DFID should press the European Commission to reduce further the number of countries it has programmes in.

Although we support proposals for ensuring better division of labour amongst donors to increase aid effectiveness and efficiency, we do not support the European Commission proposal for joint programming if it involves the Commission playing a leading role in coordinating the work of Member States with a better track record than its own. We do support joint programming by consensus where the Commission is operating alongside bilateral donors, thereby reducing transaction costs for recipient countries.

The Minister told us that the UK was arguing for no real growth overall in the European Commission budget, but a higher proportion spent on ODA. We strongly support the Government's proposal to increase the percentage of the budget going to ODA given the extent of international need and commitment made by EU countries to increase levels of development assistance and climate funding. We urge the Government to press hard for other EU countries in particular Germany, France and Italy to step up to the obligations they made on the 0.7% target.

We think that incorporating the EDF into the budget in 2014 (i.e. 'EDF budgetisation') is premature and should be postponed until 2020 when the Cotonou Agreement (between the EU and the African, Caribbean and Pacific (ACP) states) ends unless it leads to an overall increase in ODA delivery and an increased share of the budget going to the poorest people and the poorest countries. The EDF is an instrument of the Cotonou Agreement and any decision about it should be made in consultation with the ACP states and in such a way as to preserve the benefits of the relationship.

The Development Cooperation Instrument (DCI) should get a proportionately smaller increase than the EDF unless there is a significant improvement in its efficiency and effectiveness.

DFID should become a champion for policy coherence for development, reducing the harm done by some aspects of EU trade and agriculture policies and by working to ensure climate change policies help development opportunities for the poorest. DFID should encourage the Development Commissioner, Andris Piebalgs, to promote development issues other than aid and work closely with other Commissioners on a range of issues including climate change, agriculture, trade and foreign and security policy. DFID should put the case in Government for the development implications of the Common Agricultural Policy, trade tariffs, and climate change.

1 Introduction

1. In 2010 the UK spent £1.23 billion in aid through the European Union (EU)—approximately 16% of the UK's total aid budget. The EU is the UK's largest multilateral partner. Of the money that the UK gave to multinationals in 2009–10, the EU institutions (including the European Commission budget and the European Development Fund) received the largest amount (£1.19 billion, 49%), double the next largest, the World Bank group (£560 million, 23%) and five times more than the United Nations system (£216 million, 9%).

2. The EU institutions are the world's second largest donor behind the USA. Total European Commission managed aid in 2010 was €11.1 billion of which €10.7 billion was reported as Official Development Assistance (ODA).[1] Combined with its Member States the EU is responsible for 60% of all global development aid (€54 billion in 2010).

3. Furthermore, the EU has a huge indirect influence on development through its agriculture, trade, fisheries, migration, environment and climate policies, and foreign and security policy.

4. There have been many complaints about European Commission bureaucracy, its burdensome procurement process and its lack of appropriate staff. However we are aware that changes have been made and that further changes are being negotiated. The Commissioner for Development, Andris Pieblags, has recently published two new policy proposals: an updated development policy *An Agenda for Change;* and the *EU's future approach to budget support*. Moreover the European Commission's budget for the next seven years, the Multi Annual Financial Framework, is currently being negotiated. We therefore decided that it was an opportune time to review EU development assistance and to assess the extent to which current EU policies were aligned and complimentary to those of the Department for International Development (DFID).

5. In response to the call for evidence to this inquiry we received numerous submissions and we would like to thank those organisations who wrote to us. We took oral evidence from NGOs—Christian Aid and BOND—and think-tanks—Open Europe and the Overseas Development Institute (ODI) as well as the Minister at DFID with responsibility for EU development assistance, Mr Stephen O'Brien MP. We also took evidence from the EU Development Commissioner, Andris Piebalgs, whilst on a visit to Brussels where we met with officials, MEPs and NGOS. We would like to thank all of the contributors to our inquiry and especially our thanks go to our specialist adviser Mikaela Gavas.[2]

1 See Box 2 for an explanation of ODA

2 Research Associate, Overseas Development Institute

2 EU aid instruments and organisations

6. Unlike in the UK where we have a single department, the Department for International Development (DFID), within the EU there are three key players which have responsibility for aid and development matters: Directorate-General of EuropeAid, Development and Co-operation (DG DEVCO), which is headed up by the Commissioner for Development Andris Piebalgs; Directorate-General for Humanitarian Aid and Civil Protection (ECHO); and the European External Action Service (EEAS).

7. The EEAS is the overseas diplomatic arm of the EU responsible for EU delegations throughout the world. It prepares country strategies and programmes development funds in consultation with DG DEVCO. DG DEVCO is currently present in approximately 150 worldwide EU delegations.

EU aid instruments

8. Of the total European Commission budget only 5.7% goes to external actions (known as Heading 4, Global Europe) and this includes the foreign and diplomatic work of the EEAS as well as the development and aid funding of DG DEVCO and DG ECHO.

9. However, EU development assistance comprises of not just the European Commission budget (around 70%) but also the European Development Fund (EDF) (around 30%). Below is a table which shows the distribution of EU funds in 2010 between the EDF and the European Commission budget instruments with the UK's contributions to these.

Table 1 - Breakdown of how much DFID funding went to each Budget Instrument and the EDF in 2010

EU Aid Instrument (100% attributed to DFID unless otherwise stated)	Total value in millions of Euros	DFID's share in millions of Euros	DFID Share in Sterling
European Development Fund (nearly 100% ODA)	**3135**	**479.66**	**409**
EU Budget – Heading 4 Global Europe	**6440**	**955.51**	**821.64**
European Neighbourhood Partnership Instrument (95% ODA: 95% of UK share attributed to DFID)	1408	204.65	175.49
Development Cooperation Instrument – Geographic and Regional aid (100% ODA)	1108	169.52	145.36
Humanitarian Aid and Civil Protection (ECHO) (100% ODA)	948	145.04	124.37
Pre Accession Instrument (90% ODA; 100% of UK share attributed to DFID)	943	144.28	123.72
Development Cooperation Instrument Thematic aid (nearly 100% ODA)	839	119.38	102.37
Food Facility (Nutrition funding) (100% ODA)	362	55.39	47.49
European Instrument for Democracy and Human Rights (100% ODA)	154	23.56	20.20
Instrument for Stability (70% ODA – 70% of UK share attributed to DFID)	127	13.60	11.66
OTHER	551	80.09	68.67
TOTAL	**9575**	**1435.17**	**1230.64**

DFID Submission EV 66

European Development Fund

10. The UK currently contributes £409 million to the EDF. This equates to a 14.8% share of the €22.7 billion Member States total, the third largest after Germany (20.5%) and France (19.55%).

11. In theory these contributions are 'voluntary': the Commission proposes an overall amount for the fund together with contribution shares for each Member State, based on a 'budget key'. While Member States may contribute less or more, in practice the 'key' is followed. The EDF is managed by a committee made up of Member States and the Commission. The European Parliament does not have any say over EDF expenditure.

12. The EDF finances cooperation with the African, Caribbean and Pacific group of states (ACP) and Overseas Countries and Territories (OCTs), under the Cotonou Partnership Agreement.

Box 1 - Cotonou Partnership Agreement

The Cotonou Partnership Agreement between the members of the African, Caribbean and Pacific Group of States and the European Union and its Member States was signed on 23 June 2000 in Cotonou, Bénin. It is for a twenty-year period from March 2000 to February 2020, and entered into force in April 2003.

The partnership is focused on reducing and eventually eradicating poverty through sustainable development and the gradual integration of the ACP countries into the world economy.

Today, the ACP Group of States comprises of 79 countries, 78 of them signatories of the Cotonou-Agreement (with Cuba being the exception).

13. The current (10th) EDF runs for the five years 2008-2013. Of the total allocated (€22.7 billion), the majority is allocated to the ACP group at €22 billion with €286 million allocated to the OCTs. A further €430 million goes to the Commission for support expenditure (programming and implementation). The future funding of the EDF is currently under discussion as part of the Multi Annual Financial Framework negotiations.

ODA through the European Commission Budget

14. The UK contributes £820 million to the European Commission budget through its various development instruments. The Development Cooperation Instrument (DCI) concentrates on Asia, Latin America, the Middle East and South Africa, whilst the European Neighbourhood Partnership Instrument (ENPI) focuses on countries neighbouring Europe such as Morocco and Russia. Both the DCI and the ENPI contain a set of crosscutting thematic programmes which are applicable to all developing countries (including those that are members of the ACP group of states). According to the DCI Regulations, ODA must account for 95% of the DCI funding on average (100% of the geographic programmes and 90% of the thematic programmes).

The EU in the Multilateral Aid Review

15. DFID's 2011 Multilateral Aid Review (MAR) found the EDF to fit closely with DFID's objectives. It was acknowledged to have a strong poverty focus with 85% of funds spent on low income countries. In addition, it was seen to be built on a partnership model and accompanied by political dialogue.[3]

16. Christian Aid said that the Cotonou Agreement was based on the three pillars of aid, trade and political dialogue which institutionalised the opportunity for in-depth, ongoing political partnerships with the ACP countries. Under the agreement the recipient governments were heavily involved in all stages of all the decision-making processes resulting in real participation and ownership.[4] Commissioner Piebalgs agreed saying the EDF gave the opportunity to reflect with the recipient country the "most effective ways to strengthen the country's own system to deal with poverty".[5]

17. Although the UK contributes twice as much through the European Commission budget instruments to development than through the EDF, the European Commission budget was rated as weak by the MAR in its contribution to UK development objectives. This is mainly due to its low poverty focus—85% of the budget goes to middle income countries.[6] On the positive side, the European Commission budget was found to have "strong monitoring and financial management systems".[7]

Relations between the EU organisations with responsibility for development

18. Concerns have been raised about coordination between DG ECHO and DG DEVCO, and in particular, the problems this poses for linking relief, rehabilitation and development. For example, we heard on our visit to Brussels that there had been problems in the Sahel in the transition from humanitarian assistance to development aid.

19. Following the establishment of the EEAS and the decision to allocate responsibility for development programming jointly to the EEAS and DG DEVCO, CONCORD has suggested there needs to be more clarity about roles in the programming process. CONCORD also has concerns that the EEAS is in danger of marginalising anti-poverty objectives.[8]

20. **We are concerned that two separate European Commission departments dealing with development aid and humanitarian aid pose problems for linking relief, rehabilitation and development. Furthermore, clarity is needed on roles and**

3 DFID, *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations* Summary – European Development Fund, March 2011. ECHO was marked as strong in contributing to UK development objectives.

4 Q 6

5 Q 88

6 DFID, *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations* Summary – European Commission Budget, March 2011

7 DFID, *Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations* Summary – European Commission Budget, March 2011

8 Information from informal meeting in Brussels

responsibilities between the European External Action Service (EEAS) and the Directorate-General of EuropeAid, Development and Co-operation (DG DEVCO)in the programming process. The UK Government should seek reassurances that DG DEVCO, the Directorate-General for Humanitarian Aid and Civil Protection (ECHO)and the EEAS are working together in a coherent and coordinated manner and that anti-poverty objectives are not being marginalised within the EEAS.

3 Advantages and disadvantages of EU as a channel for development funding

21. There are a variety of arguments for and against EU aid.

Advantages:

Where the UK is not present

22. The EU provides a vehicle for the transfer of funds to countries where the UK does not have a presence, for example in Haiti and Niger. The Secretary of State informed us that 700,000 lives had been saved from famine in Niger through emergency food assistance by the European Commission. As Commissioner Piebalgs said, the EU is present in around 150 countries, such as the Solomon Islands, "addressing poverty issues in the countries that member countries alone will never reach."[9] The EU is present in all 43 fragile states: DFID operates in only 21.[10]

All EU Member States contribute to development

23. The European Commission development instruments allow newer Member States, which have not historically provided aid, to channel their development obligations and meet agreed targets, and provide a forum for best practice and lesson learning. This helps smaller countries such as Latvia to reach their poverty reduction objectives and meet their 0.7% target. Simon Maxwell, Senior Research Associate at the Overseas Development Institute told us that it enabled such Member States to "perform more effectively and on a bigger stage" by working through Brussels, rather than independently.[11]

Predictable funding

24. Andris Piebalgs, the Development Commissioner, highlighted the EU's seven year financial programme which he said ensured "predictability of the fight against poverty".[12] He argued that national governments could not guarantee such stability of funding as domestic governments tended to have three or four year spending rounds.

Large projects

25. The size of the EU's budget means that it is able to implement large-scale infrastructure projects such as road building which the UK would be unable to do alone.[13]

9 Q 88

10 Q 120

11 Q 50

12 Q 88

13 Q 122

Addressing global challenges

26. The EU is a vehicle for addressing key global challenges. The increasingly global nature of development challenges such as climate change, peace and stability, migration, financial stability, food security and communicable diseases, clearly indicate that solutions require new forms of international cooperation with the involvement of emerging developing countries. The EU's new structures, such as the European External Action Service, offer the potential for joined-up engagement in international development, combining aid, diplomacy, military power and economic tools such as trade policy.

Disadvantages

Relatively high administration costs

27. The European Commission has higher administration costs than DFID as this table demonstrates. However as the table also shows the costs are not as high as the World Bank.

Table 2 - Administrative costs as a percentage of total aid disbursements for the past three reporting years

Year	DFID Administrative costs as a % of total development expenditure	European Commission Administrative costs as a % of total external aid commitments/ disbursements	World Bank Administrative costs as a % of total gross disbursements - IBRD[14]	World Bank Administrative costs as a % of total gross disbursements – IDA[15]
2008 (08/09)	4.2	5.9 (commitments)[16]	10.3	9.7
2009 (09/10)	3.5	5.3 (disbursements)	6.7	10.6
2010 (10/11)	2.7	5.4 (disbursements)	4.9	10.0

DFID Ev 70-71[17]

28. The Committee was told that one of the main reasons that European Commission administrative costs were higher than the UK was because a substantial amount of DFID spending was through multilaterals and therefore DFID was 'exporting' its costs. ODI highlighted that DFID spent 62% of its budget through multilaterals contrasting with 2%

14 IBRD: International Bank for Reconstruction and Development operates as a development bank for more credit-worthy low and middle income countries

15 IDA: International Development Association is responsible for grant and concessionary lending primarily to low income countries

16 For 2008 only, this percentage is available only for Commitments, and not Disbursements, and so is not strictly comparable to the figures for 2009 and 2010

17 These figures come from DFID with a couple of explanations:

The presentation of administrative costs is not standardised across institutions and the level of detail varies significantly between them. It is therefore not possible to ensure that the items under 'administrative costs' are the same for each organisation

As the EDF is not a separate organisation from the European Commission, and its costs remain administered by the Commission, its costs are given by the Commission's administrative costs for External Aid.

by the European Commission institutions.[18] Simon Maxwell, Senior Research Associate at the ODI, compared the UK to being a "wholesaler" and the Commission a "retailer".[19]

29. It was also put to us by BOND that "lower admin costs do not automatically generate better value for money, and often they might result in poorer outcomes, simply because the support is not there".[20] BOND also argued that administration costs depended on the area you operated in "for instance, in a situation of conflict or a fragile state, it is going to be much more difficult and much more expensive to deliver that aid than if you are in a much more stable context".[21]

30. When we questioned the Minister on the European Commission's administration costs he said that the UK was trying to "drive a much greater efficiency".[22]

31. **Although the European Commission has higher administration costs for development than DFID it is difficult to compare like for like. The Commission does far more direct work which requires a greater level of administration. We urge however, the Government to continue to stress the need for value for money.**

Distribution of administrative resources

32. Simon Maxwell questioned the use of the European Commission's administrative costs asking whether the 4,000 staff working for the Commission on development were "the right staff doing the right jobs?"[23] He believed that the Commission was lacking in serious 'policy' capacity comparing DFID's policy division of over 200 staff to the equivalent department in Brussels which had fewer than a dozen staff. He argued that as a result, the Commission was under-resourced to look at the big development challenges.

33. Furthermore, having visited a number of EU delegations in developing countries, we are not convinced that the European Commission has enough development staff on site. An example of this was on our recent visit to South Sudan where we were told that there had been significant delays in scaling up the EU delegation and as of March 2012 it had 18 vacancies in an expected office of 27 people.[24]

34. **The UK Government should push the European Commission to improve its policy capacity, given its status as the largest supplier of development aid in the world.**

Bureaucracy and procurement

35. Although UK NGOs have received a great deal of funding through the European Commission: in 2009 UK NGOs were paid around €340 million from the Commission,

18 Ev 61

19 Q 53

20 Q 9

21 Q 9

22 Q 123

23 Q 52

24 International Development Committee , Fifteenth Report of Session 2010-12, *South Sudan: Prospects for Peace and Development,* HC 1570, para 71

more than any other national group of NGOs in the EU – there is much criticism of procurement policy.

36. Adam Smith International reported that the EU procurement process was bureaucratic and cumbersome. It expanded:

> one needs to provide copies of the academic degree certificates of each of the consultants that one is putting forward. Signed project references from clients of past projects are also required. There has been a bit more flexibility here over the years, but not much. E.g. if your previous client has died the EU will take a sworn statement from you instead, rather than insisting that he still signs. The EU is very particular – if they say an expert needs 15 years of experience then 14 years 11 months will not do.[25]

We were told that the complex process particularly limits the access of smaller NGOs to funding as they do not have the capacity to deal with the application process.[26]

37. BOND reported that the speed of the disbursement of the actual European Commission funds was dependent on the delegation in country due to the different levels of expertise on the ground.[27]

38. On our recent visit to Zambia we heard that following an agreement to have an extra official, it had taken 18 months before the person was actually in place due to the level of bureaucracy that they had had to go through.

39. Commissioner Piebalgs agreed that slowness was "a weakness of the system" and that it was "built extremely conservatively". He said that the reason was because:

> we work in very unstable places, at the end of the process, even in the middle of the process, they have the Court of Audit and Budget Control Committee.[28]

He also thought there were limits on improvements he could make because he could not "compromise the accountability of the money being spent".[29]

40. **We welcome the Government's commitment to improve the bureaucracy of procurement at the European Commission but there still seems to be a long way to go. The Government must put more pressure on the Commission to make further improvements.**

Too much ODA to middle income countries

41. As highlighted in the Multilateral Aid Review (MAR) the European Commission budget instruments channel a large amount (85%) of Official Development Assistance (ODA) to middle income countries. Turkey has consistently been in the top five recipients

25 Ev w17

26 Q 9

27 Q 9

28 Q 94

29 Q 94

of European Commission aid (€223 million in 2010) as has Serbia (€218 million in 2010). Overall in 2009, including the European Commission budget and the EDF, only 46% of aid disbursed through European institutions went to low income countries, compared with 62% disbursed by all donors and 72% by the UK.[30]

Box 2: Official Development Assistance

The Organisation for Economic Co-operation and Development (OECD)'s Development Assistance Committee (DAC) produces a list of official development assistance recipients which shows all countries and territories eligible to receive Official Development Assistance (ODA). These consist of all low and middle income countries based on gross national income per capita as published by the World Bank, with the exception of G8 members, European Union members and countries with a firm accession date for entry into the EU. The list also includes all of the least developed countries as defined by the United Nations. This list is designed for statistical reporting purposes. Only flows to or for the benefit of the countries and territories on the list may be reported as ODA.

42. It has been argued that by funding development through the European Commission there is a significant diversion of UK money designed for the poorest countries. Simon Maxwell said:

> every time the UK transfers £1 from the bilateral aid programme to Brussels, 26p is taken from low income countries (LICs) and given to middle (MICs) or upper income countries. Given that the UK spends about £1.3 billion through Brussels each year, the transfer from LICs to MICs amounts to as much as £340 million a year. For the European Commission as a whole, spending close to €11 billion on ODA in 2010, the equivalent figure is close to €3 billion per annum 'lost' to low income countries.

43. Our concern is that DFID money is being spent through Europe on projects which would not qualify for DFID bilateral funding. We asked the Minister whether there was an argument for OECD redefining what qualified as ODA[31] and he informed us that the Government had "no intention to seek to change the current definition at the moment".[32] The Government's argument was that it would "take forever" and be "very difficult". The Minister also highlighted the potential risk to the 0.7% target if definitions were changed.[33]

44. When questioned on the European aid budget going to neighbourhood and pre-accession countries such as Turkey, the EU Commissioner Andris Piebalgs told us:

> it is up to member countries to make this decision. I do not control how much money will be decided for Turkey because it is decided by member countries.[34]

30 DFID, *Statistics on International Development,* 2011

31 See Box 1

32 Q 130

33 Q 130

34 Q 101

The Minister said that it was a decision for the Treasury whether DFID was the appropriate budget holder for Pre-Accession and Neighbourhood Instruments and that because it was ODA-qualifying—it was. The Minister also said that if the money was not spent on Pre-Accession or Neighbourhood Instruments that it would not necessarily "be released back" to spend on "alternative development opportunities".[35]

45. **It is unacceptable that only 46% of aid disbursed through European institutions goes to low income countries. It devalues the concept of aid when so much of what is defined as Official Development Assistance (ODA) goes to relatively rich countries such as Turkey. We do not agree with the Government that it should not seek to change the definition of what qualifies as ODA—money given to higher middle income countries should not be classified as ODA, nor do we believe it is right to keep the present definition as a way of fudging the figures to meet the 0.7% target. The UK must continue to press for funding to be diverted from those higher middle income countries, who have their own resources to provide for their people, to give greater help to the poorest people in the world, including in lower income countries.**

Conclusion

46. **The UK has a certain amount of choice as to whether it spends its aid bilaterally or through multilaterals. Although we have acknowledged that there are some problems with channelling aid through the European Commission, for example the large amount of aid going to middle income countries and its slow bureaucracy, on balance we are not convinced it is any worse than the other multilaterals DFID funds, for example the World Bank which we have previously reported our concerns on. However, DFID should continue to press the Commission to improve its aid effectiveness and value for money.**

35 Q 136

4 Commission Proposals: An Agenda for Change and Budget Support

47. The European Commission has been seeking to improve its development assistance. The Commission proposal for a new EU development policy *An Agenda for Change*[36] was published in October 2011 for approval by the Council in May 2012. It is intended to update and refocus EU development assistance, building on commitments made in the 2005 European Consensus on Development. The Development Commissioner, Andris Piebalgs, said the EU must "keep pace with changing realities in the world" and that the EU should "refocus aid priorities to ensure that countries are on track to achieving sustainable and inclusive growth." He wanted to make sure that "every euro reaches those that need it most,"[37] echoing the Secretary of State's aspiration "to ensure that aid secures 100 pence of value for every hard-earned British taxpayer's pound we spend".[38]

48. *An Agenda for Change* focuses on four key areas:

i. The concentration of EU activities on two broad priorities: (a) human rights, democracy and good governance, linked to greater conditionality; and (b) inclusive and sustainable economic growth, with a strong focus on leveraging in private sector money;

ii. Policy coherence for development;

iii. EU joint work and coordination of EU Member States development programmes; and

iv. Differentiated development partnerships (reassessing aid to middle income countries and reducing the number of aid recipients).

Human rights, good governance and greater democracy – conditionality

49. *An Agenda for Change* says that EU support should focus on partners' "commitments to human rights, democracy and the rule of law and to meeting their peoples' demands and needs."[39] It specifies that the mix and level of aid would depend on the country's situation and that if a country loosens its commitment to human rights and democracy then stricter conditionality would be warranted.

36 European Commission Communication *Increasing the Impact of EU development Policy: an Agenda for Change*, Brussels 13 October 2011

37 "Commissioner Piebalgs proposes changes to EU development policy" European Commission press release October 2011

38 Andrew Mitchell speech on 5 October 2010 http://www.conservatives.com/News/Speeches/2010/10/Andrew_Mitchell_Value_for_money_and_a_rigorous_focus_on_results_for_British_aid.aspx

39 European Commission Communication *Increasing the Impact of EU development Policy: an Agenda for Change* Brussels 13 October 2011 p 5

50. ODI was very sceptical of the use of conditionality. It indicated a 'significant body of research' which shows that conditionality cannot buy reform; that it is overburdening and hinders performance.[40]

51. The Commissioner told us that although conditionality was not popular with NGOs it was important. He explained that the EU needed to be asking questions such as:

> are the conditions right, is public finance management there, is the human right situations there, is the macroeconomic situation there?[41]

52. Mr Stephen O'Brien MP, DFID Parliamentary Under-Secretary of State, was aware of the different views on "what would be appropriate conditionality" and how it would be defined.[42] He questioned how funding could be withdrawn without impacting on "the very poor people that the whole purpose of your programme was intended to address."[43] He was also concerned that the divergent views across the EU could mean setting such a high political eligibility criteria that it could exclude all but the but the very best-performing low income countries. However he made clear that a commitment to human rights was a key condition of UK aid under the Coalition Government and that the UK was waiting to see what the Danish Presidency drafted on the matter.[44]

53. **We need to be careful that money spent is not directly or indirectly used for the wrong purposes by the heads of corrupt regimes. However we also agree with the UK Government that conditionality should not punish the poorest people for the sins of their governments.**

Economic growth and the private sector

54. *An Agenda for Change* said that the EU should encourage more "inclusive and sustainable economic growth" which was "crucial to long-term poverty reduction".[45] Its vision includes:

- attracting and retaining private domestic and foreign investment and levering the private sector to deliver public goods;
- corporate social responsibility at international and national level;
- creating healthy educated workforces by focusing on social protection, health and education - supporting sector reforms and strengthening local capacities;
- creating favourable business environments by supporting regulatory framework reforms and promoting agricultural, industrial and innovation policies;

40 Ev 54

41 Q 105

42 Q 156

43 Q 155

44 Q 163

45 European Commission Communication *Increasing the Impact of EU development Policy: an Agenda for Change* Brussels 13 October 2011 p 7

- better and more targeted Aid for Trade and trade facilitation;
- supporting sustainable agricultural practices; and
- offering technology and expertise as well as funding to secure access to affordable, clean and sustainable energy.

55. The Commissioner told us:

> economic growth *per se* does not guarantee less poverty in the country, but without growth you can't expect to win against poverty. [...] the private sector brings economic prosperity but also the rule of law. It brings also democracy and human rights.[46]

He recognised that there were three basic difficulties for the private sector in developing economies: access to money which he believed could be achieved through development banks; access to energy, which he saw as crucial particularly in rural areas; and governance which he saw could be achieved through political dialogue and discussion with the EU.[47]

56. The NGOs' main concern is that the focus on the private sector will benefit international multinational companies rather than local business and that commercial profit will be prioritised over social and environmental concerns. BOND said:

> The Agenda fails to recognise that increasing levels of economic growth will not automatically deliver desired development results. Its narrow focus on GDP-led growth and a reliance on 'trickle down' effects of private sector development alone, without full consideration of environmental and social impacts and resource constraints, will only deliver unsustainable development, the challenges of which will far outweigh any short-terms gains.[48]

57. The Minister used the example of China as where the growth of the private sector had delivered millions of people out of poverty. His vision for economic growth was to "focus on building local institution and business capacity, to encourage the development of small and medium sized enterprises and co-operatives" and to create regulatory and legislative framework reforms which are conducive to growth.[49] He thought that this had been suitably reflected in *An Agenda for Change* saying:

> I am pleased to see that they are looking to support economic growth and the private sector, which is again aligned with the realignment of DFID policies for the UK

and he said that the UK was working with the EU to make more effective use of the European Investment Bank in supporting the private sector by boosting resources available to business.[50] However, we are unclear how the Commission proposes to assist the private sector as the Agenda lacks specific details.

46 Q 107

47 Q 107

48 Ev 48

49 Q 168

50 Qq149, 169

58. **We support both the UK Government and the European Commission's focus on wealth creation through the private sector. DFID needs to get clarification from the European Commission on what this means in practice, how it is to be achieved and, in particular, how the Commission intends to support local business and ensure access to finance for small to medium-sized businesses or entrepreneurs in developing countries.**

Policy coherence

59. Article 208 of the Lisbon Treaty obliges the EU to take into account development policy objectives in any other policies which might impact on developing countries. *An Agenda for Change* states that the EU is at the 'forefront' of the Policy Coherence for Development agenda. However, the Agenda is very light on detail only singling out the need for a joined-up approach to security and poverty and smoothing the transition from humanitarian aid and crisis response to long term development cooperation. It also mentions migration and mobility.

60. ODI suggests that, in order to promote development, the EU needs to implement meaningful reforms to the Common Agricultural Policy (CAP) to remove damaging distortions in the market.[51] The ODI said:

> the Common Agricultural Policy, is one of the main obstacles to a lot of development objectives.[52]

This has also been echoed by African academics who said back in 2010 through a letter to the Daily Telegraph:

> A real offer from the British people to help our development would consist of the abolition of the Common Agricultural Policy, which keeps African agricultural exports out of the European marketplace.[53]

61. The Minister told us that the UK Government was working to ensure there was a strong focus on developing countries in EU trade negotiations. The UK was also pressing for trade liberalisation and new economic partnership agreements with the ACP countries.[54] He highlighted the importance of policy coherence on climate change and its consequences on poverty, survival and economic opportunity and said that the UK was pressing for greater coherence between DG CLIMA[55] and DG DEVCO to gain a clearer EU position on climate finance .[56]

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51 Ev 54

52 Q 83

53 Letters to the Editor, *The Telegraph*, 22 August 2010 signed by Andrew Mwenda, Editor, Independent newspaper, Uganda; Franklin Cudjoe, Executive Director, IMANI Center for Policy and Education, Ghana; Kofi Bentil, Lecturer, University of Ghana and Ashesi University, Ghana; Thompson Ayodele, Executive Director, Initiative for Public Policy Analysis, Nigeria; Temba Nolutshungu, Director, Free Market Foundation, South Africa; and Leon Louw, Law Review Project, South Africa

54 Q 169

55 The European Commission Directorate-General for Climate Action ("DG CLIMA") was established in February 2010 and is responsible for the climate change agenda

56 Q 188

62. **Greater policy coherence in Europe on development is a worthy aim. There has been a slight improvement in the trade agenda and the Minister is optimistic on the potential for coherence between Climate Change and Development policies. However, as African academics have highlighted, the reform of the Common Agricultural Policy (CAP) could do more good than anything else. DFID needs to take a greater role in UK Government discussions highlighting the damage done by both tariff and non-tariff barriers to the developing world. In particular DFID should press Commissioner Piebalgs to engage widely in Europe on development, challenging those with vested interests in the CAP and who oppose its reform. There needs to be a much tougher approach to joined up government on development.**

Joint programming

63. *An Agenda for Change* highlights that "fragmentation and proliferation of aid is still widespread and even increasing" and as a result concludes that the European Commission "must take a more active leadership role" to make European aid more effective. The European Commission's solution is joint programming of EU and Member States' aid through multi annual programming documents which draw up the division of labour and financial allocations per donor and per sector. The intention is for Member States to follow the document when devising their own bilateral aid plans. As Simon Maxwell told us:

> there are too many donors in the world. We do not need lots and lots of small donors all trying to tell the Government of Ghana how to run its health policy. There is a strong case for multilateralism simply in order to reduce transaction costs.[57]

64. So far joint programming is being piloted in two areas, one of which - South Sudan - we have recently visited and reported on.[58] It was evident from our visit that the establishment of the EU's full delegation is still in an early stage and we are unable yet to assess how this arrangement is working.

65. The Minister told us that joint programming was the one area of concern for the UK Government with *An Agenda for Change*. He said that the UK was pushing the case in negotiations for any joint programming to be "country led", "locally owned", and that it must be a "partnership arrangement"—he was firm that it must not be a "mandatory, EU led process."[59] He concluded that:

> We would never sanction the idea of joint programming going to the point where ultimately Ministers were not responsible for the decision that we make about the way that DFID's budget is spent, and about the way that we can achieve greatest value for money through the impact we can have on the poorest people.[60]

57 Q 50

58 International Development Committee , Fifteenth Report of Session 2010-12, *South Sudan: Prospects for Peace and Development,* HC 1570,p 35

59 Q 150

60 Q 157

Simon Maxwell explained that DFID and other big bilaterals were "nervous that the Commission does not have the capacity to lead and do not necessarily want to be coordinated in that way."[61]

66. The concern is, however, that without joint programming the European Commission merely becomes a 28th donor—a further donor for the recipient country to have to deal with on top of the 27 Member States' bilateral programmes. The Minister recognised this. He also thought that the pilot in South Sudan was going well—coordinating the significant donors.[62] For joint programming to work his vision was for a situation:

> where people come together in order to share what they believe to be the best way forward, to be tailored to the country, to be country led, to be negotiated partnership arrangements, and then to make sure that there is a real sense of ownership.[63]

67. It seems sensible that there is a reduction in the overlap between donors by having a form of joint programming, however the question remains over who coordinates the process if Governments do not want to hand over responsibility of bilateral projects to the European Commission. As the ODI points out—everybody wants to coordinate, but no one wants to be coordinated.[64]

68. **We have concerns that, although joint programming has the potential to prevent the overlap of Member State bilateral programmes and reduce transaction costs for recipient countries, the European Commission does not necessarily have the capacity or the expertise to lead the coordination. The lead donor who coordinates policy for bilateral donors should be the one with the most experience in the area and a proven track record.**

Differentiated development partnerships

69. *An Agenda for Change* states that:

> The EU must seek to target its resources where they are needed most to address poverty reduction and where they could have greatest impact.
>
> A differentiated EU approach to aid allocation and partnerships is therefore key to achieving maximum impact and value for money.[65]

The Commissioner intends to do this by allocating funding according to country needs assessed using several indicators including: its fragility and vulnerability; its ability to generate domestic resources and its access to other sources of finance; its investment in education, health and social protections as well its progress on democracy and good governance; and the potential impact the EU funding would have especially on political

61 Q 84

62 Qq 152, 158

63 Q 159

64 Ev 53

65 European Commission Communication *Increasing the Impact of EU development Policy: an Agenda for Change*, Brussels 13 October 2011 p 9

reform and on private sector investment.[66] The Communication recognises that this could result in "less or no development grant aid" for some countries and a different development relationship with others.[67]

70. The proposals for differentiated development partnerships are already underway in the EU. In December 2011 the European Commission unveiled its proposals for the EU's external action instruments as part of the Multi Annual Financial Framework (the European Commission spending review) for 2014-20. The Commission has proposed that all countries that represent more than 1% of the world's GDP or are upper middle income are to be excluded from receiving bilateral aid. So as of 1 January 2014, 19 countries will no longer be eligible for bilateral aid.[68] However these countries may still be eligible for aid through the European Neighbourhood and Partnership Instrument, European Instrument for Democracy and Human Rights and the Instrument for Stability, as well as thematic funding under the Development Cooperation Instrument. It is expected that the Commission will 'save' around €2 billion which can then be invested in poorer countries.[69] Simon Maxwell explained:

> if countries have resources, including large foreign exchange resources—and India has over $250 billion-worth of foreign exchange—it is hard to see why we should be taxing British people in order to add to those resources.[70]

However last year we concluded that we supported DFID's programme in India as there were more poor people there than in the whole of sub-Saharan Africa.[71]

71. BOND has expressed concern about differentiation between countries on the basis of whether they are middle income or low income, saying this is too simplistic and inconsistent with the objective of reducing poverty. BOND prefers the UK approach of using "individual, country specific analysis, transparent criteria and a pro poor approach which allows different targeted forms of cooperation to be developed."[72] Tearfund also argues that the European Commission should follow DFID's lead and target aid to the poorest regions within middle income countries whilst working with the governments to develop their own poverty reduction strategies.[73]

72. ODI has questioned the validity of the European Commission's proposed criteria given that South Africa and Cuba both qualify for the cut to funding as countries that represent more than 1% of the world's GDP and yet are excluded. ODI's key questions are: what

66 European Commission Communication *Increasing the Impact of EU development Policy: an Agenda for Change*, Brussels 13 October 2011 pp 9-10

67 European Commission Communication *Increasing the Impact of EU development Policy: an Agenda for Change*, Brussels 13 October 2011 p 10

68 17 Upper Middle Income Countries (Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay); and 2 Lower Middle Income Countries with GDP larger than 1% of global GDP (India, Indonesia)

69 Gavas Mikaela, "The European Commission's legislative proposals for financing EU Development Cooperation", *ODI*

70 Q 62

71 International Development Committee, Eight Report of Session 2010-12, *The Future of DFID's Programmes in India*, HC 616

72 Ev 48

73 Ev w7

countries will graduate next? How will this be approved? How will these funds be redistributed?[74]

73. A further concern amongst NGOs is that, for those countries which will no longer receive aid, there should be a clear exit strategy and not a sudden cut in funding.[75] ODI suggests relationships with these middle income countries might be developed: as countries such as India are often strategically important, the European Commission might not have an "aid" relationship, instead one based on mutual cooperation in specific sectors, in particular climate change.

74. Considering the concern that so much EU funding goes to middle income countries – the Commission's proposal of differentiated development partnerships seems in line with DFID policy. We questioned the Minister on the reduction in the number of countries and he said that

> The UK has pushed very hard to ensure that aid is targeted where it will have the most impact, very much based upon individual country needs, as properly assessed, and the priorities we have set[76]

and he was keen that EU policy should be focused on 'pro-poor' projects.[77] In addition by being in fewer countries the European Commission administration costs should be reduced.

75. **We support the European Commission's proposals for differentiated partnerships and, in particular, that there should be a reduction in the number of countries in which the Commission has a programme. However, the Commission should go further. So far the proposals have been focused on the Development Co-operation Instrument. We believe that this should also cover countries which receive funding under the European Neighbourhood Partnership Instrument and those who are members of the African, Caribbean and Pacific group covered by the European Development Fund.**

Budget support

76. Alongside the publication of the Communication on *An Agenda for Change*, the Commission published proposals on the use of its budget support.[78] The Communication on Budget Support ties in with *An Agenda for Change*'s greater emphasis on conditionality. As the Commissioner told us:

> When we engage in budget support we should spell out much more the obligations and expectations from both sides. They expect, and rightly expect, that the money will be delivered exactly on the date and they could put it in the budget [...] but from the other side I also need a clear commitment that is deliverable. I also need the

74 Herbert Sian 'The EU's policy on differentiation: Tackling poverty and global challenges?'Presentation to Workshop hosted by Concord Denmark

75 Ev 53

76 Q 149

77 Q 153

78 Budget support is money which is paid directly to the recipient country's government to fund development projects.

> political situation in the country not to deteriorate so that I have a full conscience when I am delivering budget support.[79]

77. Simon Maxwell explained the advantages of budget support as being twofold:

> The first is you save a lot of money on admin costs by spending on budget support. It costs about a third as much to deliver budget support as it does project aid. Secondly, and more importantly from a development point of view, budget support empowers local governments; it supports their political process in setting budget priorities, and strengthens institutions in the recipient country. There is a good substantive reason why budget support has been very popular. [80]

78. DFID said that whilst it supported joint dialogue on political and other conditions for budget support, it would ensure that the UK and other EU Member States retained ministerial authority over bilateral budget support operations.[81] The Minister also told us that DFID would be reducing the proportion of its overall bilateral spending through budget support over time.[82]

79. **Whilst we approve of the concept of budget support we also recognise that it has its limitations when countries are emerging from conflict and are fragile. It is only suitable in countries with sound administrative capacity and a reasonable record of pluralism and human rights.**

79 Q 105

80 Q 64

81 Ev 65

82 Q 155

5 Funding: Multi Annual Financing Framework

80. The European Commission's proposals for the External Actions budget (Heading 4: Global Europe) of the Multi Annual Financial Framework (MFF)—the EU budget—will be negotiated over the course of this year and possibly into next year. The Minister, Stephen O'Brien MP stated that:

> The UK sees the EU external spending (Heading 4) as a relative priority and will be arguing for a strong development outcome in the negotiations with a focus on protection of increasing the proportion of Official Development Assistance within a reduced overall post-2013 EU budget.[83]

European Development Fund budgetisation

81. As part of the MFF negotiations comes the long-standing debate on incorporating the EDF into the European Commission budget (EDF budgetisation). While the European Commission and the European Parliament have been proponents of budgetisation in the past, the EU Member States' views diverge. The UK has traditionally opposed budgetisation for the following reasons:

- Member States have more influence over EDF decision-making than European Commission budget-financed development cooperation.
- The poverty focus of the EDF would be put at risk by integrating it into the European Commission budget where funds have the potential to be diverted to different priorities.
- The EDF provides more predictable funding as it is established for a six year period as opposed to the European Commission budget which is approved on an annual basis by the Budgetary Authority (the Council and the European Parliament).

However, the main argument against budgetisation is the extra cost to some Members States as their shares became based on a percentage of GNI rather than on voluntary contributions. This would particularly affect new Member States whose contribution would increase substantially. The UK contribution will decrease slightly—by around 3%.

82. In this round of the MFF, the European Commission has proposed to maintain the EDF outside the European Commission budget. The reasons given for this are:

- this is the last EDF under the Cotonou Agreement which expires in 2020. In the eight years until the Cotonou Agreement ends, the ACP and the European Commission can work on possible options for the future and plan for more radical changes; and
- it is unlikely that a consensus between the Member States in favour of 'budgetising' the EDF would be found.

83 Ev 77

Commissioner Piebalgs told us:

> I know that politically it is more attractive to look to the north of Africa and to the neighbourhood. I know it, but I care that the people in the Solomon Islands, Nepal or Burkina Faso get the money, and the EDF has clout as a poor country or poor people instrument. In these times of austerity, I did not want us, in the budget debate, to put away this issue as a secondary one[84]

An overall amount of €30.3 billion (in 2011 prices) has been proposed for the next seven-year budget, a 13% increase on the €26.9 billion (in 2011 prices) for the current six-year budget (2008-13). The overall amount will need to be agreed by all the Member States.

83. Like the Commission the UK Government has also changed its position on EDF budgetisation: it is now arguing for it to be budgetised but only under the following conditions:

— EDF criteria on purpose and allocation is maintained;

— aid to ACP countries (and Overseas Countries and Territories) is ring-fenced although it should be frozen at 2013 levels in line with the UK position of no real growth in any area of European Commission expenditure;

— long term financing on a seven year basis is ensured with regular reviews to allow for adjustments;

— the fundamental principles of the EU-ACP partnership are protected with the focus on poverty reduction; and

— the decision-making process is protected with the EDF Committee - in which the 27 Member States are represented - continuing to have the ultimate decision making power.[85]

84. **We do not support the European Development Fund (EDF) becoming part of the main European Commission budget in 2014, six years before the expiry of the Cotonou Agreement. EDF budgetisation should only be considered if: there is a shift in European Commission budget funding away from middle income countries to the poorest people and the poorest countries; it can be used as a way to get other Member States to contribute more; and there is thorough consultation with the ACP. The future of the EDF should be discussed in parallel to the future of EU-ACP relations.**

Development Cooperation Instrument

85. The European Commission has proposed a 19% increase in the Development Cooperation Instrument (DCI)[86] in real terms, from €17.2 billion to €20.6 billion in 2011 prices, compared to a 13% increase in the EDF, from €26.9 billion to €30.3 billion.

84 Q 112

85 Information from informal meetings in Brussels with DFID /EU officials

86 Development Cooperation Instrument (DCI) concentrates on Asia, Latin America, the Middle East and South Africa as well as containing a set of crosscutting thematic programmes which are applicable to all developing countries.

Commissioner Piebalgs explained to us that the increase in the DCI was due to two new elements: the fight against climate change; and the the EU-Africa partnership—supporting action plans agreed at the EU/African Union summit.[87]

86. The Commissioner's assessment is reflected in the reorganisation of the five previous thematic programmes of the DCI (Non-State Actors, Food Security, Investing in People, Environment, Asylum and Migration) into: Global Public Goods and Challenges (where 25% of funding must go to climate change); Civil Society Organisations and Local Authorities; and the Pan-African programme.

87. In addition to the regrouping of the thematic programmes there are further changes to the DCI. One proposal is to simplify the programming process—country strategy papers will be superseded by national development plans which the European Parliament will no longer have a formal programming role with. Instead the European Commission proposes consulting an advisory committee of Member States. Another proposal is to make the instrument more flexible to respond to evolving situations by cutting out the legislative process for changing geographic and thematic programmes and reducing it to a delegated act which will just require consent from the Member States and the European Parliament.[88] The final proposal is that of differentiated development partnerships as discussed in the previous chapter under *An Agenda for Change*.

88. **In light of the results of DFID's Multilateral Aid Review we are not convinced that the Development Cooperation Instrument (DCI) should get a larger percentage increase in its funding than the European Development Fund. We recommend the UK Government negotiates for a smaller increase to the DCI unless efficiency and effectiveness is significantly improved.**

The 0.7% target

89. In 2005 the EU and its Member States agreed to achieve a collective target for Official Development Assistance of 0.7% of GNI by 2015 and an interim target of 0.56% by 2010. The EU missed its 2010 target, providing €53.8 billion of development assistance (0.43%) missing the target by €15 billion.

90. A recent academic paper argues that, if EU Member States are to meet the pledges they have made for 2015 then aid will need to roughly double. The paper maintains that if the Commission is to keep its 'market share' of this target, its aid would also need to double its spending and continue to increase it throughout the period of the MFF.[89]

91. However this comes at a time of recession in some EU Member States and with governments under pressure domestically to reduce overseas spending. Some Member States have taken the position that the European Commission budget as a whole including

87 Q113

88 Gavas, Mikaela 'The European Commission's legislative proposals for financing EU Development Cooperation', ODI, February 2012

89 European Think-Tanks Group, *The EU's Multi Annual Framework post 2013: Options for EU development cooperation,* June 2011

the EDF should be reduced by €100 billion.[90] Commissioner Piebalgs described the situation to the Committee as “an uphill struggle” but one with which he “will not admit failure because what gives [him]courage is the UK [achievement]”.[91]

92. We asked the Minister what the UK was doing to encourage other Member States to keep their promise to meet the 0.7% target. The Minister replied that the most effective means was leading by example.[92] While the UK met its target for 2010 of 0.56% and is on track to meeting its 0.7% target by 2013, other member states need to improve. Although in 2011 a majority of members of the German Bundestag expressed their support for the 0.7% target,[93] Germany is still some way off meeting this target (currently 0.4% of GNI); as is France, whose aid dropped (-5.6%) to 0.46% of GNI. In other countries declines in ODA spending have been even greater.

93. **We agree with the Minister that the UK should continue to lead by example in making progress towards the 0.7% target. It is only by meeting the target ourselves can we continue to put pressure on other EU Member States to do the same, particularly Germany, France and Italy.**

90 Kilnes, Keijzer and Seters and Sheriff, *More or less? A financial analysis of the proposed 11th European Development Fund*, ECDPM March 2012 briefing note

91 Qq 88, 114

92 Q 183

93 Keeping our Promise! Appeal for a cross-bench development policy consensus on the achievement of the 0.7% target http://entwicklungspolitischer-konsens.de/DP_Appeal.pdf

Conclusions and recommendations

Relations between the EU organisations with responsibility for development

1. We are concerned that two separate European Commission departments dealing with development aid and humanitarian aid pose problems for linking relief, rehabilitation and development. Furthermore, clarity is needed on roles and responsibilities between the European External Action Service (EEAS) and the Directorate-General of EuropeAid, Development and Co-operation (DG DEVCO)in the programming process. The UK Government should seek reassurances that DG DEVCO, the Directorate-General for Humanitarian Aid and Civil Protection (ECHO)and the EEAS are working together in a coherent and coordinated manner and that anti-poverty objectives are not being marginalised within the EEAS. (Paragraph 20)

Disadvantages

2. Although the European Commission has higher administration costs for development than DFID it is difficult to compare like for like. The Commission does far more direct work which requires a greater level of administration. We urge however, the Government to continue to stress the need for value for money. (Paragraph 31)

3. The UK Government should push the European Commission to improve its policy capacity, given its status as the largest supplier of development aid in the world. (Paragraph 34)

4. We welcome the Government's commitment to improve the bureaucracy of procurement at the European Commission but there still seems to be a long way to go. The Government must put more pressure on the Commission to make further improvements. (Paragraph 40)

5. It is unacceptable that only 46% of aid disbursed through European institutions goes to low income countries. It devalues the concept of aid when so much of what is defined as Official Development Assistance (ODA) goes to relatively rich countries such as Turkey. We do not agree with the Government that it should not seek to change the definition of what qualifies as ODA—money given to higher middle income countries should not be classified as ODA, nor do we believe it is right to keep the present definition as a way of fudging the figures to meet the 0.7% target. The UK must continue to press for funding to be diverted from those higher middle income countries, who have their own resources to provide for their people, to give greater help to the poorest people in the world, including in lower income countries. (Paragraph 45)

Conclusion

6. The UK has a certain amount of choice whether it spends its aid bilaterally or through multilaterals. Although we have acknowledged that there are some problems with channelling aid through the European Commission for example the large amount of aid going to middle income countries and its slow bureaucracy, on balance we are not convinced it is any worse than the other multilaterals DFID funds, for example the World Bank which we have previously reported our concerns on. However DFID should continue to press the Commission to improve its aid effectiveness and value for money. (Paragraph 46)

Human rights, good governance and greater democracy – conditionality

7. We need to be careful that money spent is not directly or indirectly used for the wrong purposes by the heads of corrupt regimes. However we also agree with the UK Government that conditionality should not punish the poorest people for the sins of their governments. (Paragraph 53)

Economic growth and the private sector

8. We support both the UK Government and the European Commission's focus on wealth creation through the private sector. DFID needs to get clarification from the European Commission on what this means in practice, how it is to be achieved, and in particular, how the Commission intends to support local business and ensure access to finance for small to medium-sized businesses or entrepreneurs in developing countries. (Paragraph 58)

Policy coherence

9. Greater policy coherence in Europe on development is a worthy aim. There has been a slight improvement in the trade agenda and the Minister is optimistic on the potential for coherence between Climate Change and Development policies. However, as African academics have highlighted, the reform of the Common Agricultural Policy (CAP) could do more good than anything else. DFID needs to take a greater role in UK Government discussions highlighting the damage done by both tariff and non-tariff barriers to the developing world. In particular DFID should press Commissioner Piebalgs to engage widely in Europe on development, challenging those with vested interests in the CAP and who oppose its reform. There needs to be a much tougher approach to joined up government on development. (Paragraph 62)

Joint programming

10. We have concerns that, although joint programming has the potential to prevent the overlap of Member State bilateral programmes and reduce transaction cost for recipient countries, the European Commission does not necessarily have the capacity or the expertise to lead the coordination. The lead donor who coordinates policy for bilateral donors should be the one with the most experience in the area and a proven track record. (Paragraph 68)

Differentiated development partnerships

11. We support the European Commission's proposals for differentiated partnerships, and in particular, that there should be a reduction in the number of countries in which the Commission has a programme. However, the Commission should go further. So far the proposals have been focused on the Development Co-operation Instrument. We believe that this should also cover countries who receive funding under the European Neighbourhood Partnership Instrument and those who are members of the African, Caribbean and Pacific group covered by the European Development Fund. (Paragraph 75)

Budget support

12. Whilst we approve of the concept of budget support we also recognise that it has its limitations when countries are emerging from conflict and are fragile. It is only suitable in countries with sound administrative capacity and a reasonable record of pluralism and human rights. (Paragraph 79)

European Development Fund budgetisation

13. We do not support the European Development Fund (EDF) becoming part of the main European Commission budget in 2014, six years before the expiry of the Cotonou Agreement. EDF budgetisation should only be considered if: there is a shift in European Commission budget funding away from middle income countries to the poorest people and the poorest countries; it can be used as a way to get other Member States to contribute more; and there is thorough consultation with the ACP. The future of the EDF should be discussed in parallel to the future of EU-ACP relations. (Paragraph 84)

Development Cooperation Instrument

14. In light of the results of DFID's Multilateral Aid Review we are not convinced that the Development Cooperation Instrument (DCI) should get a larger percentage increase in its funding than the European Development Fund. We recommend the UK Government negotiates for a smaller increase to the DCI unless efficiency and effectiveness is significantly improved. (Paragraph 88)

The 0.7% target

15. We agree with the Minister that the UK should continue to lead by example in making progress towards the 0.7% target. It is only by meeting the target ourselves can we continue to put pressure on other EU Member States to do the same, particularly Germany, France and Italy. (Paragraph 93)

Formal Minutes

Tuesday 17 April 2012

Members present:

Mr Malcolm Bruce, in the Chair

Richard Burden
Jeremy Lefroy
Chris White

Draft Report (*EU Development Assistance*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 93 read and agreed to.

Resolved, That the Report be the Sixteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 24 April at 10.00 am

Witnesses

List of printed written evidence

List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/treascom)

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Oral evidence

Taken before the International Development Committee

on Tuesday 24 January 2012

Members present:

Malcolm Bruce (Chair)

Hugh Bayley
Mr Sam Gyimah
Jeremy Lefroy
Mr Michael McCann
Chris White

Examination of Witnesses

Witnesses: **Romina Vegro**, EU Policy Officer, Bond, and **Jenny Brown**, Senior EU Relations Adviser, Christian Aid, gave evidence.

Q1 Chair: Good morning and welcome, and thank you for coming in to give evidence. It is the first formal evidence session of our inquiry into the role of the European Union as a development partner. What we are trying to explore is how good and effective it is at delivering UK development policy on our behalf. I wonder, for the record, if you could just introduce yourselves.

Romina Vegro: Romina Vegro, working at Bond as EU Policy Officer.

Jenny Brown: My name is Jenny Brown. I am Christian Aid's Senior EU Relations Adviser.

Q2 Chair: Thank you very much. To get started, the EU development budget falls under a number of different heads, and different commissioners for that matter. There is the main budget and what is then determined to be development, and then there is the EDF. I just wondered if you could perhaps give us your view on the extent to which you believe the EU general budget, from a development point of view, delivers value for money.

Romina Vegro: Thank you for inviting us today, and we welcome very much the inquiry. Especially, we welcome the fact that the inquiry recognises the importance of the EC as a development actor and donor. As you well know, the EC is the world's largest provider of aid. It is also the main trade partner for a vast number of developing countries and a key actor in political dialogue within other international institutions, like the G20, the UN and so on. It is committed to poverty eradication and to reaching the MDGs.

We believe that EC development cooperation is effective. We think it is good value for money for the UK to channel aid to the EC. We also very much affirm the commitment of the UK Government to value for money; we think value for money is a very important element of aid policy. We think that to achieve value for money we need to ensure that we achieve long-term sustainable development, as well as shorter-term measurable outcomes. If we look at value for money in this way, we would say that it is very good value for money for the UK to channel aid through the EC, because we think that the UK can achieve much greater change and political influence through the EC than it could do by channelling aid bilaterally.

Q3 Chair: I might pursue that question in a minute. Maybe you will comment, Jenny, because I will come back to you on that one.

Jenny Brown: Building on what Romina has said, likewise we affirm the importance of the debate and the commitment around value for money, but you could actually add even more value for money to the value for money you are getting by taking the longer-term perspective, specifically in terms of European Commission funding.

There are two ways in which value is added, as compared with bilateral aid. The first of those is policy reach. The Commission has responsibility not just for development but for a very wide range of other external-facing policies, which are all capable of contributing to development. That gives it a real strength. It is not just an aid donor; it relates to developing countries in a very wide range of ways—climate change, migration, agriculture and fisheries, trade. All of those and more can be linked together. That is another angle on policy coherence for development, which we may well talk about a little bit later. This ability to bring lots of different policies together is a really important added value.

The other added value, the main one, is about coordination, efficiency and the fact that, if you have multiple donors, there are going to be multiple administration costs, for instance, which you would not get if funds are channelled through one donor. There are issues there of efficiency and coordination, which again the Commission can add a lot of value to.

Q4 Chair: I suppose the question is how much influence the UK, as a Member State, can have over the core budget priorities on development terms. We know that quite a lot of the money goes to the Neighbourhood Policy, which would not be our priority, although presumably that money would be spent however it is defined, because it meets policy objectives, although they may not be development policy objectives. Also, a lot of it is spread over countries that may be regarded as middle income, which again would not be the UK priority. To what extent are we able to get the main core budget focused in a way that is more parallel to the UK? In other words, are there other Member States that would agree with us or would it have a distorting effect, because something else would have to give? What do you think of the dynamics of being able to do that?

Romina Vegro: If I may say, the UK actually has quite a lot of influence on how the budget is spent, because the EU budget—and the next Multiannual Financial Framework is being discussed at the moment and will be negotiated over the next year—is actually agreed in the Council, and the UK is one of the members of the Council and quite a powerful Member State, a big one, within the EU. The Council will take a decision not only on the size but also on the priorities of the budget, the kinds of instruments and how much money is allocated to each. The best way for the UK to have influence is to really engage in the discussion at all levels, but especially in the Council, both from the side of the FCO going to the General Affairs Council, which decides on the budget, but also from the DFID side.

Q5 Chair: Can I ask either of you if there is any specific example of a situation where DFID has argued a case and made a change? It is one thing to say, "You have influence. You are a big player. People might listen," but is there any evidence of a particular element of policy where the UK has actually helped to do that?

Romina Vegro: One good example is the adoption of the European Consensus on Development in 2005. The UK was key in ensuring that the Consensus was drafted by the Commission and then adopted by the Council. The UK had a very strong influence because they engaged and put their political weight behind it.

Q6 Chair: I have one final question before I bring in Michael. I take your comment, but I will give you the question and you can pick it up as well. Although the different funds are administered by the same part of the EU, the UK gave them different evaluations in the Multilateral Aid Review. The budget contribution was described as weak; the development objectives, satisfactory; and positive change, likely. How do you get three different evaluations of the same delivery mechanism?

Jenny Brown: The real strength of the EDF is the commitment to a partnership model dealt with through the Cotonou Partnership Agreement. That is the big distinction between the EDF and the general budget structures. The reason why that is so significant and why it gave the EDF the edge, both in institutional strength but also its coherence with the British Government's priorities, is it makes sure that the recipient Governments are very heavily involved at all stages of all decision-making processes, so there is a real participation and ownership, which is written down as required.

In the Cotonou Agreement, there are three pillars, one of which is aid, one of which is trade and one of which, importantly, is the political dialogue. Again, that sets out a structure and an opportunity. It institutionalises that opportunity for real in-depth, ongoing political relationships with the ACP countries.

Civil society is also expected and enabled to be much more a part of the processes under the Cotonou Agreement, including decisions on aid priorities, than institutionally it is with the EC budget. Obviously in practice, depending on where you are and what you are talking about, there is a lot of recipient Government involvement and civil society involvement in EC budget aid as well. The big distinction for the EDF is this partnership model. When the new Development Cooperation Instrument—DCI—is negotiated for the next few years, it would be rather nice if these principles are reinforced and built into that, because it is pretty obvious, as the Government have recognised, that they are good things.

Q7 Mr McCann: Good morning. Could I continue on the value-for-money theme and ask about your thoughts on administration costs? You mentioned a few moments ago, Jenny, that by putting money through the EU there can be economies of scale, but if you look at the administration costs, for example, of DFID at 2.1% of budget, compared with 5.4% for EU development assistance and 8.6% administration costs for the European Development Fund, they do not really tally up. Do you have any view on why there is such a significant difference between the administration costs for DFID and those of the two EU structures?

Jenny Brown: The first point to make is that like has to be compared with like. I do not know enough about those figures to be sure that they are directly comparable, but there are some general principles, which include the fact that lower admin costs do not automatically generate better value for money, and often they might result in poorer outcomes, simply because the support is not there. While recognising that administration costs do need to be monitored and kept in check, we need to be a little bit careful about saying low is automatically better than slightly higher. Again, there are issues around what sort of aid you are delivering and in what sort of context. If you are delivering aid, for instance, in a situation of conflict or a fragile state, it is going to be much more difficult and much more expensive to deliver that aid than if you are in a much more stable context. South Sudan perhaps is a good example—a very recent, very fragile state, with incomplete governance structures and so on. That is going to be hugely difficult to deliver aid into, but one would hope that nobody would say, "Because it is going to be expensive, we are not going to do it." I am not specifically answering your question, because I do not know the answer, but I would like just to flag those kinds of issues.

Q8 Chair: A quick supplementary on that: the EU engages with a lot more countries bilaterally than DFID does. Is that a factor in their admin costs or do you not know?

Romina Vegro: I think probably there is a point to make in the fact that the EC engages in a number of fragile states. If we were to go back to the point that Jenny was making about delivering aid in those kinds of situations, then yes; possibly that could be a factor of the EC's higher admin costs. It operates in some very difficult environments, which require a high level of monitoring, supporting and evaluation in order for the aid to be effective.

Q9 Mr McCann: It maybe requires a bit more analysis. DFID is world renowned and is an exemplar in aid work across the globe, so it would be difficult to think that their operating costs and how they work in this country and across the world would somehow be seen to be less effective than the EU. More importantly, the British Government have also made it clear that fragile conflict states are at the heart of the programme that the Government have put forward. In terms of the Commission, there has long been a criticism, for many, many years, that it is slow to disburse aid. Why do you think that is and what do you think could be put in place to remedy it?

Romina Vegro: Do you specifically mean aid to NGOs?

Mr McCann: Yes.

Romina Vegro: The EC is a very significant donor for UK NGOs specifically. In 2009 alone, UK NGOs raised around €340 million from the EC, and this is much more than any other national platform of NGOs in any other EU Member State has been able to raise. Having said that, we can list a number of points that reflect our experience of EC aid. We have asked our members—Bond has a role to facilitate members discussing issues related to EC funding—and we have not really found that low disbursement is one of the major problems.

Aid is disbursed by two different DGs in the Commission. One is ECHO, which funds work around emergencies and disasters, and then DG DEVCO funds development projects. With ECHO certainly, there is a very fast disbursement time, because of the nature of their work. It is about emergencies, so they have to disburse quickly. With DEVCO, we found that it varies a little bit, depending on the delegations that deal with the funding. EC funding is very much managed from the country, so the EC delegations seem to have quite different levels of expertise and capacity to deal with the funding. In some cases, there have been delays, but it is not really our experience that slow disbursement is the major problem.

One point that we would raise is that EC funding has quite complex application and grant management processes, due partly to the fact that there is a very high requirement for accountability. That limits the access that smaller NGOs have to that kind of funding, because they very often lack the capacity to deal with such a complex application process and also manage the grant when they get it. Also, because EC funding usually requires match funding from the organisation itself, a lot of smaller NGOs would not have the financial capacity to match the funding. That is one of the main problems that we find.

Q10 Hugh Bayley: Jenny, you made the statement that low admin costs do not necessarily lead to efficient use of aid. I understand the argument, but is it more than an argument? Is it based on evidence and, if so, who has calculated the comparability of administration costs and the impact in terms of aid effectiveness?

Jenny Brown: I cannot give you any of those formal calculations but, if it would help, I can check it out and see whether colleagues are able to come back to you on that.

Q11 Hugh Bayley: Okay. Can I ask one final thing? One of the reasons, I imagine, that DFID's administration costs are low is that roughly half of the budget is simply passed off to other donors, such as the EU and the World Bank. Is any part of the EU budget passed on to other multilateral donors?

Romina Vegro: I do not have the exact figures here but, yes, a small percentage of the EC budget is passed on to the World Bank, the UN or other multilaterals. The reason why that is, according to the Commission, is that in some cases there is no point in duplicating work that the UN or the World Bank is already doing, so it is a question of efficiency. If the UN has a very good project, for example on health in Malawi—I am making completely a wrong example—then the EC would not set up a similar project and would just put money into the existing UN project, because it would be more efficient to do so. This is the reason why the Commission channels some of its funding through other multilaterals, which is the same kind of argument that we use in the UK when we channel some UK aid through the EC. As we mentioned before, there are advantages in coordinating and not duplicating projects, and avoiding a proliferation of funders in specific areas of work.

Q12 Mr Gyimah: Following on from Hugh's point referring to your comment that low administrative costs do not necessarily lead to better efficiency, I can certainly sympathise with the general argument you made that, in areas of fragile post-conflict states, you can see why the complexity could lead to higher administrative costs. However, the point still seems rather complacent. Do you have any sense of what is a reasonable level for administrative costs when operating in those sorts of areas?

Jenny Brown: I would not like to comment on that at all, because it depends so much on the capacity and experience of the donor, and also the context and the nature of the aid. I would be dangerously rash to come up with a figure there.

Q13 Jeremy Lefroy: Good morning. About 85% of aid that comes out of the EU budget, as opposed to the EDF, goes to middle-income countries such as Turkey and Serbia, which has obviously been criticised as not really being aid, particularly given that UK legislation states that it is for the relief of poverty. How does the Commission defend this?

Romina Vegro: Maybe the first point is to say we are not the Commission, so we talk from our perspective.

Q14 Jeremy Lefroy: Understood. I am after your perception of how it defends it.

Romina Vegro: It is true that the EC gives a lot of its funding to middle-income countries. Turkey and Serbia are specific examples that fall under the EU Neighbourhood Policy, while many other middle-income countries that receive aid through the EC fall under the EU Development Cooperation

Policy. The EU Neighbourhood Policy is supported by the vast majority of the Member States, and the Member States have agreed on it. The objectives of this policy are related to EU security, to fight illegal immigration and the agreement within the EU to support countries that eventually might become members of the Union.

Q15 Jeremy Lefroy: It is not really aid.
Romina Vegro: Well, having said that, for what is counted as ODA to countries like Turkey and so on—we do not really work on those areas—we would say that, if it is ODA, the objective of that aid should be poverty eradication. We focus more on the other middle-income countries that receive aid through the DCI, the European Development Fund and so on. We can certainly elaborate on that. The key objective of Development Cooperation Policy is poverty eradication and, in that sense, we think there is a need to continue giving aid to middle-income countries. I will explain why. When we talk about middle-income countries, we have to recognise that, in the last 10 years or so, a number of developing countries have been reclassified by the DAC as middle-income countries. As a result of that, today 72% of the world's poor live in middle-income countries.

Q16 Jeremy Lefroy: Can I just come back on that? My understanding is "middle income" means from about $1,000 to $13,000 a year. Low-income countries are just zero to $1,000. It seems to me absurd that the definition of middle-income countries is so broad.
Romina Vegro: The definition is based on the GNI of the country.

Q17 Jeremy Lefroy: It is so broad, between $1,000 and $13,000, so much so that they define it as lower-middle-income and upper-middle-income countries. It seems to me it is a rather spurious definition. I do not know what other countries within the EC, and indeed you, think of that.
Romina Vegro: I can give you a very clear example. The question here is: do we want to reach the poorest countries or the poorest people? We think the EU, as a multilateral agency that is committed to reaching the MDGs by 2015, has to reach the poorest people, wherever they live. This is what we also think as NGOs.

Q18 Jeremy Lefroy: If I may come back on that, Chairman, the UK's policy is to reach the poorest countries, and that is one of the reasons why we have stopped or will be stopping aid to India, for instance, which has more poor people than the whole of sub-Saharan Africa put together. It seems to me that the EU's policy is at odds with DFID's policy in reaching poor people.
Romina Vegro: It is, but at the same time the EC has made a proposal for the next Multiannual Financial Framework to cut aid to 19 middle-income countries within the DCI. They will also look at the EDF and see whether they want to cut that. This is a very good example of what you were talking about: this list of 19 countries includes very different types of country. It includes countries like China and Brazil, which we all know by now are donors in their own rights. It also includes countries like Indonesia, where 50.2% of the population live in poverty. That means they live on less than $2 a day, following the definition. Then it includes some Latin American countries, like Peru for example, where 15% of the population lives in poverty, but there is a very high level of inequality within the country. That is measured by what we call the Gini Index, which measures inequality within countries.
We think that the EC might be right to review where they send their funding but, at the same time, if they do so, they have to do it like DFID does, on the basis of a country-by-country analysis that is more detailed than just looking at the GNI of the country. They should be looking at the number of poor people living in the country, the levels of inequality, and they should really be checking whether, by capping aid to those countries, they would still keep their commitments to reach the MDGs.

Q19 Jeremy Lefroy: Could I just ask you both one question? This will be my final one, quickly. Do you agree that such aid to countries such as Turkey and Serbia should be classed as ODA, as the OECD says and as seems to be supported by the European Commission? I am asking you both that question.
Romina Vegro: As I said, this is not our main area of expertise, but we would say that it should be checked. If it is to do with poverty eradication, then it should be classified as aid. If it is not, it should not be classified as aid. Also, we would say that the EU, and this includes Member States, should really think about the Neighbourhood Policy and see whether the other kinds of political interests that drive the Neighbourhood Policy—

Q20 Jeremy Lefroy: In the case of Turkey, of course, it is pre-accession.
Romina Vegro: It is pre-accession, yes.
Jenny Brown: To confirm what Romina has just said, the purpose of ODA is poverty eradication, and that is the lens through which your question needs to be reflected on, not just by us but I think by all the donors.

Q21 Chris White: To extend some of Mr Lefroy's questioning a little bit further, do you appreciate that there is a perception that too much aid is being given to middle-income countries? If you do appreciate that, how do you think that could be changed?
Jenny Brown: Yes, we certainly appreciate that there has been a lot of press discussion and public discussion in the UK, let alone elsewhere, about aid money going to apparently rich countries. As Romina has alluded to, a big part of the problem is that a lot of people do not recognise that three-quarters of the world's poor people live in these countries. To cut aid to them would send signals of walking away from a major commitment of the UK Government, but also—given we are talking about the EU—of the European Union. The EU cannot ignore these middle-income countries if it wishes to eradicate poverty.
Going back to a comment that Mr Lefroy made, yes the definition of middle-income countries is a wide

one and, as Romina has indicated, it includes a very wide range of economies and levels of inequality. That is due to the fact that the definition is based on GDP/GNI, which gives a per capita average and does not indicate the extent of inequalities. Inequalities can be economic; they can be gender-related, geographically related, ethnicity-related. All sorts of inequalities can render a purely economic assessment or evaluation almost irrelevant. It is a starting point, but it is a starting point for a much more sophisticated and nuanced discussion about how the European Union can help eradicate poverty in a particular country. It would do that perhaps by financial assistance. It may wish to reduce that, put more into the political dialogue, maybe more into adjusting trade relationships, which can contribute to poverty eradication—but the emphasis is on "can", as opposed to automatically "do".

There are lots of different ways in which the European Union can support poverty eradication, but it needs to do a country-by-country analysis, using a very multi-dimensional understanding of poverty. Then it can be even more effective, because it is taking into account all these different considerations, and that takes us back to value for money.

Q22 Chris White: Absolutely. I do think changing definitions is not necessarily going to change the life of any person or any family, but perhaps if the definitions were more accurate or precise, we would have a better starting point to deal with some of the issues. I will not mention India again, which comes up in pretty much every discussion we have around these issues. The other punchier question: which countries do you think we should stop giving aid to?

Jenny Brown: I am not going to answer that one. The reason I am not going to answer is that I do not know enough about all the countries that the European Commission puts money into to be able to make any value judgments at all, or any judgments on any criteria. It takes us back to the point that each country must be looked at on its merits. It may be that there are some countries where it is not necessary to give financial aid, provided that there is other support put in place. I can only speak in general terms on that one.

Q23 Chris White: May I challenge you? I think you made a comment that could be interpreted as opinion—that low administrative costs do not equal efficiency. Would you want to use your own personal opinion on my question here?

Jenny Brown: No, because I am not well informed on that. I am even less well informed on that one than I was on the admin costs.

Q24 Chris White: Would Ms Vegro want to comment?

Romina Vegro: My personal opinion, as I said before and as my colleague said, is that each country has to be looked at in detail. I am not an expert on any of those countries. The other thing I would say is that even a country like Brazil, which is obviously part of the BRIC group, has very high levels of inequality and that cannot be denied. We see it on TV every day; we see the slums. I am not an expert on Brazil or any other country, but I would say we really need to look at that and really need to consider whether, as you said, the definition of middle-income countries could be based on a wider number of factors than just the GNI of a country. If we took into account inequality, the number of poor people living in the country and other factors, then we would really have a real picture. Then we could say, "Okay, we can stop aid to this country or the other," but I do not think we are there.

Q25 Chris White: My final question is: how do you see a relationship or a focus building up with small-island middle-income countries, like in the Caribbean, for example?

Romina Vegro: Again, I am not an expert on the Caribbean, but I have been in meetings in Brussels where ambassadors from ACP countries, specifically the Caribbean group, have pointed out to the Commission that they cannot compare small islands and small countries like that. They might be defined as middle-income countries, but they have much smaller economies, which could be more vulnerable to, for example, sudden economic shocks or to disaster than countries like Brazil, China and so on. They are worried about where that relationship is going.

The other point to make is that, with the Cotonou Agreement ending in 2020, it could be that the ACP group will disappear as a group, and that the EU will focus more on Africa as a whole than on other regions. The Pacific and Caribbean countries might suffer from that, because they are a small group, and the EU links with Africa are much stronger. That is a possibility.

Q26 Hugh Bayley: I am a little bit taken aback that you do not address the opportunity cost of giving aid to middle-income countries. In other words, every €1 million you give to Turkey or Brazil is €1 million that is not available to provide aid in Burkina or Mozambique. The difference is this: Brazil, Turkey, India and China have huge resources for their military and other programmes, which they could spend on poverty alleviation if they chose. If we give money to Brazil, China or India, they can reduce the tax burden on the middle class. It might even be a subsidy for the middle class. If you do not give the money to Burkina, they have no way of raising the money from other sources. Why do you as NGOs think it is for people in this country on low incomes—a pensioner on £7,000 a year will be paying tax—to subsidise or pay for poverty alleviation in countries where there are many people who have two, three or four times their income but are not making a similar contribution?

Jenny Brown: The point we have been making is about nuancing the aid and developing a much more sophisticated understanding of needs and strategies for eradicating poverty in different countries. Specifically, we are talking about middle-income countries. It may be that cutting funding is an appropriate thing to do, but our concern is that, if you cut funding, you should not be seen to be walking away from a very major problem of poverty. There are other ways, as I have indicated—political dialogue, adjusting trade relationships—of helping countries mobilise their domestic resources, helping them increase domestic resources, which you can do partly through aid, for instance helping them develop the capacity of their tax authorities so that they can collect more tax revenue. It might be, if we are talking about tax, working at a global or an inter-governmental level to increase tax transparency, say for multinational corporations, so that developing country Governments can actually see what tax they are entitled to and therefore have much more chance of getting that tax revenue. That will increase their domestic resources and give them much more sustainable and predictable revenue to develop their own education and health systems, and so on.

Q27 Hugh Bayley: With respect, that is not the question I am asking. Why should the rich people in Brazil not pay for improvements to their tax system? Why should the UK pay? Yesterday, the head of our navy said we have to work more closely with Brazil because they have a bigger and more powerful navy than we have. This is not a poor country, so why do they need subsidies from the UK to improve their revenue collection system?

Romina Vegro: It might be that, once we carry out that kind of analysis, we decide that it is not the case that we will give money to Brazil any more. What we are saying is the way the Commission has drafted the list, without actually looking at many other factors apart from the GNI of the country, does not seem to us to be the right way to go. Brazil is a very different case to argue, because Brazil is one of the emerging powers, but all we are saying is that we should, before taking a decision, look in depth into how the country can—

Hugh Bayley: With great respect, a great deal of research over many years has been done. We do know that, if we give £100 million to a middle-income country that could raise that money from their own taxpayers, it is £100 million less that is going to poor people in a poor country, who have no other possible means of funding health or education.

Q28 Chair: On the back of that, do your Bond members make these kinds of evaluations about which countries they should be in? That is a "no", is it?

Jenny Brown: Speaking for Christian Aid, we remain committed to working with poor communities in many of the middle-income countries. We have had programmes in, for instance, Brazil and Peru for many, many years. We have no intention of pulling out of those countries, because the level of poverty is still extreme. We work with local organisations and networks partly to help people deal with the symptoms of the poverty, the actual experience of poverty, and increasingly to challenge the structures in-country that are maintaining those people in poverty.

Chair: You have made your case. Obviously there is a difference of view there.

Q29 Mr Gyimah: Moving on to economic growth and the private sector, where you have expressed opinions, one of the comments that Bond has made is: "The Agenda fails to recognise that increasing levels of economic growth will not automatically deliver desired development results. [It has a] narrow focus on GDP-led growth and a reliance on 'trickle down' effects of private sector development alone, without full consideration of environmental and social impacts." That said, the focus on growth and private sector development in the Agenda fits in very well with where DFID is coming from. What exactly are your concerns about this?

Jenny Brown: First of all, we would say that economic growth is essential for development. The private sector, as an engine for growth as a driver for development, is also necessary. It is a necessary means of wealth creation, and that is a very important starting point. We welcome the fact that, in the Agenda for Change, there is an increased emphasis given to economic growth as relevant and potentially very helpful for development. We are also very pleased to see that non-traditional donors and development actors, such as the private sector, are recognised as being very important. That is a good starting point and it gives a very good opportunity to enter into a debate about how, in practice, economic growth and the private sector can be instruments for development.

If I perhaps talk briefly about economic growth, on its own it does not automatically lead to sustainable development and poverty eradication. It certainly can. The right type of growth can, but the wrong type of growth can be very detrimental. If I may use an example from India, India's growth has been very rapid over a long period. However, Uttar Pradesh has a GDP per head that is close to that of Kenya. At the other extreme, you have Chandigarh, which had a GDP at 2009 that was something like $9,000, which is very much at the top end of the range you were talking about. There was some research by Son and Kakwani in 2008, which confirmed that there is no necessary relationship between economic growth and a pro-poor outcome. It can happen; it may not.

The challenge is actually that there is not that much information at the moment that tells us exactly how to achieve economic growth that will automatically lead to poverty reduction and eradication. That is something that perhaps the European Commission could usefully undertake, and really investigate what sort of economic growth will help development and how you achieve it. Would you like me to go on to the private sector briefly?

Q30 Mr Gyimah: If you could, please. Thanks.

Jenny Brown: As I say, we are very happy to see the private sector identified as a key actor in development. Many Bond members, including Christian Aid, have been working increasingly closely with the private sector on development-related conversations and, in fact, projects.

One of the really important things to note, which did not come out very well in the Agenda for Change, is the diversity within this concept of private sector. It needs to be acknowledged that the private sector goes from big multinational corporations, right the way down to very small farmers, cooperatives and all sorts of things at the very, very small local level in developing countries, and then the full range in between. All of us have to be very careful when we talk about the private sector to be clear what sort of private sector we are talking about, because the opportunities are different and the ways of engaging will be very different. I am conscious I am talking a lot. I could give you one or two examples, if you wanted. Shall I stop?

Q31 Mr Gyimah: No, give me two examples.
Jenny Brown: This is from Christian Aid's perspective, because that is what I know best. We have been working in Kenya with the Fairtrade Foundation/Practical Action to look at the honey value chain, because honey is something that local farmers can produce; it is a great opportunity for income generation. What we have been doing is looking at ways of addressing issues in the value chain and supply chain to make sure that the producers of the honey actually get the most value for their product, and also helping them become less dependent on one. When you are talking about transforming value chains, that is private sector; that is not just doing a project in a small community. This has real added value and can ultimately transform the sector. There is a real role for the private sector there.

Q32 Mr Gyimah: Thank you for that. Just a quick supplementary and then I have another question for you: I hope I am not wrong in inferring from your case, which you have made very clearly, that your main concern around the private sector is more around a suspicion, rather than any sort of evidence base, that focusing so much on the private-sector-led economic growth could lead to unsustainable growth. Am I right or have I misunderstood?
Jenny Brown: You may have misunderstood. "Suspicion" is probably not quite the right word. We see a lot of opportunities for economic growth being a driver towards development. We also see a lot of actual experience of the private sector, at different levels, contributing something very important to the development process, either globally, where more and more companies are willing to talk about country-by-country reporting, for instance, and tax transparency, or domestically. I am sorry if you got the impression that I was being suspicious. What I actually want to do is be very affirming of those opportunities.
I cannot at the same time say, working with the private sector, that what the private sector does, in all respects, is always going to lead to a sustainable development outcome. What I am saying is that there are a lot of opportunities for that to happen. We as civil society, the European Commission and individual Member States need to engage in an affirming but nuanced way and really think through opportunities. Part of it might be about changing the behaviour of business to help them understand the development implications and opportunities of what they are doing. More and more businesses are signing up to the triple bottom line—really going beyond financial results in the way that they evaluate themselves—and that is good. There are a lot of trends there that are to be encouraged, but we need to be aware that it does not automatically follow.

Q33 Mr Gyimah: The final question from me: do you think the Government should support the Agenda for Change, and what other changes would you like to see before it is agreed by the Council in May?
Jenny Brown: The strengths of the Agenda for Change are, first, that it contains an absolute restatement of the commitment to sustainable development and poverty eradication. That is restated in an unqualified way. Also, there is the commitment to policy coherence for development, which is a fundamental principle, as we have mentioned earlier, bringing all the different external-facing policies together in a coherent supportive development-focused way, so there is a much more effective outcome and greater value for money. It is all linked with that debate. The basics in the Agenda for Change are absolutely to be affirmed and encouraged.
Some of the points about the middle-income countries' growth and the private sector are dealt with quite briefly, because it is inevitably quite a short document. What would be helpful would be for the UK Government, as a response to this, to encourage some fleshing-out of these principles and encourage the thinking, "Where are the opportunities? How can we, as a Member State, and the European Commission really use these principles to achieve even better outcomes than have been achieved over the last few years?" Those would be my big points, but the short answer is yes: support the Agenda for Change with those caveats.

Q34 Mr McCann: I asked earlier if you had a view on whether the EU was slow to disburse aid. That seems to be borne out by the fact that, in 2010, its target of 0.56% was not met; it was only 0.43% that was spent, so they were €15 billion short in 2010 of spending what they had available. I just wondered if you had any view on the reasons for that and, if you do have a view, how you would remedy it.
Jenny Brown: I am not able to comment on that.
Romina Vegro: If I understand properly, in 2010, the Commission did not spend all of the money.

Q35 Mr McCann: The budget that was set aside was 0.56%. It spent 0.43%. It did not spend €15 billion that it had available to it.
Chair: Sorry, Michael, but I am not clear on whether the money was available. It was a target.
Romina Vegro: I can get back to you on this. If it was a target, I assume that what was spent was what was needed, but I will get back to you.

Q36 Chair: Part of the point is to what extent it was under-spent. To what extent did it not get the money from Member States?
Romina Vegro: Sorry, are we talking about the EC budget or the whole EU budget?
Chair: EU.

Romina Vegro: Then it is because the Member States did not respect their commitments. Is that what you are talking about—the commitment to reach 0.7%?

Q37 Jeremy Lefroy: 0.56%.

Romina Vegro: 0.56%, yes. That is a major issue and there are a number of Member States that are off-track. We very much commend the fact that the UK is on track, even though, of course, the economic crisis has hit the UK, as well as other Member States. One way that we see for the EC to maybe force the Member States to contribute a bit more is through the next Multiannual Financial Framework. If the proposal that the Commission has made for an increase in heading 4 is agreed, which is the section of the budget that deals with external action including development, the other EU Member States will automatically increase their aid spending, because they would have to contribute. Their contribution to the EU budget is compulsory, so they would contribute more money, which is ODA in effect. We think that the UK should support that increase to heading 4. We understand that the position of the UK and many other Member States is to keep the budget to the levels of 2011, but we would say that, by cutting headings 1 and 2, which are two very big headings, by a very small percentage, we would get the funding to increase heading 4.

Q38 Hugh Bayley: For several years, the Commission has been talking about the importance of policy coordination across EU policies. What impact do you believe its policy coordination has had over recent years, say over the last five years? Can you give any examples of changes to policy that the EU has brought in to create better coherence for development?

Jenny Brown: One example is the tax and development communication that was produced in 2010. The significance of that, from the perspective of policy coherence for development, is that it was the first time that DG Taxes had worked with DG Development, recognising together that tax is a major issue in development and that various aspects of taxation, corporate transparency and so on, actually have a big role to play in helping developing countries access their own resources. This communication really reinforced that link in a way, as nobody had really thought about tax and development in the same breath, let alone in the same communication. That was really very encouraging.

Since then, the European Parliament has taken on a legislative process to take forward some of the principles in that communication, including around corporate transparency, country-by-country reporting and so on. That is a very positive outcome. I understand that, in the Accountability Report for 2011, another aspect of the provisions of the communications is being taken forward, which is the European Commission helping fund capacity building for tax authorities in developing countries, so that they can actually handle the tax-raising process more effectively.

Q39 Hugh Bayley: To what extent have these new policies increased the tax take in developing countries?

Jenny Brown: That I do not know. This is all very new. Many tax authorities in developing countries would actually take a little bit of time to get the right level of resources and competence in order to start achieving. This is work in progress, but it is very encouraging work in progress. If it had not been for the tax and development communication, it may well not have happened.

Q40 Hugh Bayley: In relation to climate change and trade particularly, the EU is still, in effect, with the United States, blocking the Doha Development Round, because of its obsession with subsidising agriculture.

Jenny Brown: In practice, we are not aware of a lot of very good examples of policy coherence for development. Over the last few years, since the consensus for development, which really got it in writing for the first time, there have been a lot of institutional commitments and a lot of thinking going on about how it can work but, so far, you are right: there are actually quite a lot of difficulties with, for instance, trade relationships. For instance, the economic partnership agreements and free trade agreements with Central America, Colombia and so on seem to be very much pushing an export model, which may well contribute to growth—going back to the previous point—but does not necessarily reach down to benefit the small farmers and producers, who are not in a position to engage in the export side of things.

There are difficulties there, but we take encouragement from the fact that there is so much more discussion of policy coherence for development in Brussels. All the institutions, including the External Action Service, are committed to making it happen. I suppose it is for people like us to encourage them and, one hopes, for Member States as well. I would support it and say this is really important. It is really good. There are signs of progress. Let us just build on those.

Chair: Thank you very much. Can I thank both of you very much for coming in and giving us that evidence? If there are any additional questions you can fill out by writing to us afterwards, we would appreciate your doing so. Indeed, if there is anything you reflect on that you think you would like to add to, please do that as well. Thank you both very much indeed.

Examination of Witnesses

Witnesses: **Stephen Booth**, Research Director, Open Europe, **Simon Maxwell**, Senior Research Associate, Overseas Development Institute, and **Siân Herbert**, Research/Project Officer, European Development Cooperation Strengthening Programme, Overseas Development Institute, gave evidence.

Q41 Chair: Good morning. Thank you very much for coming in. I appreciate we are one witness light and have one witness change. Perhaps starting with you, Stephen, you could introduce yourself and just explain.

Stephen Booth: My name is Stephen Booth. I am the Research Director at Open Europe. We are a think-tank based in Westminster and Brussels. We look at all areas of EU policy, not just this area. I apologise on behalf of my Director, Mats Persson, who unfortunately could not make it today. He had another urgent meeting that came up, which unfortunately clashed with this one. He apologises for not being here.

Simon Maxwell: I am Simon Maxwell. I am a Senior Research Associate at the Overseas Development Institute, where I lead a programme of work on European development cooperation, which is independent and politically neutral. I apologise on behalf of Romilly Greenhill, who is the co-author, with Siân, of the memorandum of evidence, but is not able to be here. I should declare an interest: I am also an adviser, as you know, to the Committee.

Siân Herbert: Hi, I am Siân Herbert. I am a Research and Project Officer at ODI.

Q42 Chair: Thank you very much. You obviously have heard the questions, and we are going to go over similar ground but presumably get a different take or different perspective. The first point that has been exercising us is the fact that we give a substantial amount of money to the EU for development funding. Two thirds goes to the general budget, and one third to the EDF. Clearly, we have less control over the general budget. It does not rate DFID's objectives as clearly as the EDF. The question is: to what extent would it be beneficial for us to shift that balance? I do not know whether it is possible to put less into the budget, given the arguments about the budget, or more into the EDF. Are there any contexts in which you think we should shift the balance? Maybe we should ask Stephen first.

Stephen Booth: That is what we argued in our evidence and our report that we did on this last year. Given the EDF tends to fit the UK's objectives better and the fact that DFID seems to suggest the reasons for that is because the contribution is voluntary and, therefore, there is more conditionality—we can basically withhold the money if we feel that the fund is not going to achieve objectives that we agree with—we argued that the UK should seek to negotiate a relationship where all funding to EU aid is on a voluntary basis, rather than through the main EU budget.

Q43 Chair: You are suggesting, I suppose in an extreme way, that the UK Government should turn up and say, "We do not think the EU budget should pay for development at all. It should be taken out. The budget should be reduced and the money should be put into EDF instead."

Stephen Booth: Yes. The EU budget has various strands. Looking at things like pre-accession funding, that is something that should legitimately be funded by the EU budget.

Q44 Chair: It should?

Stephen Booth: There is a legitimate case for that specific strand, because it is something that is core to the EU as an entity. It is about getting countries to fulfil the criteria to accede to the EU. That makes logical sense.

In other areas, where the money is aimed at development per se, the argument for making it voluntary is that you therefore have greater control, are able to target it better and make the objectives clearer. There is a strong case for that.

Q45 Chair: I understand the argument. On the latter point, which will be my second question, if you did agree that the pre-accession funding should continue to go through the budget, the problem we have with that is it would still be identified as development assistance by the OECD, so it would still mean that a significant chunk of UK funding through the general budget would be going into ODA.

Stephen Booth: There is a difficulty with that. That is not a problem of the EU; that is an issue for the OECD. When we started engaging with the Commission about this issue, about how much money goes to middle-income countries versus lower-income countries, for example, they said it is unfair to include things like pre-accession funding or the Neighbourhood Policy, because that is not what they are designed for. At the same time, they also say that the EU is the world's biggest aid donor and we spend 96% of our budget on ODA. They cannot have it both ways, I do not think. At some point, there has to be some way of reclassifying it, although I am not sure how you go about doing that. It has to be made clear to the taxpayers and the people who are accountable for this money what the money is actually being used for. The Commission is guilty of trying to have it both ways when it comes to reporting its aid statistics.

Q46 Chair: Perhaps I can ask ODI if you have any sympathy with that approach. Would it be achievable if it was deemed to be desirable?

Simon Maxwell: I speak for myself and not for ODI, which does not take institutional positions. If I may leave aside the voluntary question a minute. You are right to say that DFID, in its Multilateral Aid Review, scored the EDF much higher than the development part of the budget. It also scored ECHO, the humanitarian programme is funded from the budget, very highly. What the Commission is proposing is a 19% increase in the DCI in the next financial framework, and only a 13% increase in real terms in the European Development Fund. Given DFID's ranking of these instruments, that seems surprising. The commission has also proposed that the contribution key, in other words the percentage that each Member State should contribute to those various instruments, should be equalised across the various windows.

The question is: should DFID try to increase the growth rate of the EDF in the negotiation and hold down the growth rate of the budget? It would be a logical consequence of their assessment that they should do that.

Q47 Chair: Just to probe that a bit further, is it not the case that the Commissioner is presumably trying to say, "But I have my Agenda for Change. Therefore, if you give me the money, it is going to be much more development focused than it has been in the past. It is going to be much closer to DFID's requirements," because he wanted to merge them originally but then decided not to. He is going to say it is not going to make any difference; you are going to get the outcome you want.

Stephen Booth: There is a key part of Agenda for Change, which Siân may say something about, which is differentiation, which is cutting 19 countries off the list of aid recipients. Even after that is done, it is going to be the case that the DCI is much more orientated to middle-income countries than the EDF.

Q48 Chair: Maybe you want to comment on that, Siân, but from that you would conclude that DFID is perfectly right to argue that the EDF is the better vehicle, and the balance should be, as far as possible, for EDF rather than the other.

Siân Herbert: I actually would not argue that. Again, I do not take an institutional position; I think they are complementary. The EDF is a very different budget from the EU development budget, and it has a different focus, looking at ACP countries—African, Caribbean, Pacific—which have many more LICs, or low-income countries, and LDCs. It is a bit of an unfair comparison in a way, because they have two very different geographical focuses. What Simon just mentioned, differentiation, is one of the key parts of the new Agenda for Change. That will quite change the DCI, which is the instrument most similar to DFID in the sense that both the DCI and DFID put poverty reduction at the forefront. Differentiation will not apply to pre-accession findings or the Partnership Instrument, which deals with wealthier countries.

Differentiation is basically looking at different ways of dealing with middle-income countries. As we heard from the previous two speakers, we have a different poverty landscape—75% of the world's poor are in middle-income countries—so we have to re-think how we deal with those countries. If we want to reduce poverty and reach poverty goals, we still have to cooperate with those countries but not give bilateral aid in many cases. As Simon said, 19 countries will have bilateral aid cut from 2014, which includes countries like Argentina, Uruguay, Colombia, Costa Rica, Ecuador, Kazakhstan and India, of course, as we know well here. The reduction in aid to these middle-income countries, will free up about €2 billion over the next multi-annual financial framework, which will go back into funding for other countries in the DCI. There will be a better poverty focus. However, it is a different instrument from the EDF, and the countries it covers include fewer LICs. We have to recognise their differences.

Q49 Hugh Bayley: There are two separate but related issues: one is how effective or otherwise the EU is at targeting aid on poor people in poor countries on the UK agenda; the separate but related issue is how effective the EU is at encouraging member states to be donors and, hopefully, good donors. Our perspective from the UK is we are committed to a high level of ODA, and we in a sense have a choice, as Stephen is arguing, between whether we do it ourselves or through a multilateral like the EU. Do the recently acceded states—Slovenia, Malta, Poland even—have a track record? Do they know a lot about development? The answer is it is much better for them to pay into a fund managed on their behalf. Stephen, if you were to—is this the right jargon?—un-budgetise the DCI, would you not run the risk that actually you would reduce the development contribution of states other than France, Germany, Britain, the Nordics and the Dutch, which have a history and commitment?

Stephen Booth: I see your point. I think it is a legitimate argument. You can have the EU-level targets, which we already have. They are obviously not being met, as was being discussed earlier. Conversely, looking at it in terms of whether you want to have public support for aid and taxpayers to support the idea of giving aid, getting the money through coercion—which essentially is what you are doing by bringing it through the EU budget, because you are basically saying you have to contribute X a year—has the potential to delegitimise the whole idea of giving aid. You want to have taxpayers' support for it, public support for it, and also accountability, in terms of who has their hands on the purse and whether you can vote them out of office. Once you start budgetising everything, that is the downside of it.

I do take your point that there is a risk that it may decrease from the countries that do not have a record of it or do not have an international network, for example, for giving bilateral aid. However, if you still have an EU-level fund that is voluntary and say, "You have to meet your aid target"—if you sign up to an EU-level aid target, one of the options is giving to a voluntary EU fund or you can give money bilaterally—there is no excuse, really, for not meeting your target. There are options available to you. If you choose not to do it, you are breaking your EU commitment. I think that is a fairly decent proposal to give people. If they choose to break it, they choose to break it.

Q50 Hugh Bayley: Can I put almost the same question to Simon? At Gleneagles, it was a clear, stated UK policy that we intended to increase our aid, but we also wanted to leverage in greater aid contributions from others, including other EU member states. Do you think the compulsory nature, at least of the DCI, helps the achievement of that UK policy goal, if it still is our Government's policy to encourage others to become good donors?

Simon Maxwell: I do not accept the contributions to the EU budget are, in any sense, compulsory, at least in the sense that one might use that word in normal language. The budget is an agreed document that commits member states only after thorough review. In general, in answer to your question, it is true that the smaller developing countries are able to perform more effectively and on a bigger stage if they work through Brussels, rather than independently. They do bring their own perspective, particularly on the history of transition. They have great expertise on Eastern Europe. They have more expertise, often than we do, on the Mediterranean, for example. The other factor to take into account is that there are too many donors in the world. We do not need lots and lots of small donors all trying to tell the Government of Ghana how to run its health policy. There is a strong case for multilateralism simply in order to reduce transaction costs. A recent study carried out for the Commission demonstrates that there are real savings to be made if the number of countries that are covered by individual donors can be reduced. Multilateralism is one way to do that.

Q51 Mr McCann: That ties neatly into the next question then, Chair, because I have one club in my bag this morning; I am dealing with administration costs, as you will probably have gathered. There is an argument that we are exporting our overhead, given that DFID has an operating cost target of 2.1%, the EDF is running at 8.6% and the general budget at 5.4%. We heard from the previous contributions that might not be a like-for-like comparison. What are the differences in your view? Why is it so high? Should we expect those costs to decrease? If there are efficiencies to be achieved through multilaterals, why is it that administration costs are so high?

Simon Maxwell: Let me say something about that, but Siân has been working more on admin costs than I have. First of all, we all have to be really careful in how we look at admin costs, partly because Ministries and aid agencies across the world classify costs in different ways. For example, DFID, because it has been trying to hold admin costs down, has been looking very hard at the balance between admin costs and programme costs. I have one example to give you here, which is that in 2010–11, 615 people were reclassified from admin to programme at a cost of £27 million. In the previous year, 703 people were reclassified at a cost of £32 million. If they had not been reclassified, DFID's admin costs would be higher.

Q52 Chair: How much higher?

Simon Maxwell: In this particular case, if we add the 27 and the 32, we are talking about £59 million. You were told in the previous session, rightly I think, by colleagues from the NGOs, that the EU is covering a large number of countries: over 140. It has a very wide range of programmes, some in very difficult circumstances. The average for all donors in admin costs is actually about 8% to 10%, according to a recent literature survey.

In a way, a more interesting point about the Commission's admin costs is what kind of capabilities they have. If you compare the Commission with DFID, they have an extraordinarily weak capacity to deal with policy issues. DFID has a policy division with a staff of over 200 people. The equivalent department in Brussels has a staff of fewer than a dozen. As a result, the Commission is tremendously under-gunned in looking at the big development challenges and how to deal with them, relying far too much on external consultants. I would love to see a capacity study of the EU Commission. There are something like 4,000 staff working for the Commission on development, on the numbers that we have, compared with 2,500 for DFID. But are those the right staff doing the right jobs?

Q53 Mr McCann: I could take the view that, accepting the point that DFID may be taking a position, there is a manipulation going on in terms of where the money is coming from. That has been going on for years, in terms of programme costs, project costs and various other things. What would you reckon, if you were making a best guess, you could save in terms of the European administration costs? Maybe Stephen wants to comment on this shortly; you have explained that the series of transfers that take place mean that everyone is taking a slice of that action. How can that be streamlined and how could it be made more efficient?

Stephen Booth: There are two issues. The first obvious point is the fact that the Commission gives money to other multilateral organisations. That is a needless transfer. If the UK wanted to give money to the UN, why does it go to the EU first? Everyone can understand that does not make a lot of sense.

On the point that Simon made about DFID, for example, having a greater number of people working on the specific policy aspects of development, that is an illustration of how different EU countries have different capabilities. The UK has a very advanced development capability. Therefore, I think the Commission's role should be to use that best practice as a mechanism for dragging other countries up. Why replicate it at the EU level? Why have another 100 people doing policy at the EU level if one of the member states already has a very good record on doing these things? Why not use that rather than try to replicate it in Brussels? The Commission also has its own issues with administration, not just on development; I think the Commission has its own inefficiencies across all policy areas, probably more so than the UK civil service.

Simon Maxwell: May I make a factual correction?

Mr McCann: Yes.

Simon Maxwell: It is actually the case that the Commission only spends 2% to 3% of its total funding through other multilaterals, which is much lower than DFID, and that is one reason why the Commission's costs are high. In a way, DFID is a wholesaler and the Commission is a retailer. Why is it wrong for the Commission to have a budget that it can spend through multilaterals? The EU speaks for all the member states on issues such as trade. It has an important role to play on climate talks. If you are entering into a negotiation, you have to ask what is in your armoury. Often one of the most important weapons is money. For Connie Hedegaard, for example, to be able to engage in the climate talks in

Durban successfully, as she did, it is important for her to know that she has climate finance available to assist in that negotiation.

Q54 Mr McCann: Why is there a difference of 3.2% in the operation costs between the general budget and EDF?
Simon Maxwell: The general budget covers all aspects of EU work, including administering the Common Agricultural Policy, the Common Foreign and Security Policy and so on. The aid programme is running country offices in over 140 countries, and that obviously has a cost.
Stephen Booth: I think they are slightly separate issues. The EDF is obviously a separate fund. I looked at 2009 figures; I can supply you with the figures later, if you like. As I remember, the admin figure for the development side of the EU budget was around 5.4%. Again, I can get you the figures on how much money was given to unilaterals as well. Maybe we can compare notes afterwards. I am not sure it is as low as 2%.

Q55 Mr McCann: Can I ask you a direct question, Stephen, just for my final question? I think you have touched upon it in one of your answers. It was: how widespread is the practice of re-disbursing funding to member states to spend on behalf of the EC? If I have got you right in terms of the last answer, you think that is a good idea.
Stephen Booth: What you are referring to are delegation agreements, whereby the Commission can either delegate money back to the member states, or member states can delegate money to the Commission, if either feel that they are better placed to spend the money. It is not a big sum of money at the moment. I think it is in the hundreds of millions, and these agreements have been going for a period of years. What they illustrate is that the basic rationale behind the EU budget is to centralise the financing; it is to get the money in the pot first, and then decide what to do with it. If you look at delegation agreements, there has been far more money delegated back to member states than there has been money delegated to the Commission from member states. On that rationale, the logic is then surely that the money was better spent by member states, so why hand it to the EU in the first place? Again, it is not a big sum of money at the moment, but it shows you that the logic surely is flawed, if the money is being handed to the EU first. Of the delegation agreements that have been made, so far, more has been sent back to member states. That illustrates the wider point.

Q56 Mr McCann: There are unnecessary transactions taking place.
Stephen Booth: I think the total amount was around 290 million that was delegated back. Again, I can confirm the numbers with you.

Q57 Chris White: Thank you. That was a very interesting point you just made. It would be interesting to have some detail on that. My question would be: do you think the EC should be reducing the number of countries it has development cooperation agreements with? If you think that is the case, how would you go about making that change?
Simon Maxwell: Can I ask Siân to answer that question for us?
Siân Herbert: I am absolutely in support, of reducing the number of countries. This again comes as part of this differentiation policy. Like I said, 19 countries will have their bilateral aid cut. They may still get aid through other thematic programmes. There are exceptions, for example, South Africa will continue to get bilateral aid, which is probably a sign of the UK's influence, perhaps, through the EU. That is a side point.
Other countries could get money under thematic programmes. If, for example, Brazil has an interesting climate change project, it could get funding under The Global Public Goods thematic programme under the DCI, but there will be no bilateral funding going to those 19 countries. The EU has projects in 140 countries, which really is a lot of places. It can only be good to specialise those efforts. I agree with that.

Q58 Chris White: Do you think that the EC has a comparative advantage in dealing with some countries that the UK might not have?

Q59 ***Siân Herbert:*** Absolutely, yes. In particular, we were talking about pre-accession funds. It is a difficult statistical problem with ODA qualifications that funding going to those counts the same as funding going to other poorer countries but, of course, the EU has a massive comparative advantage in our direct neighbours, in helping them accede to the EU, which is in direct alignment with DFID and UK interests. Also, particularly in the light of the Arab Spring in the neighbourhood, there is a real comparative advantage that the EU offers in terms of development. That is going to be the big agenda going forward. It has been for the last year and that is going to continue.
Simon Maxwell: If I may add something, DFID is an agency that has global ambition and global reach, but has decided to limit its immediate geographical work to 27 countries plus South Sudan, I think—28. The papers this week have contained news of an impending famine in Niger. Niger is a country where we do not have a large bilateral programme, but where the British public and DFID would like to see something done. The way to get something done in that circumstance is not then immediately try to mobilise a large British bilateral programme, but to work through our multilateral partners. That includes the World Food Programme, of course, but also ECHO, which is particularly good at dealing with short-term emergencies and is our instrument for dealing with countries outside the 28.

Q60 Chris White: That is an interesting point, but do you think the latter direction—not going alone, so to speak—is as flexible or as responsive as we can deliver as a country responding to, as you correctly point out, something that the public would support?
Simon Maxwell: There has been a huge investment in improving the quality of multilateral emergency assistance. WFP is very highly regarded in the

humanitarian system and was so rated by the Humanitarian Emergency Response Review last year, which I sat on but which Lord Paddy Ashdown led. The same is true of ECHO, which was very highly rated in DFID's Multilateral Aid Review. We have created these instruments. We fund them. We should not then try to duplicate them.

Stephen Booth: I would agree with most things that were said. This was a positive move to focus on less and try to do it better. I think that is generally a good idea. Simon mentioned the emergency fund, and given that DFID thinks that it has quite a good record, and it is an area where, if you want to move things quickly and if you have the structures in place—for example, for a humanitarian office—that is something that you probably can do well. It is a clear objective: it is to get in there quickly and do the things that need to be done in an emergency. The issues come when you have these four big, different, widespread programmes, where the objectives are very difficult to discern. Therefore, you lose accountability and it is unclear what the Commission is trying to achieve. When there are specific targeted areas where it can do a job, that is an area where the UK would probably want to take part. Also, for example in countries where the UK does not play a role, that is an area where the UK would want to contribute to an EU fund that did that job for it. Again, it is coming back to this voluntary approach, where you are more able to opt in or take a pick-and-choose approach, whereby there is more accountability and greater focus on what you are trying to achieve with the money.

Q61 Chris White: Simon, there is a lot of logic about what you say, but do we not see a conflict when our priorities do not match the EU's priorities? If there is a crisis in a country that we have a traditional historic relationship with, that may not match others' priorities.

Simon Maxwell: The general issue is that, even after they have cut the 19 countries from the DCI, there will be a disproportionate amount of money spent by Brussels in middle-income countries. I have a list of how much aid is contributed per capita to different countries. Some of the Caribbean countries, for example, many of which are middle-income—all of them are probably middle-income—are receiving over $100 per capita per year. That reflects the fact that small countries often have high levels per capita, because they are small. But Turkey receives €3 a head per year compared to €2 for Ethiopia and only €0.75 for Pakistan.

It is true that every time we send £1 from London to Brussels, as Mr Bayley said in the previous session, we are taking money from poor countries and transferring it to middle-income countries. Is that a solvable problem in an EU context? Would we have the same volume of aid available to us if we were not spending it in a range of places? Do we want UK money to be used to help stabilise the neighbourhood and the Mediterranean, including the North African countries? If we were to provide money to any of those countries, it would qualify as aid because they are on the DAC list. I think probably we want to try to maximise the impact of DFID money on the poor in low-income countries, but recognise that, through the EU, we also need to support the neighbourhood and the Mediterranean.

Q62 Chris White: Thank you. The last part of my question would be: how do you see relationships developing with the emerging middle-income countries?

Simon Maxwell: DFID has shown the way on this in its new policy on India, which is to say that there are residual poverty problems that we can help with in the poorest states in India. In addition, there will be two new thrusts of British policy. The first is to work more with the private sector on public-private partnerships. The other is to engage with those countries on solving problems of global public goods, including climate change. Personally, I think it is quite difficult to make a case for large-scale aid to middle-income countries, even if they have a lot of poor people in them. In the end, aid is about money. Of course, it carries lots of other things with it, like technical expertise, but if countries have resources, including large foreign exchange resources,—and India has over $250 billion-worth of foreign exchange—it is hard to see why we should be taxing British people in order to add to those resources.

Chair: I just remind colleagues we have a debate in Westminster Hall on Thursday on our report on India—a 90-minute debate.

Q63 Mr McCann: I do not intend to go off on a complete tangent but, given that there is so much weight placed on the MDGs and the numerical values within those MDGs, and given that countries like India have got such a vast population—1.2 billion people—if we do not tackle those areas, we are not going to be able to effect the change we want through the MDGs. Do we need then to change the measurement by which we want to calculate how well our aid works?

Simon Maxwell: The key word in that question is "we". Who are we? The Indian Government should be taking the reduction of poverty in India extremely seriously, as they do, but perhaps not seriously enough. There are lots of ways in which we can support that. For example, I would like to see much more twinning of NGOs, or linking towns and universities, generally engaging with civil society in India, in a reciprocal partnership around rights, access to services and spending on poverty reduction. It would be fascinating to have Indian NGOs working in the UK in the same way that we work in India, for example. Whether the logic requires that we then provide some hundreds of millions of pounds to add to India's own resources is essentially an argument about what you could do with that additional money that the Indians could not do themselves. If they have tax revenues and they have foreign exchange reserves, at least the need for our money declines over time.

Q64 Hugh Bayley: This is a question to Stephen. Do you think that budget support, if properly managed, can be a useful tool for development? Will you say a little bit about your objections to the EC providing budget support?

Stephen Booth: The jury is out. I am not an expert on aid, per se, but in terms of what we have looked at, where we looked at budget support in the most detail was in the North African region, where the EC ended up giving quite large amounts of budget support to regimes that are now no longer with us. There were obvious problems with human rights and so on. There was a lack of conditionality in terms of the budgets being given directly to Governments that really were not observing—I think the Commission itself acknowledged that it was not just the EU; it was other member states as well, and bilateral programmes. I think we should acknowledge that this probably was not appropriate, given the types of regimes we were dealing with.

The Agenda for Change and the new document on budget support have already talked about removing any kind of global target for budget support, which seemed implicit before. They were trying to aim for 50%, but they seem to have dropped that, which I think is a positive thing. They have also opened up the opportunity of diverting budget support away from Governments if they think that they are not fulfilling the conditions, and then transferring that towards more project-based aid, looking at civil society more and trying to go from the bottom up. I think that is again a positive step forward.

Simon Maxwell: The EC spent 26% of its total aid on budget support in 2010. There are two reasons why one might want to do that. The first is you save a lot of money on admin costs by spending on budget support. It costs about a third as much to deliver budget support as it does project aid. Secondly, and more importantly from a development point of view, budget support empowers local governments; it supports their political process in setting budget priorities, and strengthens institutions in the recipient country. There is a good substantive reason why budget support has been very popular.

Of course, budget support is not appropriate everywhere. For the more fragile states, do not have the institutions. Where there are serious problems of corruption or diversion of funds, budget support is less attractive. Now, what the Commission has done, in its Agenda for Change document, is to emphasise the contractual nature of budget support, in which budget support will be provided, for the reasons I have given, but on the condition that it is well used, accountable and transparent. The Commission has talked quite a bit about governance conditionality, which is a very controversial topic you might want to come back to. An interesting point about the EDF is that it contains much stronger provisions for dealing with mutual accountability between donor and recipient than the budget instruments. That is another reason for supporting the EDF.

Q65 Mr Gyimah: A question to you, Simon and Siân. You have partially answered my question, which is on the usefulness of the proposal to put budget support into a political contract. You seem to be suggesting that is particularly useful. The question I therefore have is: how do you actually enforce these contracts? If you cannot enforce them, how meaningful are they?

Siân Herbert: In my submission, I urge caution towards the use of conditionality in respect of political governance issues, precisely for the reasons you give: it can be quite difficult to implement it, to enforce it. At what stage do you cut the funds when people are not meeting sufficient requirements? Also, a key factor is whether or not conditionality is successful when there is no support for that within civil society, within the governance structures, of a country. I would urge caution. ODI has a project looking at budget support. Research from an ODI meeting series, involving lots of people involved in budget support, showed that the more conditions that were put on budget support, the lower the effectiveness of the actual budget support.

Simon Maxwell: DFID has a vocabulary for dealing with this kind of problem, which is that they talk about "direction of travel". There are obviously egregious human rights problems—diversion of money to buy presidential jets—where you really cannot stand by; it is an indefensible use of aid money to be associated with decisions like that. In lots of cases, you are dealing in developing countries with weak institutions, relatively high levels of corruption and often serious problems with human rights in new and fragile democracies. Rather than having a black-and-white on/off switch with budget support, DFID's approach has been to try to engage with countries and help them improve the quality of governance, institutions and accountability, trying to make balanced judgments about what is the most useful form of aid in different circumstances.

Q66 Chair: Has any comparison been made of the programme in Ethiopia, the Protection of Basic Services, which was developed as an alternative to budget support after political issues blew up? That is still, I understand, the mechanism, as opposed to direct budgetary support. Is that something in between? My main point is: has any evaluation been done of that?

Q67 *Simon Maxwell:* As you know, the Ethiopia programme was designed to take money away from central Government and route it through local government. I have not looked at that one specifically, but you had an interesting case when you looked at Zimbabwe in your assessment of the reports by the Independent Commission for Aid Impact. There it was quite clear that the strategy was to take money away from the Ministry of Health in Harare and route it back to local health centres through NGOs. As I remember the report, it seemed to think that was a reasonably effective strategy. I remember that you rather thought so too, when you cross-examined Graham Ward.

Chair: Perhaps also your caution on conditionality. We used a double negative in our last report, just to correct some of the press reports. What we said was—it was not about budget support generally—our aid relationship with donor countries, or recipient countries, I should say, should not be unconditional. It is not quite the same thing as saying it should be conditional, but there should be a flash that says, "If you go about abusing human rights, locking up the opposition, denying freedom of press, there will come a point when we may have to review what we are doing." I do not think that is quite the same thing as saying, "Before we start the programme, you will have to meet these criteria." I think we got that across, but not in all the headlines.

Q68 Jeremy Lefroy: Is there an argument made within the EU that the way it is done at the moment, putting money through the main budget, which is then used on development—even if you have some problems with OECD definitions—is a way of forcing some of the more recalcitrant countries to contribute some money to ODA?
Simon Maxwell: That is a testable proposition, I guess, though it is quite difficult to know what the counter-factual would be. Having worked a little bit in the EU-12, the new member states, my guess is that your statement is correct: that there would be lower aid programmes if there were not a commitment through the EU, including last year, for the first time, a contribution to the EDF. Whether or not the same argument would hold for the larger member states or the more traditional member states, I am not so sure. It is a good question to ask them. Would it work for the UK? The UK has a commitment to 0.7%, and we are making allocation decisions between windows. I suspect the same is true for most of the big donors—France, Germany, Scandinavia and so on.

Q69 Jeremy Lefroy: It seems it would apply more to, as you say, the new countries within the EC or perhaps some of the countries such as Italy, which are not anywhere near meeting the 0.56%, let alone the 0.7%.
Simon Maxwell: That is true. The total ODA from all the new member states is only around €1 billion, but it is not very substantial.

Q70 Jeremy Lefroy: That is very substantially through the European Commission. They do very little bilaterally.
Simon Maxwell: About three-quarters.

Q71 Jeremy Lefroy: Is there an argument for, if it were possible, the UK to shift money to the EDF from the general budget? Clearly that is, to some extent, a hypothetical question, but it is certainly something that we would like to examine as a proposition—to say that we would like to see far more go through the EDF, as opposed to the general budget.
Simon Maxwell: The EDF is not perfect, because there are plenty of middle-income countries, including all the Caribbean countries I mentioned, which are receiving money from the EDF. In principle, it seems surprising to increase the DCI by 19% and the EDF by only 13%, noting that all these numbers are so far only Commission proposals. What actually happens in the budget outturn remains to be seen. It is also a bit odd, I think, to commit a budget seven years ahead, when we do not know what is going to happen to overall aid volumes.
What we saw in the current financial period, 2007–13, was that all these numbers were set in 2005, under the British presidency, and then aid increased and the EU market share fell from close to 20% to something like 18% and drifting downwards. There are some member states that provide less than 10% of their aid through Brussels—the Swedes and the Danes, for example. There is an argument to be made for having a significant market share in the hands of the EU, so that it can be a serious player in international negotiations, but if those numbers are fixed and aid increases, I think Stephen is right to say that there should be additional voluntary mechanisms available that would enable countries to route more money through Brussels if their aid programme is increasing and they are restricted, through the EDF and the other budget instruments, as to what they can provide.

Q72 Jeremy Lefroy: Are you implying that some countries see even the EDF as a bit restrictive and would prefer to see yet another instrument that was perhaps open to other parts of the world? The EDF is basically the Cotonou Convention countries.
Simon Maxwell: Some years ago, I proposed that there should be a voluntary MDG fund, which would enable countries to make an additional contribution, over and above the budget and the EDF.

Q73 Jeremy Lefroy: How voluntary is the EDF's voluntary contribution?
Simon Maxwell: It works to a key as the EU budget, and will work more closely to it in the forthcoming period. It is as voluntary and as consensual as the EU budget as a whole.

Q74 Jeremy Lefroy: A country such as Britain would be able to say, "Actually, this year or this period, we are not going to contribute to the EDF. We are going to contribute to the main budget." I am not suggesting we do, but it would, in theory, be possible.
Simon Maxwell: No. All EU Member States are obliged to contribute to the EDF. I cannot answer that question. I suppose in principle it would be possible for a country not to contribute to the EDF.

Q75 Jeremy Lefroy: The word "voluntary" seems to have been rather misused then, if it is not actually voluntary.
Simon Maxwell: Both the budget and the EDF are agreed funding windows. In that sense, they are both as voluntary as each other.
Stephen Booth: I would like to comment on that. I think I disagree with that fundamentally. We may have to look a little bit more at the EDF and how voluntary that is, but the difference is it is a purpose-built fund for aid, so you know what you are contributing to. Development within the EU budget is part of a huge negotiation, which involves the Common Agricultural Policy and regional spending, which are the two biggest parts of the budget. Development spending is quite a small part of the overall EU budget actually, and it becomes subject to horse trading with other countries and so on.
If you are concerned about getting the money for aid, it makes much more sense to have a purpose-built fund for aid, and then you de-politicise it from all the other EU negotiations you have. You de-politicise it from the UK's membership of the EU. Given the

current political climate, if you are in favour of aid spending, once you bundle that with the UK's relationship with the EU and the EU budget, you risk being on the wrong side of the political debate on both sides.

If you want a commitment to aid spending, why not have a dedicated fund to which you contribute and you understand what the money is for? You also basically extricate it from all the discussions about how much money we spend on French farmers and money that is spent within the EU on the poorer member states. I personally think, if you are in favour of aid spending, surely it makes sense to distance yourself from the general political discussions about the EU budget. It is wrong to say the EU budget contribution is voluntary, because it is not voluntary. If we do not decide an EU budget for next time around, they will keep spending the same money they are spending now, or we leave the EU. I do not think it is voluntary.

Q76 Chair: Are you envisaging something like the World Bank division between the IFC and the IDA? Maybe the EU should set itself different contexts. What we have to evaluate, too, is the extent to which we put money into the EU or the World Bank. We might want to adjust the balance.

Q77 ***Stephen Booth:*** What we have to really look at is that obviously this is British taxpayers' money. Where is it best spent? There is an argument that the EU does have a comparative advantage in some areas, pre-accession being one of them and possibly the neighbourhood. For pre-accession, it makes sense to have it within the EU budget, because it is something that is very clearly about being part of the EU. That makes logical sense. On the Neighbourhood policy, I think the EU has not done a great job there, but maybe other member states have not either. In other areas, you can have an EU fund but why not have it voluntary? Why tie it to everything else as being part of the EU? It can be a separate issue, I think.

Q78 ***Simon Maxwell:*** The logic of your position would be to come back to another committee next week and argue exactly the same for the CAP, for structural funds and so on.

Q79 ***Stephen Booth:*** Precisely, and we are in the process of doing that in some of our other policy areas. The EU budget is all about making the best value for taxpayers' money and the objectives you want out of it. As DFID has already said, the money that goes through the EU budget is less value for money than the money that goes through the EDF, so why not try to make an arrangement where we can be clear about what the objectives are, and fund it when we think it is achieving them, rather than the situation we are in now? We are basically handing money to the EU budget and we know we are not happy with it, but have little choice in doing it. That seems to me an unsatisfactory situation if you are a UK taxpayer or if you are representing the UK taxpayer.

Q80 Jeremy Lefroy: I very much take that on board, and I believe the EDF does fulfil an extremely valuable role in this case, but what I am trying to get at is, in terms of contributions to the EDF, as opposed to the main budget contributions, how are they determined? Is it the case that, as with the Global Fund, countries just sit around the table in the next couple of years, and say, "Right, we are going to contribute this much, and it is irrespective of the proportion of our contribution to the main budget"? Does everybody contribute in proportion? No, they cannot contribute in proportion to the main budget, because some people are recipients and some people are donors, in effect, to the main budget. So how does it work? How does the EDF funding actually work?

Stephen Booth: I will have to get back to you with more detail on the specifics of the EDF.

Simon Maxwell: Factually, I can answer that question, I think, but your specialist adviser may have a better answer in due course. First of all, the European Union as a whole makes a commitment to the replenishment of the EDF. Last time around, that was based on agreed contributions by the member states. This time the proposal is that the EDF contribution key be brought in line with the EU budget key. I guess that is a proposal that will have to be agreed. If it is agreed, the second question will be: how big should the EDF be overall? Once the size of the EDF is agreed and the key is agreed, individual member states' contributions can be read off arithmetically. It is not like the replenishment of, say, the Global Fund or the IDA, where countries make unprompted voluntary contributions that are independent of each other.

Q81 Jeremy Lefroy: Thank you. I see from the information just given to me that the proposed contribution for the UK is 14.33% in the next round, and then there is a percentage for every single member state.

Chair: That is a proposed voluntary contribution.

Jeremy Lefroy: Yes, exactly. This is where I have a slight problem with the word "voluntary", because it seems to be slightly stronger than voluntary. Finally, does anybody have a view on why the Commissioner has in fact—I welcome this—proposed to keep the EDF separate from the budget, and not go on with the budgetisation, which we of course opposed?

Simon Maxwell: There are two aspects to that. One is I think they are keen to keep as much as they can off-budget, simply to make the budget look manageable politically at a time of fiscal stringency. The other is that, although there are some disadvantages to the EDF being outside the budget, particularly with regard to parliamentary accountability, there are some strong benefits to being so closely associated with the political procedures of the Cotonou Agreement, which has a joint Council of Ministers, a joint Parliamentary Assembly, arbitration procedures and a traffic-light system, which is highly relevant to the conditionality discussion we were having earlier. There is a case, actually, for EDF-ising the budget components of aid, rather than budgetising the EDF, for that reason.

Stephen Booth: As I understand it, some member states that are less keen on spending a large amount of money on aid would be quite happy to see it budgetised, and therefore aggregate spending coming down that way; they would basically be saying, "We are spending more via the EU budget on aid, but we are actually spending less on aid in total," as the EDF no longer exists.

Siân Herbert: A last point on that: if it were to be budgetised, different countries would have to contribute different amounts. If we take the new proposed EDF contribution key as an indication, it is proposed that some countries will pay larger shares and some smaller than in the current round With the new proposed EDF contribution key, the EU 12 will pay a larger share. DFID will see a slight decrease in its contribution share, and some other countries, I think France, will see slight decreases in their contribution shares.

Q82 Hugh Bayley: Siân, I am a little bit confused. Your name appears on the Open Europe submission and yet you are speaking for ODI. Does that mean you have moved from one to the other?

Siân Herbert: I have, yes. In September, I changed jobs. I used to be a researcher at Open Europe, and I co-authored the report with Stephen last year.

Q83 Hugh Bayley: Thank you. Where could policy coherence for development be improved within the EC?

Siân Herbert: Many areas. Policy coherence for development is a massive series of objectives, and it involves agriculture, trade, research and taxation. It touches on many aspects. There is a benefit with the EC-managed aid through the main budget because, of course, when it does come to negotiating the budget, there is very much an idea that there should be PCD between the areas. We are seeing now that perhaps CAP funding will lose some funds; the idea is that would go towards development funding. There is mainstreaming of climate issues, in terms of agriculture, into development projects, which could be a key achievement. I think the Common Agricultural Policy, is one of the main obstacles to a lot of development objectives.

Simon Maxwell: We learned a lot from the creation of DFID in 1997, which was intended to create a Development Ministry rather than an Aid Ministry, with some notable successes. DFID was highly influential on the UK's trade agenda, for example. It has been very influential on climate. Andrew Mitchell is a member of the National Security Council. The logic of development in the 21st century should not just be about aid; it should be more general. Anything that we can do to position the EU machinery in that direction is desirable. We think that Agenda for Change was too focused on aid and not focused enough on these wider issues, and so we would encourage Commissioner Piebalgs to take a greater role on trade, migration, fisheries, agriculture and climate change.

Stephen Booth: I would echo that. As Simon has mentioned a few times, the perceived advantage of giving money to the EU is that it has more weight in negotiations on climate change and security policy, if you want to include that, and in terms of policy coherence or migration. The problem is the EU does not have a coherent position on a lot of these issues, climate change aside, where it has led the way in certain areas. On foreign policy, the EU has a very hard time in coming to a common position on certain countries, and there is a clear lack of any kind of migration policy. These are laudable aims, but I question whether they are going to be achievable, because the EU has struggled so badly in coming to a coherent position in many of these other areas. It is obviously the right thing to aim for. I just think it is difficult for the EU to promise it, because it has a bad track record of delivering so far.

Q84 Hugh Bayley: When we went to southern Sudan, we went to the DFID office, which was contained within an EU office. I had imagined that they had just decided to build a building together and co-locate, but that was not the case; there was a shared EU approach to development assistance over the last five years. That appeared to be coming to an end. Was it a model that worked well and is it a model that should be replicated elsewhere?

Simon Maxwell: Across the development community, and especially in the lead-up to and following Busan, countries are very highly focused on harmonisation, alignment and collective action in support of Government-led development programmes. As you think about that, it leads you inevitably in the direction of multilateral aid because, if you have one programme, you can all support it. What has happened in many countries is that the transaction costs of donor coordination have absolutely exploded. I understand that in Mozambique, for example, there are 72 sector working groups under the 'G19' arrangements underpinning multi-donor budget support.

The Commission's approach to this problem has been to talk about joint programming and a code of conduct, which will try to limit the range of different activities that donors are carrying out. DFID and other big bilaterals are nervous that the Commission does not have the capacity to lead and do not necessarily want to be coordinated in that way. Obviously, having a single results framework led by the country is the way to go, and all donors should come in behind that.

Q85 Hugh Bayley: To pick up on something that Stephen was saying earlier, he suggested that it was a clumsy arrangement to have EU funds allocated to a particular bilateral donor to administer and implement a programme. It seems to me it might actually make sense, if the Dutch are doing a good maternal and child health programme, to say, "You will be the implementer." Then you would gather in 100% of EU funding to the most effective programme whereas, if you just left it to the Dutch, they would contribute—I don't know—5% of that amount. Is that something that, in contrast to Stephen's advice, you would like to see the EU doing more of—identifying a lead performer?

Simon Maxwell: I certainly agree with the principle of your argument. There are some smaller EU donors that deliberately set out to work through a delegated cooperation mechanism. For example, Cyprus has a delegated arrangement with Ireland for health work in southern Africa, because Cyprus wanted to do that but did not have the capacity that Ireland does. That seems very sensible to me.

Q86 Hugh Bayley: Is there anything else that the UK Government should do differently to promote joint working with other EU Member States?
Simon Maxwell: DFID rightly says that the Busan principle, the aid effectiveness principle, is that all donors should be working in support of government-led programmes, and that there is little sense in having one 27+1 set of arrangements, and then all the other donors having to have a separate set of arrangements of their own. If we can mobilise all donors together, including the EU, that is sensible.
Chair: Thank you very much indeed. I think it has been an interesting session. We are meeting in Brussels the week after next, so if you have any ideas as to questions we should have asked, over and above what we have discussed, we would be very happy to have your suggestions. You, of course, can then put your other hat on, Simon. I am talking about the other two witnesses. Thank you very much indeed.

Tuesday 7 February 2012

Members present:

Malcolm Bruce (Chair)

Mr Sam Gyimah
Richard Harrington
Pauline Latham
Jeremy Lefroy

Examination of Witnesses

Witnesses: **Mr Andris Piebalgs**, EU Commissioner for Development, **Mr Antti Karhunen**, Advisor, Cabinet of Commissioner Piebalgs, **Mr Christopher Jones**, Head of Cabinet, Cabinet of Commissioner Piebalgs, and **Mr Peteris Ustubs**, Deputy Head of Cabinet, Cabinet of Commissioner Piebalgs, gave evidence.

Q87 Chair: Good morning, Commissioner. It is nice to see you. I do not know whether you recall but we did have a breakfast with you some while ago.

Mr Piebalgs: I remember. It was a year ago or something like that.

Chair: It is good to meet you again and I will get my colleagues just briefly to introduce themselves and obviously we can then engage. As you know, we are the International Development Committee, monitoring the work of DFID, and we are conducting an inquiry into the role of the EU as a development partner in all its different aspects. We have five of us here. We are an all-party group, but for reasons that are beyond their control the Labour party have fallen away, but that is just the way it turned out. One is ill, one is at an engagement, and two of them are effectively not functioning on the Committee for reasons that are perfectly proper. However, I am Malcolm Bruce, I am a Liberal Democrat MP representing a constituency in the north-east of Scotland and I chair the Committee.

Jeremy Lefroy: Jeremy Lefroy, Conservative MP for Stafford in the Midlands.

Mr Gyimah: Sam Gyimah, Conservative MP for East Surrey.

Marek Kubala: Marek Kubala. I am a Committee Clerk.

Richard Harrington: I am Richard Harrington. I am a Conservative Member of Parliament for Watford, just outside London.

Pauline Latham: Pauline Latham, a Conservative Member of Parliament for the middle of England, in mid-Derbyshire.

Q88 Chair: Unfortunately Hugh Bayley, who is the one Labour MP who was coming, has been taken ill so has not managed to make it.

What we recognise is that the UK is giving something around €1.6 billion under various budget heads to the European Union for development and humanitarian aid purposes. What we are trying to evaluate is how effective that is in delivering the UK's development and humanitarian objectives. I suppose we have the capacity where there is discretion to make recommendations to the British Government that we should do more or less through the EU, and we have no predetermination of a view about that. It would be helpful if we started off by giving you an opportunity to make a sales pitch in the sense of what it is you feel that the Commission, and particularly your part of the Commission, adds to the UK's aid and development programme, and the extent to which you believe it adds value and enables us to achieve our objectives. That perhaps gives you an opportunity to make a pitch for how we match each other up. Obviously if you feel there are honest divergences perhaps we will have a discussion about those too.

Mr Piebalgs: Thank you, Malcolm. It is very kind to give me a word of introduction and I very much welcome your Committee here in Brussels, because I believe the public in general is for ever questioning public monies being spent, in particular for development.

I think I would start from the legal point of view even, because the EU runs on the basis of the Lisbon Treaty and one of the objectives of the European Union is poverty alleviation and eradication. So, basically, the EU as a whole—it means all 27 countries—is committed to this very clear, specific goal.

Today we have three directions for the EU concerning poverty eradication and alleviation. One issue where we are very much focused is this Policy Coherence for Development. For example, recently we proposed legislation that we will ask all extractive industries to disclose country by country their profits and their earnings, and also project by project, so the make-up of the stream of revenue in such a country. Also we recently canvassed communication on trade and development, but we have also done taxation and development. We try very much to use the expertise of the house to see what policies could make a big influence on it.

The second issue is one where we are particularly placed because we are not the 28th donor; we are still one of 27, because the UK has full control of how our money is being spent and in this respect we have a particular opportunity to start a process like joint programming. At the end of the day what we would like to achieve and develop in co-operation is that the country systems are developed with efficient maturity to continue development objectives. Let us take Brazil, for example, where we have been for quite a substantial time. I believe now the programme the Government runs is so mature that it is able to fight poverty on its own. It still stays there. It still is an objective, but I believe that we need to try to pool our resources in a way that supports the Government's plans where they exist and try to get the maximum result from them.

The Commission is well placed and I would say it is not soft co-ordination. It is trying to come up with initiatives; it depends on the place. In Somalia or South Sudan in particular we have joint programming.

There are 12 member countries participating and the Commission has been well placed to put this issue forward. On Haiti it was France and Spain. So we are going to be well placed to do it.

Third, we are also a development agency. EuropeAid supports roughly, through EuropeAid member countries, 18% of development spending worldwide. There are a couple of advantages of this spending. First, and it is extremely important for development co-operation, it is a seven-year programme, so that means basically it is a predictability of the fight against poverty. None of the national Administrations with even the most advanced budget procedure could guarantee such stability in fighting poverty in this way, so I think that this is a great advantage.

The second advantage of this money being spent is that through the Cotonou Agreement, through our engagement of long standing with developing countries' Governments, we have also political dialogue as a part of development. It does not mean that we always are able to use Government systems, but it gives us a good opportunity to reflect and in partnership with this country to move for the most effective ways to strengthen the country's own system to deal with poverty, because that is the objective that we try to achieve.

Third, we cover globally. Even the UK, one of the most developed in its spending, for example, is not in the Pacific. The EU is also helping countries like the Solomon Islands, like Vanuatu—so least developed countries far away—and in this way addressing poverty issues in the countries that member countries alone will never reach for a lot of reasons. So we have a coverage of roughly 150 countries worldwide and that basically gives the possibility to fight poverty globally and to fight for universal rights globally, and I think it gives member countries a good advantage in achieving their policy objectives globally.

Why do I say that it is full control? For all the projects and all the approaches that we have, first of all I come to the member countries, and for the budget I also go to the Parliament. So there is this full process of which the member countries are fully part. I could not do something on my own, without the agreement of the member countries concerned. In the management committee I have very seldom been blocked. Usually the proposals are accepted by unanimity so we try to build proposals that sweep in all the countries.

The last point perhaps is not the most important but it is still crucial. We have a commitment to devote 0.7% of GNI to fighting poverty. That is the objective the EU countries have taken and they have always confirmed; even last year they confirmed this objective. In reality, we have an uphill struggle. The UK is doing fine, and there are some countries that are doing excellently like Luxembourg, Sweden, Denmark and the Netherlands, but there are countries that are struggling. If we look at what EDF is spending, the next country of EDF spending is Italy. If their bilateral spending is much less than they spend fighting poverty through the EU, it is not because it is their own choice but due to the negotiation of the financial framework, in which there are discussions about how much is for agriculture, how much for regional funds and how much for external policy. Then when it is agreed, it is guaranteed that the money will be paid for the poorest people in the world.

It is also not unimportant to mention that new member countries like Latvia, my native country, are mostly engaged in fighting the poverty objective of the Europeans through the EU institutions. That is why I say that a decent level of spending for fighting poverty is guaranteed from all the EU countries. What is the overall objective amount? Each time it is decided by member countries in the MFF discussion. I have no strong views on this but our proposal was based on 2011's EDF and for the next budget it is on the basis that countries achieve 0.7% and the proportion is not higher than it is today. Actually, we took an even lower proportion because we took the figure of 12%, saying that member countries today should be on 0.56%; they are at 0.43% of GNI. So we do not ask for an increase now, but we ask for an increase in the money for fighting poverty, and for me that is the most important.

Through the EU itself there are some advantages, but at the end of the day all member countries will decide, "Well, we will spend all the money through national spending and it will be 0.7% and it is guaranteed". For me that is most important if people really deliver for fighting poverty.

Chair: That is interesting but, of course, it will not happen that way, the way things are going, I guess. Pauline, you wanted to ask a supplementary.

Q89 Pauline Latham: Yes, just a couple of points on things that you said. You talked about asking the extractive industries to tell you what they have spent, what they have taken out and what they spent in country. Was that voluntary or do they have to do that? If they do have to do it, how do you enforce it? The second point is you said something that confused me slightly. You said that the United Kingdom still has full control of the money that we give you for you to spend. Can you tell me how that works in practice?

Mr Piebalgs: On the first question, legislation is proposed. In a lot of countries we have seen when a study is done that, basically, legal outflows match what development aid provides. So it is important that the money stays in the country—that it is not development money that is flowing out. The problem is that the extractive industries make contracts that are not sufficiently transparent and not accessible to the public, and money goes out. That is why we made binding legislation that will be enforced. It still needs to be agreed by the member countries in the Council and in the Parliament; only then it will be legally binding for EU-listed companies and large companies in extractive industries and forestry. There is a similar Act in the United States, the Dodd-Frank Act, and we expect the Chinese and others will buy in through the G20 process. So that is that one.

The UK have full control because it is a comitology procedure. Whenever first political decisions are canvassed, under Agenda for Change, it goes to member countries and councils make conclusions. They could completely throw out the policy thinking, but that is where they say, "Well, we agree on your policy thinking; do it". Then for each spending decision we go to comitology. So it means member countries sit on each spending decision and take a decision. You can say the UK is one of 27, but still it has full control because control means not, "I am taking a decision alone", but "I am fully aware what decisions have been taken and I can take corrective action if I do not like what this Commission is proposing".

Q90 Pauline Latham: You are saying because they are around the table they can have an input. They do not have direct control over the portion that we give to you; they do not have direct access?

Mr Piebalgs: No. It is my proposal based on the overall volume of the EU, because once the money is in EU's budget it loses national identity. It is not German money, it is not French; it is not that of the UK. It is money given by member countries to the European Union to manage for development and it is pooled. We ask our member countries when we spend money in Somalia, for example, for supporting AMISOM peace troops. On "identity", I cannot say, "It is British money," or "It is Latvian money." Any of the EU member countries could say, "That is my money that is being spent." I think that is a huge advantage because in a way the UK could say, "Not only do we spend what we spend in our national budget, but all the EU budget for development is the UK budget for fighting poverty". That is what I am saying.

Q91 Richard Harrington: Commissioner, since we last met, when we had breakfast with you—it must be more than a year ago now—we have visited several countries in Africa particularly, as part of our inquiries. As a person who was a complete outsider to this development field, obviously one learns all the time, but there is one thing I am not clear about and I would like your views on. It seems to me very strange that in many places we visit DFID is there, the EU is there, there is a whole selection of national countries, bilateral arrangements and multilateral agents, and we find ourselves—again this is me viewing as an outsider—in many cases vying for attention and influence with national Governments to do projects with the EU, who are our friends and colleagues of course.

I realise that you can't sort out this huge problem, because it is part of the way the international world works with different relationships. Could you comment on how you feel the EU role differs from, say, that of DFID? Why should we as British parliamentarians, with some, maybe limited, influence over UK Government not say, "Well, we have a very good machinery with DFID. We have the management structure; we have all the systems, and we are in so many different countries. Why should we not pump more money through DFID and its management system than through the European Union?" I am referring particularly, of course, to the EDF, which is more of a voluntary arrangement. If you could comment on that, your thinking would be very useful.

Mr Piebalgs: As I see it, and my predecessor would go even further, the money for development is money that belongs to poor people. That is my point. Ideally we should not even decide if it is DFID or the EU. We have a countries development plan, which is basically from the Paris Declaration and Busan; that is the basis for our work. We know the envelopes that we have. It does not matter whether this is DFID's money or the EU's money. We try to address the most critical points of this plan to make a transformational change in society.

From that point of view, I would say for me that whether DFID's part is bigger than that of the EU plays no role, as long as there is money to address the problem. But the EU's specific role is that it represents 27 countries, because part of our strength is, especially after the Lisbon Treaty, that we are trying to build an EU of 27. That means that through this EU voice, Latvia, Slovakia, Bulgaria, Romania, Greece and Portugal are also part of this political process and that makes the support for the development much more broader based politically, because it is not only a transfer of money. It is engagement in fighting poverty, and we get all 27 in. It does not guarantee the spread of money on it, so I would say—

Q92 Richard Harrington: There is a political rationale that it brings in small countries that otherwise would not be involved in development.

Mr Piebalgs: I would argue that is the main argument. I would say at the end of the day what I care about is that the job is being done.

Q93 Chair: But you made the point, from the UK point of view, that you reach the parts that the bilateral programme of the UK does not or may not reach. A good example would be the current crisis in Sahel, which is not a priority directly for the UK but it is politically. We want to be engaged but we think countries other than Britain should take the lead because of the connection. I think we would all say we are quite proud of what DFID does. We know it has international respect. They have a lot of policy advisors and so forth. In those countries where DFID is not strong or not engaged at all, do you have the capacity, the policy, support and advice to be able to deliver the poverty reduction effectively so that we can turn around and say, "By giving this discretionary money to the EU we are delivering our poverty reduction and the MDGs in countries that otherwise DFID would not be engaged in"?

Mr Piebalgs: I think DFID is in 20-something countries; we are in more than 150, including Sahel, Mali, Mauritania and Niger. I do not believe that DFID is big in those countries, so we are part of it. But, for example, for a country like Myanmar, the EU and DFID are big. So in a way we are strengthening DFID in places where they are alone—using the EU funds to strengthen some activities there. Or we could take the examples of Somalia or South Sudan—a couple of places where we also strengthen DFID's role because otherwise DFID would be alone with a limited impact, so that helps us to shift the funds. We are also in central Asia; we are in Nepal. In Oceania, which I mentioned, who will work for the Solomon Islands? There would be no one if we were not there. That is a global engagement that allows fighting poverty to cover the world. We are also supportive in

Yemen, which I know your Committee sometimes asks questions about; for example, working with Palestinian refugees through UNRWA.

We are trying, through the EU, to leverage aid to all the places in the world where otherwise it would not come. Nationally it would be difficult to spread the blanket further, and this EU framework helps because it is France, it is Germany, it is the UK, it is Italy and it is Spain, so it gives an advantage. It is also a disadvantage in that we will have fighting ahead of us now with a graduation process involving 19 countries, because countries individually look at favourite areas, and they are not very happy that we have our criteria and limit bilateral development aid in countries where there is still poverty but it is not deserved. It is better for us to concentrate on countries like the Central African Republic where no one else will do the job if we do not do it. We will have more money to make more impact in these places. It is not an easy debate; so there is strength and a bit of weakness, I would say.

Q94 Chair: I am going to bring in Pauline Latham to talk about the Agenda for Change and one aspect of it, but first I have one question. There has been some criticism of the slowness in dispensing or disbursing some of the money. Is that still an issue or do you feel that you are getting on top of it? We have heard that in a number of places.

Mr Piebalgs: I would agree that it is a weakness of the system, because the system is built extremely conservatively. The reason is that as we work in very unstable places, at the end of the process, even in the middle of the process, they have the Court of Audit and Budget Control Committee. They take an example and they look and find an error there. They do not ask me why I did it. They just see an error, then I am slaughtered in the Parliament and I have no defence any more. That requires a lot of controls. There is an audit before we start, and also in the middle, so we can correct any mistake by end payment. We could perhaps issue a recovery order but is very difficult to expect that it will be paid back. That is one of the issues.

The second, which we are trying to improve now, is the procedures. Programming takes one and half years, plus one is the designing stage. It could be cut shorter, because the weakness of this long timeframe is that we are now responding to more mature partners, and for them, in political life, three years is an age. If I am saying, "I will help you in three years' time", the person says, "Well, I will not be in office any more". I think we are trying to cut that, but there are limits on what we can afford to do because we can't compromise the accountability of the money being spent. So we are trying to cut it, but it will always be a bit of a challenge—it will be relatively slow. But if I compare that with projects with DFID or with German agencies, it is not so different. I think it is a general weakness of all aid delivery that it takes time. It takes time to prepare and also to do it, spending correctly.

Q95 Pauline Latham: You mentioned earlier the Agenda for Change. You talked about how 19 countries are going to graduate from aid because they are now upper middle-income countries. Can you explain why the ACP are exempt from this, especially given that a number of Caribbean states are upper middle-income countries? Why is the same approach not being applied to the European neighbourhood region, which includes many upper middle-income countries and yet they are still getting huge amounts of aid from the EU?

Mr Piebalgs: I will start with the EDF. I think 85% of the countries are low-income countries, which leaves us with countries like Namibia and a couple of Caribbean states there. Our challenge is that the Cotonou Agreement, which has been agreed and will expand in 2020, basically guarantees that we agree in dialogue with them, and they say the Caribbean do not deserve the support. That is what I would say. They have a veto right in this process. That is why we can't completely graduate from it. What we intend to propose is strong differentiation according to the level of income.

But for the Caribbean I have a bit of a soft spot because the countries are vulnerable to two major challenges: climate change and natural disasters. It is the same with the Pacific. If we focus our aid, in saying, "This is an area we can support because your own resources are not sufficient to address this issue", I would say it would be money well spent because they need to build shelters—they need to build a resilient infrastructure for hurricane attacks. We have been over there. They are vulnerable economies that in a way deserve some attention even if the income per capita is there. The Cotonou Agreement makes this group of 78 countries a bit, I would say, specific but it was its legal commitment from the UK and member countries towards ACP countries. So it is a special relationship.

On neighbourhood policy countries, it is like pre-accessions; they are more objective, so it is not just poverty eradication and alleviation, because basically the purpose of neighbourhood policy is that it is very ambitious. Countries should achieve a level of human rights, democracy and economic prosperity that makes them very comfortable neighbours for us. So that means that ambition is higher; it is not just poverty eradication. So we care that Libya is evolving as a democratic state, we care that the economy is sufficient so that people do not try to cross the Mediterranean to the EU to look for labour because they are satisfied with the countries themselves. It is the same with Ukraine, and the same with Moldova.

Q96 Pauline Latham: What about Turkey?

Mr Piebalgs: Turkey is an pre-accession country. Member countries agreed that it is a candidate country. In 2010 we spent €654 million on auditable expenses. It is quite a substantial amount, but it is our contract, I would say. So we decided that they would be a candidate country. We assume that one day they should be able to take the responsibilities of member countries, as Latvia has. Is particularly an environmental protection that requires huge investment in treatment of waste water and solid waste. A lot of what we don't do in sub-Saharan countries we do in Turkey because of the expectation that one day negotiations will be over, there is a possibility that Turkey will be part of the EU, and then they should be able to fully apply EU legislation in all the areas. In some areas it is quite demanding; for example, protecting the environment.

Q97 Pauline Latham: If they were not accession countries we would not be giving them that amount of money?
Mr Piebalgs: No.

Q98 Pauline Latham: Supposing Turkey says, "Thank you very much, you are giving us all this money every year, it is really great. We are raising our standard of living but in 10 years' time we are not going to join the EU", do you get any money back?
Mr Piebalgs: No. I understand the question. Turkey itself provides, I think, roughly more development aid than we put into it, so that is true. But as I said, the ambition is different. It is a contractual relationship. When they submitted the application there was discussion, and it was member countries, not Commission reports, that determined this starting point, and said it is a candidate country and we treat Turkey no differently from how Latvia was treated. For Latvia you have invested quite a substantial amount and it made a huge difference to my country. It is by far a better country than it was in 1996 when we applied and started to be in the process. You could see the issue of environmental protection is nothing compared with what it was 10 years ago; it is a remarkable change. From this point of view, the money is not wrongly invested, but it has got it because of the assumption that it will be a member country.

Q99 Pauline Latham: But people are dying in other countries.
Mr Piebalgs: But it is not a question for me, I would say. It is more a question for William Hague.

Q100 Richard Harrington: If the European Union decides, for what I believe to be totally stupid reasons, to give money to Turkey, which as everyone knows has no intention whatsoever of coming into Europe—but that is a different issue, I realise that is not within your remit—how can we pretend that it is development aid? Why is it part of the EDF? If the EU wants to give money to Las Vegas let it. That is another political decision. But why is there this ridiculous pretence that this is aid? It is not at all. If some deluded bureaucrats think that Turkey might want to come into Europe, that is fine. It is a different issue. But you are doing very—
Chair: It is a little unfair to blame bureaucrats.
Mr Piebalgs: Exactly. It is nothing to do with me.

Q101 Richard Harrington: It is nothing to do with you, but let us not pretend that it is part of international development or anything like that. It seems unfair that it is lumped on your budget and that you have to bear this when we are talking about, as you said repeatedly in your presentation, alleviating poverty, which is what we are here for. Sorry, Chairman, that is the end of my outburst. I couldn't restrain myself.

Mr Piebalgs: If I may make a couple of comments. One issue is that when the financial framework is being discussed it is member countries that decide how much money goes to pre-accession, including Turkey, and it is up to them to decide what is the pre-accession envelope. But as I speak, Turkey is committed; that is how it is. It strives for membership and has never said anything else. There are regular reports that member countries discuss and they could decide differently. So it is up to member countries to make this decision. I do not control how much money will be decided for Turkey because it is decided by member countries. It is not my decision. It is not DCI that spends money in Turkey.
The second point is, and it is a more fair point, to do with the reports. Basically what we go from is OECD DAC, which decides the criteria of which operations are DAC-able or seen as a party, and it is rather a long list. Whenever we start a project we also make all these estimations but part of this money is DAC-able—depending on the response to these criteria. That means that each Turkish project is evaluated, and a percentage is classified, and we send OECD DAC information, project by project. We are striving to be transparent and doing quite well. I think we are second best in this category of project transparency. It is up to them to decide.
So, is it right or wrong? It is not so easy to answer because the purpose is not poverty alleviation, but money is spent according to international criteria. It would be wrong not to do it because the taxpayer asks how much percentage is taken on GNI. It is not such an easy debate for me; I could be criticised if I asked my staff not to report all the money in Turkey for those purposes.
Chair: Then for those criteria you go through negotiations on a regular basis—understood.

Q102 Mr Gyimah: My concern is around governance conditionality. The Agenda for Change and the budget support communication place emphasis on the promotion of European values: human rights, democracy and the rule of law. Can you explain to me how the EC is going to put governance conditionality into practice, especially given some of the other pressures, whether it is trade, security, agriculture or energy interests? Is there wide across-Commission support for this initiative?
Mr Piebalgs: I think it is a very valid question. Oxfam in particular argues that budget support is the best form because you use the government system; you strengthen the government system, you reach people and there is greater sustainability. I would agree with the argument that there is full agreement. We have experience with so-called MDG contracts, where we set criteria or indicators according to the MDG, and we set very clear conditionality, public finance management and macroeconomic conditions. We never provide budget support to any country that is not in the good books with the IMF or has a problem with the IMF; the payment does not come.
But we have had setbacks, mostly coming from the political side. We provided budget support for Tunisia during the times of Ben Ali. We provided budget support also to Malawi when they had a human rights

issue, and that makes this process extremely vulnerable. I can't defend in any the terms giving money to a Government that violates human rights. I am dead. I can't do this. Nobody will agree with me that I am fighting poverty and helping people. They said, "Do it but don't use the government system in place". That makes this system vulnerable. I think it is much more honest to speak with the country, saying, "It is too dynamic an interpretation; what we expect is that human rights conditions will improve, not deteriorate." That gives it a contractual relationship that gives me the right to stop the aid and they know it. They know it if there is a human rights violation that it is not just punitive action. It is nothing to do with punitive. I am not credible if I am not looking for these criteria. So, with human rights, democracy, is the situation overall satisfactory? In the worst case it goes like this, but hopefully it improves not deteriorates. If it deteriorates we can't guarantee budget support.

But I think what the countries get from it is a predictability that the aid will be delivered on the 6th of each month or whatever. They also have something to gain from it and when I discuss this, developing countries are more understanding about it. The worst thing is when you don't spell out the contractual relationship because then there is a different interpretation of it. I believe the new budget support strengthens the budget support idea, not weakens it, but I face quite a lot of criticism. They say, "You put an additional condition on it." That is not true, because we always evaluated it but we never spelled out exactly what it is and what happens when we can't deliver any more budget support. In the Ben Ali case, the Government case is the best because people benefited from it, but I have had enormous criticism around the EU that we supported the regime, not people, and it is false. But you can't not respond to such a challenge.

Q103 Mr Gyimah: Sorry, just picking up on the final point you made: is the criticism about the fact that you are putting conditions in place or the other way around?

Mr Piebalgs: No, the criticism is that we are putting these conditions in place. That is a criticism from NGO communities that very much are supporting the budget support. They also said why don't we have a qualitative indicator, but I can't do that because it is numbers that we are striving for. Last year, I think 17% was disbursed through budget support. Most of it was sectoral budget support, but it is dialogue. Both sides should agree on these contractual relations. We can propose and we can do it, but it requires these criteria, and you accept and that makes us stronger. That is why I think just to mention some percentages, 25, 30 or 50, does not reflect this relationship because it is fair if the country says, "No, these conditions are too tough for us. We would like you to support poor people through NGOs so you are going directly with the project. We are fully conformed to business because you are asking too much from us".

I think also the lesson learnt from MDG contracts is that we rely too much on technical indicators. What we would like are more qualitative indicators as well, such as reforms in a particular sector that increase sustainability. For example, I was in Myanmar and we hammered those words "budget support", but it was difficult to explain because it was one part of indicators that have been fulfilled, some were not. That means that we are trying to make budget support much more politically credible for our partners and for ourselves.

Q104 Chair: But in the case of budget support you already have an established relationship and that is understandable. What about the countries where you can't get budget support because they are too corrupt and too—what sanctions can you impose on conditions? If we take the DRC, we just did a report on the UK's engagement in conflict. We did a double negative and said it should not be unconditional. What are you going to do when they fiddle elections, lock up the opposition, have no free press and carry out all kinds of human rights abuses? Are you going to take the money away and leave the poor people unsupported or are you just going to give up and let them carry on?

Mr Piebalgs: We provide people support through NGOs, through the UN institutions in Madagascar, Zimbabwe and Myanmar. So we are doing that, but definitely it is alleviation. For example, in Myanmar I will go and look what we have. We have projects running for 100 million, so we are going to tribal areas, and there is some activity in education and in health, but we fully understand that we provide alleviation, so we do not leave. It is much slower as a process, and the delivery is not so sustainable, but I believe that it is right to support poor people even if we have no relation with the Government, just as we never had any relations with Myanmar, or with Madagascar—that is another. DRC is a challenging case because in DRC—well, it is also ES. I do not know how we deal with DRC, to be honest, because the election result is a huge disappointment. The country is extremely vulnerable. There have been controversial tendencies after the election, but they have been the hope that we could build on, in the country. How it will evolve? It very much depends on relations inside DRC. I think that DRC is one of the most complicated cases, if I look into the future, because the country is so unstable that to leave it not doing anything is not a solution. It is not a solution. That means engaging with poor people and trying to exert political pressure on the country when it goes completely wrong, through article 96 or through the political dialogues that we could push.

Q105 Mr Gyimah: The word you used a number of times was "contract". I am struggling to understand in what way the budget relationships are contracts if, in the case of DRC, we cannot envisage a situation in which we pull out or you can't enforce it. In what way is it a contract? It sounds like it is a contract for us but not for them.

Mr Piebalgs: Budget support is one of the aid modalities. It is not the only modality. For budget support it is a minority of the countries that we are doing. As I said, in 2010 only 17% was disbursed through this budget support and some years it had been a bit more. When we engage in budget support we should spell out much more the obligations and expectations from both sides. They expect, and rightly expect, that the money will be delivered exactly on the date and they could put it in the budget. It is a source of income, and I understand that today's system is not such a guarantee, a given. I wish that there were very clear conditions, but from the other side I also need a clear commitment that is deliverable. I also need the political situation in the country not to deteriorate so that I have a full conscience when I am delivering budget support. In this respect it is a contract that should be clear-cut from both sides and fully predictable—it is simple enough that you know why the budget disbursement is not coming. So that is how it is. Where to use it is firstly an internal discussion—could we at least apply it, are the conditions right, is public finance management there, is the human right situations there, is the macroeconomic situation there? Then there is a discussion with the partner because it is up to them also to decide. A lot of them favour budget support but a lot of them would say, "No, it is too much of our sovereignty given away", and it is up to them to decide.

Q106 Richard Harrington: Commissioner, as you know, in DFID "results" is now very much the byword and the philosophy. Everything is results-based; there is a comprehensive results framework and everything, which for those of us who are fundamentally politicians is very important because it helps us justify the spending to our taxpayers and to our electorate—it is not all going to African dictators. "These are the results, these are the outcomes"—it makes it easier for us. Also I do feel that it is very important. It is something that the new coalition Government is pushing for in the UK. I understand in Europe you found it rather more difficult to evaluate things on a results framework because there is not the same comprehensive results framework as there is in the UK. Could you perhaps let us know if you are proposing to change it and how you are doing it so that we will be able to justify your expenditure in very much the same way?

Mr Piebalgs: It is not exactly true that we are not looking. There is results-based monitoring. Each project is evaluated; it is not only an external audit but also an external evaluation. What was achieved? What are the goals?

What was lacking, I think, until now was a very comprehensive framework of what we would like to achieve in this particular country for development policy, outcomes and outputs to measure. We are going in that direction. It is more difficult because basically we are trying to transform a country. How can you describe and indicate that as a transformer? I could clearly say that we have provided drinking water for 31 million people with EU financing, with 9 million getting access to sanitation, 9 million kids getting to school and 720,000 teachers having been trained. I could continue—I have the figures—but when you make a first approach to the country, and development policy is still more country-based, we need to describe indicators in a more comprehensive way. That is a task that I gave my service. We are trying to improve this framework of measurement and make it more global. You can say how successful you are in each year, and I can give the figures of what we have achieved. As I said, I could give an exact figure for Myanmar or any other country. I could name the figures, but it does not give exactly the flavour we would like to achieve. In a lot of countries we are also basing our results on MDGs, so overall access to education has increased globally from 83% to 88%. I could say that at least 1% of this is definitely the financing that went through the EU, but for many people it is not sufficient.

I believe that the main success for me would be a country like Ghana, a good graduate for development aid. We would say, together with Ghanaians, that there is a need in the country but the country is mature enough and managing enough resources to continue the development objectives. I think that is what people would like to hear, and for today's graduation of middle-income countries I can't exactly claim that. I cannot claim that in China or India there was development work and it made an impact, or in Colombia or Namibia. We did it but we never quite measured the outcomes. I can't claim the success or failure of these countries, but I believe that at the end of the day we need to have an integrated framework through the joint programming of what we would like to achieve in the country, and South Sudan is the first example where we are trying to do this.

It is uphill but we are trying to learn from DFID, which definitely is a frontrunner. Also the World Bank is doing it. We are trying to improve our system because it is crucially necessary. These figures perhaps do not say everything but it is saying a lot.

Q107 Richard Harrington: Something else that DFID has made a big issue about is the movement towards the private sector in development policy, which was announced last year. As far as we can tell DFID are very serious about it. I wondered if you supported that and, if so, what steps you are taking to enhance the role of the private sector as far as EU development aid is concerned?

Mr Piebalgs: We fully support it and there is a debate still ongoing. The thinking that I came to is that economic growth per se does not guarantee less poverty in the country, but without growth you can't expect to win against poverty. So growth is a crucial condition. If you look at countries like Burkina Faso, Niger or Mali, you do not feel that the countries ever will be able to run out of it. That means that there is some crucial element lacking, and it is a private sector development because the private sector brings economic prosperity but also the rule of law. It brings also democracy and human rights, because you can't expect Government-created jobs to be sustainable. I believe that the extension to the private sector is right, not only from an economic point of view but also that of human rights and democracy.

We have long-running planning vehicles. We have investment facilities together with the European Investment Bank. We have the EU-Africa Infrastructure Trust Fund and we are trying to come humbly in this sector. I would mention, for example, one small project. With our support the first black-owned company was established in South Africa recently, so I visited it. It is a rather small company, but we are addressing some niche issues that make a difference in the country. I would say I was quite surprised when they said this. It was not my objective—we support it for other reasons—but they have been very proud to say this.

We are trying humbly, but that is not the main focus from us. That is still social sectors. We have guaranteed in the Agenda for Change that at least 20% goes for social services. I would not mind spending even more but I believe through the leveraging of long-run planning we can provide financing. Then there are basically at least three difficulties for the private sector: access to money, which I think that could be done through our development banks or investments; access to energy, which we are strongly addressing because it is crucial, particularly in rural areas; and a rule on governance, but there we have a political dialogue and discussion.

I have seen remarkable things happen. If you are in Ethiopia you should visit the coffee exchange or stock exchange, whatever it is. It is very rudimentary but it is remarkable what was achieved by the leader, the lady that runs it. It is also based on legislation, because it is private enterprise in a way but it is backed by law, so there is a law. She managed to get laws that back that, and it has made a huge impact for the farmers because smallholder farmers know how the price is building, so you see there is a huge difference if you are successful in it. It is not a panacea, that I would say, but it is crucial that in development we address this issue because it multiplies our efforts and it really moves the country up the levels of development. Yesterday we discussed with my service the maximum case for the remaining years, and I think that spending on these types of activities could be to the value of €400 million or €500 million.

Q108 Jeremy Lefroy: Commissioner, moving on from the private sector, or very much staying with it actually, a couple of things. First, we do not, I think, hear often enough about job creation as part of development policy objectives. In Europe our focus absolutely across the EU is on job creation. It must be, because unemployment is a terrible thing and completely destructive of national economies, yet when it comes to development aid we do not seem to hear about employment creation, even though in many of these countries half the population is under the age of 20 and what they want above all, in addition obviously to good education and good health, is a job at the end of it. The private sector is obviously a key driver of that, but included in the private sector I would include agriculture, where again we have lost the plot over the past 20 years. It is coming back into focus, but I wondered what your Department is doing particularly on that. The United States has tended to take a leading role but I think this is something that is too important just to be centralised because agriculture in many of these countries is going to be the key driver for employment in primary production, secondary processing and indeed in consumer industries.

Mr Piebalgs: I fully agree with this because job creation definitely is a huge challenge in a lot of countries, particularly also for neighbourhood countries. But we also understand that with the resources we have we can't have too many sectors that we address, so in the communication, beside the classical social work, we mention only two sectors. One is access to energy and the second is food security—it is agricultural production. Most of the poor people live on degradated soils. There are no feeder roads, there is no access to the market and there is no storage capacity, so it is very clear some substantial investment is needed. In Rwanda, for example, there is terraced agriculture. You can't expect a farmer to have such money for investment, ever. He is unable to raise such an amount of money. I think development partners must come to the areas to give the people a chance to come to market or to get more productivity out and pass on the knowledge. I have visited projects that we finance in Myanmar. I have no experience in agriculture and my knowledge is very rudimentary, but compared with the people I would say I was a professor, I felt, because I really learned the basic skills. There is a huge under-investment also in human knowledge, how to run this agriculture, what does it mean. So they start from scratch. Agriculture is a particular issue.

Where we particularly direct our attention is two regions. One is the Horn of Africa, where we focus very much what we can do, what they are doing, what we should do and how the funds should be used for it, because we would not like to replace the private financing where it is possible. I think that would be a crucial mistake. The second is Sahel, Niger, Mali, Mauritania and Burkina Faso—north of Nigeria. That is where we see the most affected, because we see the risk that if these two regions go wrong—and there has been famine in the Horn of Africa—then humanitarian aid starts coming in. Humanitarian aid is a blessing but it is also a curse in disguise because people get used to humanitarian aid and you need to all come to the cycle. So for this reason we also make the strategies, together with our humanitarian aid and ACORN.

Chair: We had a meeting with clients this morning.

Mr Piebalgs: Yes, because we tried to get this link, particularly for agriculture. But it is an extremely challenging area. We have an involvement with US co-operation for food security because it has different approaches that are sometimes helpful. For example, Americans in Ethiopia have developed some type of surrogates for land ownership. It is like a paper; it is not exactly ownership, but still you know which plot is yours, and if the husband dies the wife continues with it. We are trying also to address some structural weaknesses, because one of the weaknesses is who owns the land, and that is a very political issue. I think that is the biggest worry I would have because there is land-grabbing going on, and this process today, even if it is not big scale, is not transparent and that could lead to huge political instability. It is just unfair, so our focus is on smallholder farmers so they can not only survive but do some trading and in this way create some employment. But it is really challenging.

Q109 Jeremy Lefroy: Thank you very much for that, and I am glad to hear it. It has always struck me that especially in the area of irrigation, right down to micro and drip irrigation, there is tremendous expertise in places like Greece from where I have been involved in buying drip irrigation systems. We are saying that these kinds of systems are good for big plantations, but we are not applying them to smallholders and yet we could easily do that. I am wondering whether we are looking at what we are doing in Europe and saying, "We have the expertise, we should be using this advantage that we have and applying it to smallholders". They need access to this kind of technology in the same way that our own farmers do in similar circumstances.

Mr Piebalgs: I think we should take more of our expertise. We are working now with DG Agri on this, trying to get them more involved also on the other part of the knowledge. I would say there are a couple of good examples where we have done that, but it could be increased by a factor of 10, because we spend yearly on agriculture today €600 million, I think, from all the moneys that it is, but it is definitely not huge amounts, so the spending should increase and address exactly the structural weaknesses. But you need a good analysis or a good development plan from our country partners. I would say energy is challenging but agriculture is even more challenging, but I believe it is right to increase the scale of investment in this area because if you do not address agriculture issues, you can't get the market working, and that is a weakness that you can't expect Governments to manage to address.

Chair: We are going to run out of time. We will take in Pauline and I have one final question.

Q110 Pauline Latham: Just a very quick question. DFID has said that EC aid and the EDF have good policies on gender but they are poor at implementation. What would you say about that?

Mr Piebalgs: I think I accept the criticism. We have our gender action plan from 2010. We increase our ambition from streamlining in the existing projects. We have some specific projects for North Africa that we are trying to increase but it should be done by far more. We have some alleviation systems. DFID was quite positive how we do alleviation, but I would say for the gender issue I believe everybody should deliver far more in this area, because it is a difficult area. It is politically sometimes difficult also with the countries, but I accept the criticism and we are working to improve it, working with UN Women, working against the violence. There are so many aspects of it. Poor education is a more successful part because enrolment in education will always be local indicators and also some additional inputs that girls have first to be enrolled. That exists but I would say substantial change is needed, and I believe each project should be evaluated on the basis of what it does for gender. I think it is a general weakness in all agencies and they could do better in more instances.

Q111 Pauline Latham: You have just mentioned UN Women, which is interesting. Before we had Unifem and everybody funded them very well but nobody seems to be funding UN Women to the same degree. Where are you on that scale?

Mr Piebalgs: We are working on them because we basically can't finance any UN agency; basic financing is for member countries. The only exception is UNRWA for Palestinian refugees, because we also provide some core financing for UNRWA. We can provide the programmes while delivering the service, so if it will be a competitive project we will provide financing from UN Women. They are making an excellent impression on it and I hope that we will be partners, but at this stage I do not think that we have any projects running through them.

Q112 Chair: We find in pretty well every country we visit that the empowerment of women and the gender issue is almost central to all development. If it does not happen, pretty well everything falls foul, particularly on the MDGs. The final point, which is crucial I suppose, is the budget and what is going into the negotiation. First of all, I understand you are against budgetising the EDF and I just wondered why. Also, proposing a 22% increase in the DCI and only a 13% increase in the EDF—what is the thinking behind that difference?

Mr Piebalgs: Budgetisation of EDF has been proposed twice, I think, in the frameworks and it was rejected. The main reason for budgetisation of the EDF is to get democratic scrutiny from the European Parliament. Knowing that the European Parliament very much questions this approach I decided not to propose this time the budgetisation of EDF for two basic reasons. The first is that the Cotonou Agreement expires in 2020, so the next financial framework coincides with that. Changing that would mean also renegotiating with our partners, a 78-country bloc. That will not be easy and will creating a lot of political difficulties. I thought, "Let's keep it until the end of it". I think that was the first argument.

The second argument was financial, to be honest. I would like more poor countries to get more money. I know that politically it is more attractive to look to the north of Africa and to the neighbourhood. I know it, but I care that the people in the Solomon Islands, Nepal or Burkina Faso get the money, and the EDF has clout as a poor country or poor people instrument. In these times of austerity, I did not want us, in the budget debate, to put away this issue as a secondary one, because there will be a lot of discussion on agriculture and the structure of functions, and people will say, "Well, okay, we don't have any money for poor people". So EDF is basically putting this question very clearly: do we want, as an EU member country, to continue to fight poverty? That is also a bit of a money issue—that we do not lose the support for poor countries.

Q113 Chair: Is that part of the reason why you have only put in a 13% increase?

Mr Piebalgs: No, about the increase. DCI is also related to thematic programmes. It is not in EDF. DCI has two particular new elements. One element is thematic programmes for supporting the fight against climate change. It is global and it is also about preserving biodiversity. So that is a part of financing. It is not only country-based financing, and a rather big chunk of this money is going there. It is our obligation to fight climate change in support of small islands. There is quite a substantial need to finance that.

The other part is that we also put in money for the EU-Africa partnership because Africa as a continent has evolved in the relationship. We put in also a bit of money for strengthening the EU-Africa relationship, supporting action plans that have been agreed in the summit with the EU countries and African Union countries. That means that on poverty eradication and EDF, you need to take away a couple of elements that come with DCI. In DCI there is also a budget line for supporting non-government organisations and civil society organisations. That is also part of the thematic line. I think if you take it away, it would be the same, or close to the same.

Q114 Chair: How far off the 0.7% target are you going to be by 2015? You are not going to admit failure yet?

Mr Piebalgs: No, I will not admit failure because what gives courage is the UK, definitely. The UK gives us courage with all the unpopularity of the measure. It was definitely a Government commitment. All this applause is because at the end of the day when a crisis strikes it is the poor people that are affected more, but we should not forget that the most poor people are not living inside the UK or Latvia. Most poor people are living in desperation in these developing countries because if they do not get support they just die. In our case our social system is not perfect but they care about each other. There is nothing there. I think that was a very strong movement.

Denmark said that they will increase the financing, and there was an increase in Portugal. There was not a sufficient increase in Spain but there was a positive movement. Not performing—there is more than one country. There is Greece, but through the EU they still participate. Italy could do more. Italy is a big contributor to EDF, and to budget better bilaterally they could do far more, in my opinion.

Then my expectation is with Germany, because at the end of the day it is the UK, Germany and France—Italy and Spain also are important—that make the real difference. Germany keeps the commitment for 0.7%. It is a Government programme and I do not see how any German Government could get away from it. France was not too bad in 2000, 0.51%. So I will struggle for it. I am not shouting very loud, but we do all the reports and we push each year for confirmation of that, and we had a confirmation from June and peer pressure is important. I will give up only in 2015. I will not give up earlier.

Q115 Chair: We will try to make sure the UK does not backslide. Thank you very much indeed again for meeting us. Obviously we could have longer but we appreciate the time you have given us and a good opportunity to meet again in a slightly more formal situation. Obviously we are going to evaluate all the things we have seen and heard and will produce a report in two or three months' time; I do not know what our target date is. You will get the flavour of some of the issues that we are going to assess, but clearly it is important for us to get first hand from you what the priorities are, what the direction is, what the delivery is. I would say that whenever we are visiting any partner countries we do always make a point of trying to make sure that we contact and have dealings with the EU representative, and we find that valuable and helpful. I think we also have to recognise that the EU operates where we do not. One of the things that we have tended to do as a Committee is to go where DFID is operating bilaterally. We may have to think again a bit about that because clearly by focusing on only 28 countries, yet giving money to the EU, giving money to the World Bank, giving money to the UN, there is a lot of British money in aid and development going to countries where we do not necessarily have a DFID relationship but where we have another kind of engagement and we maybe need to look at that at some point. But it is extremely helpful and thank you very much indeed.

Mr Piebalgs: If I make some final points. First, I would say that we have excellent co-operation with DFID and also with Andrew Mitchell. It works really well and I mean it. It is a pleasure to work with them. It is a good partner. We try to learn something from them and I hope that they also find something useful from our approaches sometimes.

Q116 Chair: You know on their evaluation that the EDF came very close to matching up with DFID's own objectives so you got a high rating as a result.

Mr Piebalgs: Then the second point is I would like to indicate that in parallel an OECD peer review for EU aid is running. The conclusions will come in June, I think. If you are interested, I think that will be helpful, because they did evaluations in 2007, and now after a five-year period they have done quite substantial interviews. They visited the countries.

Finally, I believe that we have created a rather robust system working with the External Action Service. I know that you addressed it. It is a complicated system because the External Action Service is not part of the Commission, but what we have achieved, I believe, is that we have not created two types of agencies. There is still one delegation, and it is the head of delegation that is fully accountable for the development objectives but also for political objectives. We have development staff dedicated to the development programmes, and on the programming level and the political level it works reasonably well.

I have always argued that the current architecture, although not perhaps perfect, is better than it was previously where we were split into different regions. I feel responsible for delivery of the aid in the best possible way. So we have a lot to learn as an institution but the ambition is that EuropeAid one day could be, well, even better than DFID. The ambition is that we could say, "Well, there are a couple of areas where we are definitely scoring better than DFID", and I think we have all the chances to achieve it but it is a moving target. DFID is also improving all the time. So we are improving, but that is the ambition—

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to be one of the best agencies that everybody could be proud of. As I said, it is not the 28th agency; it is a part of the UK, and I do not feel that I am in competition with them.

Q117 Chair: I was going to say that healthy competition is a good thing if it benefits poor people. If it becomes a turf war internally it is a bad thing. As long as it benefits the poor, that is the objective we are looking for. Thank you very much again and thanks to your team. I know they have not spoken but they have nodded, listened and engaged.
Mr Piebalgs: But they will be ready to impart any information you would like.

Q118 Chair: If there are any follow-up things perhaps we can come back to you, because there might be one or two questions we want to check.
Mr Piebalgs: Any statistics on any political decisions. Thank you.

Tuesday 6 March 2012

Members present:

Mr Malcolm Bruce (Chair)

Richard Burden
Mr Sam Gyimah
Richard Harrington
Pauline Latham
Jeremy Lefroy
Mr Michael McCann

Examination of Witnesses

Witnesses: **Stephen O'Brien MP**, Parliamentary Under-Secretary of State, Department for International Development, and **Anthony Smith**, Director of International Relations, Department for International Development, gave evidence.

Q119 Chair: Minister, thank you very much for coming in, and perhaps just for the record you could introduce your colleague. I know we know who he is.
Mr O'Brien: Certainly. Thank you very much indeed, Chairman. It's a pleasure to be here before you and your Committee. I am accompanied by Anthony Smith, who is head of International Relations at DFID, with the title of Director.

Q120 Chair: As you know, we are coming to the end of an inquiry into the role of the European Union as a development partner for the UK. We did have a visit to Brussels, three weeks ago I think it was, where we took evidence from Commissioner Piebalgs, and we also met a variety of different representatives from the External Action Service, from DG and from Humanitarian, and members of the European Parliament Development Committee as well, and a number of others and NGOs. One thing that emerges is that the UK is a very substantial contributor to the EU budget in a number of different ways. The estimate is that approximately £1.3 billion is given in development through the European Union. I suppose the simple straight question is: what are the advantages of putting the money through the European Union as opposed to the alternatives?
Mr O'Brien: Thank you very much indeed, Chairman. You are quite right, about £1.3 billion at the moment. In 2010 the Commission budget instruments had £820 million and the EDF £409 million, to be precise, which is about 16% of our budget channelled through the EU for the year 2010. The top line is, of course, UK aid, channelled through the EU, saves lives. In countries like Niger, where we do not have a bilateral programme, 700,000 lives were saved from famine through emergency food assistance. In Burma, one which is now in the news, where we do have a bilateral programme, UK aid channelled through the EU treated 1.1 million cases of life-threatening malaria.
It therefore is operating in many countries that are priorities in terms of our national interests, but do not receive our bilateral aid. For example, the EU is operating in all 43 of the fragile states, whereas DFID is operating in 11. The EU is playing an important role on the ground that we as DFID cannot or, for the reasons that you will know from various decisions made, we choose not to. Of course, if there was no development budget through the EU to which we contributed, then there are question marks about some countries who are member states, and whether they would actually contribute to development at all. Some do not choose to have a series of bilateral programmes, they choose to do it all through the multilateral agencies. Some of it, of course, is part of our treaty obligations under the general budgetised amounts.

Q121 Chair: These are points that Andris Piebalgs made to us, namely that it reaches the parts that bilateral aid cannot reach.
Mr O'Brien: Yes.

Q122 Chair: You simply cannot be everywhere. It helps to deliver the 0.7%, although we will come to that a little later. He also made the point that because the EU budget runs over seven years, it gives greater predictability than bilateral budgets would do. That is an interesting point; we know under the UK system Governments cannot bind their successors, except that when they have signed up to an obligation, I suppose they pretty well do.
Mr O'Brien: Yes, that is a very interesting observation, because clearly under treaty obligations there is a potential to bind future domestic member state Governments. That said, I think there is a great improvement in our domestic affairs by being able to have a spending round that is effectively three years, or in our case has been a four-year perspective. I would add the point, in addition to what Commissioner Piebalgs has obviously represented to you, that the EU is the world's largest single development effort, and its size means that it is able to implement large-scale regional projects, particularly infrastructure, roads, rail, energy networks, telecommunications, often more effectively than individual donors. It needs to be aligned, the projects need to be identified and done, but scale is also an argument.
It also does have an ability to get into countries, not just, as you have described them, the parts others cannot reach, of which this is part, but a country like Zimbabwe where the EU is a lot less politicised in its identity and perception than, say, a domestic member state might be. Therefore it is able to look at that. Another good example is the fact that the EU has an office in Hargeisa in Somaliland, and therefore, as we have increasingly been able to look at our humanitarian and development response in Somalia and putting, as you know, the majority of our effort

there, we have been able to piggyback off the EU office being already established in Hargeisa, rather than establishing our own separate office.

Q123 Chair: That is fair enough, but obviously the disbursement of development assistance comes under a number of different heads. In your Multilateral Review, it was stated that there was a low poverty focus in the budget, and that it was weak, as 85% of the EU budget was spent on middle-income countries. I know there is a counter-argument that says there are lots of poor people in middle-income countries, and indeed there are some people who criticise the UK for being too focused on low-income countries as opposed to low-income people. Nevertheless, the UK Government's own assessment was that the budget distribution was weak. Does that not give you some cause for concern?

Mr O'Brien: I can assure you and the Committee that we at DFID are doing everything we can to help drive a much greater efficiency and indeed pace of disbursement. Part of the process of the Multilateral Aid Review was to identify those parts of the reform agenda, of which that was one. I am persuaded in all the conversations we have had, and the representations we have had going in both directions, with Andris Piebalgs and others, that there is a real commitment to putting through an agenda for reform within the EU as a body, particularly in development. This includes not just disbursement but of course the way it provides budget support; it is greater transparency; it is greater focus on value for money, above all, establishing a framework for results and driving for those results—all the discussions we have had in relation to our domestic effort on the DFID budget.

Chair: Obviously we would like to explore that a bit further.

Q124 Richard Harrington: I think this is such a difficult subject, Minister, because for those of us who are very pro most of the things that DFID does, and also impressed with what we have seen in the field about what the EU does, we are dealing in the world where one makes any form of comment, and the press interpret that as a major criticism of the whole foreign aid experiment. I hope you know that nobody round this table believes that, despite some press reports.

However, it certainly struck me, on the two visits that I have had to Brussels, that the weakness in the argument was that that money—however it is described—is through foreign aid or foreign development budget, whatever the papers call it. It is definitely through that, and it became clear that some of the money is allocated for political purposes, as I can see, for pre-accession countries. Turkey is the country that everyone picks on, but also Croatia and other countries as well. Do you think this is a reasonable way to allocate EU development funds, and do you think it is justifiable in the way that DFID normally does its calculations on suitable countries to operate in?

Mr O'Brien: You do raise a very important point, and as you know the Commission provides aid to Turkey through the instrument for pre-accession, the IPA. Let's be absolutely clear: the IPA does not have poverty as its main objective. Its stated ambition is to bring the Western Balkans, Iceland and Turkey closer towards EU standards, with the ultimate aim of their accession to the Union, but it sits within, as you rightly identify, the broad development instruments.

Q125 Richard Harrington: And comes from DFID's budget.

Mr O'Brien: Indeed. There are two aspects. First of all, there is the fact that what is given under the IPA without doubt complies and is compatible with the DAC definition of ODA to developing countries. It is upper-middle-income, but it is a developing country. It promotes Turkey's economic and social development. The reason we think that is important is that we do regard support for Turkey, as you well know, both as a development issue and also as a foreign policy issue, as being in the wider strategic national interest. To increase the competitiveness and openness of the Turkish economy will clearly be of direct benefit to UK businesses. As you know, it also focuses on the rule of law, on democratic institutional capacity-building, public administration reform, and improving the regulatory environment. Those are clearly the purposes.

As to whether DFID is the appropriate budget holder, basically that is the decision across Her Majesty's Government and Treasury that this is where it should sit. Because it is mostly ODA-qualifying, it is appropriate on that basis alone that it does. I do understand the point you are making—that the fact that it looks as if it were more a political rather than a development, pro-poor issue means that it is a decision that has been made in terms of broad economic accounting architecture, rather than necessarily sitting completely consistently with it.

Q126 Richard Harrington: Really, when we are talking about DFID and the 0.7%, or £7 billion-plus, rising to £13 billion over the next four years, or whatever the numbers are exactly, it is therefore a bit misleading, since some of this money is not being spent according to the policies that DFID would have for spending its own money. I really buy this idea that we cannot be everywhere, and it is very good—we have seen in Burundi itself, which is another controversy, what an excellent job the EU do. However, it still seems that the overall policy for DFID money, however it is distributed, through United Nations agencies, the EU, or bilaterally, should surely be for the same policies. If a project did not qualify under DFID's own expenditure, why should it qualify under EU expenditure, if it is coming from DFID's budget? If it is coming from a Foreign Office or political budget, I understand; it is another argument for another day, and it is beyond my pay grade and beyond this Committee.

We are here to make DFID accountable for the money that it spends. You, Minister, and your colleagues, are in the job because you passionately believe in what DFID stands for, as do we. Yet here we have something that would pass no DFID bilateral test at all. It is not just saying, "We cannot be everywhere, so the EU is a good conduit," which I think is a very good argument. I do not think that it fits comfortably. Having said that, let's move the argument on a bit, because we will not win on this. Your view is quite clear and we have all made these points.

Mr O'Brien: I am happy to add that within Her Majesty's Government, I hope I am not over-claiming to say that DFID is pretty well placed to be the ones that have the capacity to argue for the necessary reforms, the efficiency of spend, and so forth within Her Majesty's Government. There is no question that this qualifies as "ODA-able" expenditure, and Turkey, like so many of the countries you have already identified, and indeed as the Chairman observed that 70% of the world's poorest people live in middle-income countries, and therefore Turkey—

Q127 Richard Harrington: Not particularly in Turkey, actually.

Mr O'Brien: Although many in Turkey are still poor.

Q128 Richard Harrington: There is nothing in Turkey that is comparable to the poverty that there is in some of the countries in Africa and Asia that DFID is dealing with.

Mr O'Brien: I agree, but the purpose of this is also different, as you rightly observe.

Q129 Richard Harrington: I am not making light of people's poverty, but this is a different level altogether. Moving the argument on, as things evolve, do you see in the future DFID and the British Government putting pressure on the EU to move expenditure towards, shall we say, more conventional DFID objectives: that is alleviating poverty and helping those who are really the poorest people in the world? Is it true that strong pressure is being put on the EU, again as quoted in the press? Can you give us any news on that, or any detail?

Mr O'Brien: Yes. You will be aware that the Commission itself is seeking to modernise its EU spend on aid, increasing its focus on poverty results and value for money. It has put out its Agenda for Change. The Danish President is redrafting a Council conclusion to the Commission communication, "Increasing the impact of EU Development Policy: an Agenda for Change". Whilst that is very welcome, you ask in a sense for specific examples. Ultimately this is to do with where we can bring to bear our greatest influence within the EU, in deciding how to proceed and how much more to align its development effort to the priorities and the processes that we at DFID are finding lead to greater efficiency of both delivery and indeed the administration burden that goes with it. It sits within the context of the coalition Government's determination to engage energetically and positively—and I can certainly assure you, frequently—with our various Brussels interlocutors, at the Commission, at the European civil service, in effect, and in the Parliament. I have certainly attended many meetings. There are a number of like-minded groups between Ministers at various levels, which of course are very important in terms of getting the agenda understood and building consent. You can see how we have made our position known. The more we are positively engaged, the better it is for when we do have something that we really do want to stop as against simply influence, as you can see from the financial transaction tax, another controversy on which we have made our position as Her Majesty's Government very clear. I think we have had greater credibility for being engaged positively.

As a direct result of DFID pressure over the last 18 months I can cite five very quick examples: the Commission has created a Quality and Impact Unit, responsible for developing a results framework. It has taken steps to introduce aggregated results frameworks into the new financial instruments, so they will be more flexible, simplified and streamlined. It has established an EU Working Group on Results, dedicated to the Busan commitments, and launched two communications: one I have mentioned, the Agenda for Change, the other is "The Future of Budget Support to third countries", which we may or may not come on to, with strong language on results, improving performance monitoring and improving transparency and accountability. It has also begun the work on building blocks of a strong, integrated monitoring system. Again, that is a subject we have referred to in previous hearings. You will also be aware that the EU has now signed up to the International Aid Transparency Initiative, the IATI. Of course that comes without us claiming it, but certainly we have influenced that. I am sure you heard from Commissioner Piebalgs that there is a real commitment to moving down the trajectory of greater results, greater transparency and greater accountability, and putting those into a much more monitored and clearly rigorous system.

Q130 Richard Harrington: I agree with all that, and that is very good. However, it comes down to a policy. Should politically-induced funds be mixed up with development aid? I still have seen no argument for it, but you have aired your views on that. Do you think there should be a redefining of what is DAC-able, if the only justification for it is, "Well, it is all DAC-able"? Because so much is DAC-able.

Mr O'Brien: The position on the OECD definition of what is ODA-able and what is DAC-able is what has been set for a while. The Government are very clear. We have no intention to seek to change the current definition at the moment. It would come as no surprise to the Committee for us to have a judgment that we think it would take for ever, and it would be very difficult. Of course it currently encompasses some different prioritisations and preferences of member states. Of course it has bits we can argue about, and it is not perfect, but the essence of this is that the absolute commitment by the coalition Government to reach its 0.7% target by next year, two years before the other member states, of what will be spent on ODA-able, qualifying expenditure under that definition is dependent on that definition.

If we were to seek to change that definition then there would be a grave risk that the clear promise could be then effectively renegotiated. What is much worse is not the commitment that we have, which is absolutely solid; it is the fact that it might let other member states across the EU off the hook, and I think that would be not a clever thing to do, given that at the moment the

risk of that is greater than the difficulty of going along with some of the imperfections that might be perceived about the definition.
Chair: Very diplomatically put, Minister.

Q131 Pauline Latham: I find it disappointing that it is better to have the status quo than rock the boat because it might have implications. I don't think the people of Britain are terribly pleased about the fact that Turkey is getting so much money, whatever the reason for it. I think that we should be questioning that, and not just leaving it. You read a list of organisations that you have set up or you have influenced to be set up in Europe. They all sounded as though they were doing the same sort of thing. Isn't that a case of Europe listening to what you have to say, and then overreacting and producing too many organisations that will monitor this, do that, spot the outcomes, and it is just going to cost more money? Who is paying for that? Is that coming out of our aid money? How is it being funded?
Mr O'Brien: I was trying to, as it were, be quite crisp in my response, rather than going into some of the detail. There is a deliberate attempt to create an architecture, just as, I hope, the Committee recognises has been done within DFID. It is not just to say the word "results". To get to results, you first of all have to look at how you select where you are going to have the greatest impact for the poorest people. You then have to go through the process of deciding what the offers are that you can buy, and you then have to go through the evaluation process, and then the commissioning and the procurement processes. All those then need to be aggregated together in the results framework. So the fact that we have results frameworks applied to innovations with new financial instruments, that there is an EU Working Group to try to disseminate that right across the way the EU works, in the same way as I hope is recognised that we have made a particular effort as Ministers to introduce what is in shorthand called "private sector DNA" into the Department in order to get that dynamic moving, equally has been important within the EU. I think Commissioner Piebalgs has been very dynamic in this himself, in getting the DNA of accountability and transparency, and a much greater challenge for impact and results, into the workings of both DEVCO and the broader side of the EU Commission.
Then you have the future budget support, which is obviously a separate topic, and the monitoring system. Of course we know from our own experience—and indeed the Chairman has personally been a champion of this—that monitoring is absolutely vital. Unless you have baselines and you have decent monitoring, you will never be able to measure the impact of what you are doing, so you cannot have the full argument.
That sits in the context of the previous line of questioning, where even on this area of expenditure that is obviously somewhat more controversial, and that you have picked up on, it is the instrument by which the EU chooses to support those countries on a pre-accession trajectory. Whether or not you think that will come about is a matter of personal political judgment, but that is the policy of this Government. It is also the policy of the EU to seek to put Turkey into a position where it can come up to EU standards on the various criteria, and that it therefore will be a candidate country that can come in. We have other countries such as Croatia and Iceland in the same boat. It is a question of judgment whether you think that is going to happen. My personal view is that I very much hope that Turkey will succeed in becoming a member of the EU at some point in the future.

Q132 Pauline Latham: But all these new functions that the EU are going to have, what will they stop to be able to do this? Or is this another layer of their bureaucracy? If they were not doing this before, they should have been. They are now going to do it. What were they doing before that they can stop in order to allow people to do all the monitoring and planning?
Mr O'Brien: It goes back to the point of influence, where having all these discussions and working groups means that where things were not happening they are introduced, and where they are but were not producing what was giving people the necessary level of confidence and transparency, there is of course the process of simplification and streamlining, both of which are very much an area on which DFID is able to bring quite a lot of experience to the table. That is another good reason why the IPA sits, if you like, under this, because of the particular strengths, skills and role we have across HMG, of being able to bring to bear that technical assistance of financial instruments that are focused on development and support of other countries' efforts.

Q133 Richard Burden: I think it is probably important to clarify, and I am sure you have picked this up, Minister, that the argument here is not about whether or not it is good for the EU, or good globally, for the EU to take an interest in and to assist the transformation of Turkey. It is much more about the DAC-ability of that. If I understood you correctly, what you were saying was that it is difficult to get involved on questioning those sorts of areas, because, as the Chair put it, it might let other countries off the hook. Not on the last visit the Committee took to Brussels, but on a previous one, it was put to us that the UK was not always as active as it could be in these matters. It was put to us that even if the UK would not particularly spend its money this way, because this is DAC-able money, it does count against the UK's 0.7% target and therefore, even if the UK would have other priorities, it is in the UK's interests not to start messing around with the DAC criteria. How would you respond to that?
Mr O'Brien: I certainly do emphasise, and indeed rest my case, on not wanting to let others off the hook. A percentage is, after all, a percentage measured against something, and the current something is the DAC definition of ODA, which the OECD has agreed. It is a matter for the OECD. It is not a matter for member states. It is a matter for the EU to discuss, but ultimately it is a definition set by the OECD. I think that it is important to recognise that it enables us to command some extra leverage in terms of what other states do.
There is of course, as we look at the next financial perspective—I suspect we might come on to that in a

bit more detail—the question of where these expenditures will sit going forward, within other amounts and, in the context of the countries that we use the other instruments for, we have the whole question about having the trajectory of how countries graduate from aid. The fact that these expenditures and these instruments, even if you have one that is, as it were, not strictly development because its central purpose is not defined by the relief of poverty, none the less under the definition they are ODA under the OECD DAC definition, and that is why it is brought to be included in this broader heading. As I would repeat, DFID does have experience and skills that enable us to carry some responsibility. It has not been suggested to us that we are shrinking violets, or shy, or holding back in any way. I think that our current engagement across the EU and at all levels is being noted, and we are doing our best to seek to influence in terms of alignment, but also the techniques by which we can have transparency, accountability and monitoring.

Q134 Mr Gyimah: Going back to the aid to the accession countries, which you mentioned, my understanding is that UK aid is to poor countries, often in post-conflict and fragile states, which in the case of the accession countries, as we have established, they are not. Now are you concerned at all, Minister, that, for example, even though the funds may be DAC-able some of these countries may have no desire, or may actually choose not to join the EU? They would have received funds to upgrade their sewage systems, or whatever it is, and could then say, “Thank you very much, we are not joining.” Are you concerned at all that there would be no recourse to those funds, and that they would have basically received UK taxpayers’ money to upgrade their infrastructure and systems?
Mr O’Brien: Thank you for the question. As part of the introduction, perhaps I should just, for the record, say that of course the Balkans are certainly what are called post-conflict countries, so we are at that point in those terms. The second point to be said is that if there is a policy, which is Her Majesty’s Government’s policy and also the EU policy, to seek to encourage countries that wish to be candidates, and we look to the enlargement of the EU, then of course it has been the technique that has been used to seek to support those countries on our borders, looking across Europe as a whole, in order to come up to European standards and therefore to make them eligible. You could argue that they have to do that on their own, and until they have done that they cannot be candidate countries. On the other hand, you could say that if there is a policy of welcoming and enlargement by the EU then it is an appropriate policy choice to put funding towards helping that capacity building and those EU standard-raising projects. That is precisely what does happen, which is why we have the pre-accession instrument. It is for that reason, I personally—and I am sure that is shared by many; it is certainly the Government’s policy—would wish to see these countries join the EU, and Turkey is a good ally of Britain.

Q135 Chair: You did also say earlier, Minister, that you thought it was in Britain’s national interest to have a positive engagement with Turkey. Slightly pressing you on that, would you justify the expenditure, whether or not Turkey joins, as still being in the British national interest?
Mr O’Brien: I don’t actually separate the two. Turkey is a good ally of Great Britain. To some degree, there is a cart-and-horse argument here. The expenditure, to which we have an attribution, is an EU policy supported by Her Majesty’s Government. It would be in our national interests to see Turkey join the EU in due course. Now, as I say, it is a matter of judgment whether you think that will happen, or is likely or not likely. It is what we wish to see happen, and therefore we wish to make it as likely as possible, and using this instrument is one of the ways of doing so.

Q136 Mr Gyimah: Just finally, Mr Chairman, there are two arguments. One is that our aid is, as I said, for pro-poor, post-conflict and fragile states. It is untied. There is another argument, which is about promoting British national interests. The question, Minister, is: are we at risk in this specific instance of deploying one argument when we cannot justify it by the pro-poor argument, and then another argument when we cannot justify the national interest argument?
Mr O’Brien: I don’t believe so. As I sought to explain at the outset, I appreciate this is not perfect in its design, but it is where the EU has chosen to put its instrument that is the pre-accession neighbour capacity-building funding support. The fact that it is ODA-able under the OECD DAC definition means that it carries the logic of being within the definition, and without question it is. Turkey is a middle-income country. Those middle-income countries are listed within what is ODA-able, and therefore this is how it sits. It is pragmatic, in a sense, to pursue it on that basis. If it was not there, it is not to say that the money would therefore be released back into alternative development opportunities, which is often the false equation made by some in the commentariat. That is the main thing that needs to be understood: this is not an either/or. It is within the architecture of what is under the OECD DAC definition. This is where the pre-accession instrument sits and is designed to sit.

Q137 Jeremy Lefroy: I apologise for being late. I was speaking in a debate on manufacturing in the UK. Minister, just on the question of the DAC-able ODA to Turkey, given that, as I understand it, it is quite near the upper limit of middle-income countries, because it is obviously experiencing quite a high growth rate, were it to go above that limit, presumably it would no longer be DAC-able, and that would have some consequences for the percentage of GNI that the UK and indeed every other EU country is giving as ODA aid.
Mr O’Brien: Of course it would, but none of these things are like switching a light on and off. You are quite right that the present amounts negotiated for Turkey were negotiated seven or eight years ago, and there are clearly very good arguments for reducing that amount in the next multiannual financial framework. This is all a question of judgment and

negotiation; we are in live time, and it may be that going forward it would be more appropriate to use loans, for instance, rather than the grant process that is currently in place. I think in a sense the question you raise highlights that this is not frozen in aspic. Of course, the advantage that the Commissioner, Andris Piebalgs, mentioned about having this seven-year perspective, which gives a certain degree of predictability, where this sits under the broader architecture of these instruments, means that when you have had the seven or eight years, you then have an opportunity to reset the base. We will see where Turkey has got to. I observe, like you, that Turkey's growth, its ability to deliver people out of poverty, is going extremely well and is very positive.

Q138 Mr McCann: Good morning, Minister. In the Multilateral Aid Review, DFID described EU administration costs as "moderate". I wonder how you can possibly justify that description when they are 100% more than DFID's administration costs.

Mr O'Brien: I certainly understand the point and I would first of all say that I think that comparing the EU's administration costs with DFID's is to some degree flattering to DFID; the intense drive that we have had means that compared to many organisations DFID's current administration costs have to be seen to be exceptionally low, rather than a norm. I hasten to add that we are continuing to drive down and to bring pressure upon the EU to drive down its administrative costs and the burden and the percentage. However, it would be more appropriate, probably, to compare the EU at this stage with, for instance, the World Bank. You can see that whilst the World Bank has moved down, and indeed has now moved down to slightly lower than the EU's administrative costs, they are more in the same field. That, I think, is probably a fair comparison.

The reason I say that is that we did a very intense study, as indeed you well know, Mr McCann, on the Multilateral Aid Review, which focused on these. The administration costs for both the EC budgetised amounts and the EDF, because they are by the same people, they have the same administration costs. I saw something observing that in fact there were different administration costs between the EC and the EDF. I think that was represented possibly to this Committee by others, and we would say that that is simply wrong. The administration costs for both parts of the EU spend are the same, and as we observed under the MAR, the EDF portion had a greater efficiency, but it did not change the administrative cost basis.

The only other point I think I would make at this stage is that of course in urging the European Commission and other multilateral partners to cut their administrative costs, we want to see the best value for money for the British taxpayer. DFID is channelling about 20% of its ODA through the EU, and it is therefore right and fair that we should say that we are therefore transferring some of our administrative costs to the EU in that respect, to the recipient organisation. The EU is disbursing across 43 fragile states, whereas we are only disbursing across 11 of those 43, and therefore there is a degree to which there is a transfer of administrative burden.

Q139 Mr McCann: I take on board part of what you say, but is it not the case that in terms of where DFID operates, the EU budget operates in many of the same places? They do much of the same work, and therefore many of the types of overhead that we have in terms of our programmes at DFID are much the same as the EU. In relation to the wider point, there is a general recognition that EU budgets are administratively heavy in terms of their costs. Therefore, on the suggestion that these costs are moderate, when they are 100% more than DFID's costs, is it not just the case that we have no direct control over those administrative budgets in the same way that we have over our own, and that you have to concede that to a certain extent we are exporting an overhead?

Mr O'Brien: As I hope I made clear in the final part of my previous answer, I think you are right to suggest to some degree we do export some of our overhead, because the EU is disbursing in 43 versus our 11 countries. Of course, that then tends to lead to the obvious conclusion, which does not just relate to that, that the presentation of administrative costs is not standardised across all institutions. Indeed, direct comparisons are very difficult. The MAR process itself went to a very rigorous degree to try to get this right. Of course we believe that the EU's administration costs can come down. We are driving for that. However, I do not think it would be fair to say that they are in the outrageous category because they are double what DFID has managed to get down to, albeit over a very recent period of time, with a particular focus and a particular drive. It stood comparison with the current level of EU expenditure only two years ago.

Going back to a previous answer, let me say that part of what we are able to influence is bringing to bear the experience that we are putting through DFID, to say at a technical level, because we can show that we have achieved that result, we can now argue with credibility when we are in Europe with this positive engagement, and talking to people at all levels. The trajectory and the drive is to get these costs further down. I think to some degree we are arguing more about whether or not it is an appropriate use of the word "moderate". I think it was a fair judgment when that was written. Like all costs, they continue to have to be driven down. We will not settle for the status quo. However, there is a degree to which it is right to recognise and acknowledge that there is some transfer of overhead, and therefore we need to be careful not to assume that we have achieved the very low administrative cost level that DFID has without, of course, there being some transfer out. You could, in another form of accounting, have some form of recharge back. That would be pedantic and bureaucratic and therefore not justified, but I am sure you see the point.

Q140 Mr McCann: One final question, Chair. You would have confidence that in terms of the value for money that has been achieved through the EU programmes, set against the administrative costs, there is nothing that we are asking the EU to do that we could not do for more value for money by keeping it within DFID and operating to the lower overhead costs of 2.7%?

Mr O'Brien: I have not identified any of those. Indeed, I have not been advised either that those are readily available. We are always looking at where it is best to administer, but the EU element of the DFID expenditure goes through the EU. We have the budgetised amount, which goes into the EU budget, and the EDF, as you know, is administered, as I said, by the same people.

Q141 Mr McCann: I know it is difficult to do, but there must have been some assessment carried out. That is why we have bilateral and multilateral programmes, because we can identify what we do best, and what is best spent through multilaterals. Therefore, that investigation must have taken place within those two reports, to lead you to the conclusion that despite the fact that the EU has a higher administration cost—recognising that the measurements we use to measure our admin costs are different from those used by the EU—we have confidence that we are still getting best value for money that we are putting through the EU.

Mr O'Brien: Yes. These things are all moving pieces on the board. However, we do make that evaluation, because it is absolutely part of the project.

Q142 Mr McCann: I do not have anything up my sleeve that I want to pull out to challenge that. I just want to make sure you are confident of it.

Mr O'Brien: I fully understand the point you are making. As we all drive, looking in the forward perspective, which is what I think you were particularly anxious about, to become more climate smart, and for the programmes to be more environmentally and climate-change-aware, and therefore aligned, that will be quite a feature of the way our attribution into the EU expenditures will develop as those programmes develop to be much more climate-change-adaptation- and mitigation-focused. I can see that that will be likely, therefore, to be of greater value for money through the EU. Those types of programmes are absolutely cross-border. They are quite difficult for you to get the economy of scale on a climate change programme from a single member state.

You have to look at where we are putting the emphasis on each programme, and then it is just a normal, typical hard grind of cost accountability, which you have to put through as you evaluate each and every project. That is what will come up to Ministers in submissions as to where the administrative burden and therefore the people who administer the project will lie. There is no sense of ideology behind this. This is ultimately pragmatic: wherever the lowest cost is, we will chase for the lowest cost.

Q143 Mr Gyimah: My question is on procurement. Adam Smith International has reported to the Committee that it finds the EU procurement process to be pernickety, and I think a good example of that is that they say if an expert needs 15 years of experience, 14 years and 11 months will not do. They have also found the process to be bureaucratic, and just to give another example, one needs to provide copies of the academic degree certificates of each of the consultants that one is putting forward. It is time-consuming and, they claim, generally devoid of common sense. How is the UK trying to change this?

Mr O'Brien: Procurement, as you rightly observe, is always a very tough issue. I am in no doubt that the EU's current position on procurement can often be too restrictive, and we are certainly pressing the EU, and you have heard about the way we seek to influence the way these things are going, to open up its procurement policy, certainly as we in the UK have done, in order to ensure greater value for money. To be absolutely explicit, we are pressing for the Commission's procurement policy to be fully untied. At the moment, the EC does have restrictions on its procurement policy to member states and partner countries. We know the evidence: to ensure best value for money, we want anyone in the world to be able to tender for a contract, just as we have done here in the UK. We hold firm to that evidence that leads you to untied aid.

Q144 Jeremy Lefroy: Minister, do you have any idea what percentage of the contracts that the EU lets go to British organisations, NGOs, businesses and so on?

Mr O'Brien: No, I do not. I am afraid I do not have that in my head. I can certainly seek to commission a response to you in writing.

Q145 Jeremy Lefroy: I am just wondering whether UK organisations, NGOs and so on are getting their fair share, or indeed hopefully more than their fair share.

Mr O'Brien: The way you put the question raises a difficulty, and that is: what is a fair share, when it is totally open tender, open competition, and every tender is therefore evaluated on what is seen to be best for that particular programme, both in terms of cost, delivery and the confidence that that will be delivered, and whether you feel that people have the necessary skills to see it through and have the usual issues about partnering and skill transfer and technical capacity-building in the countries and communities who are receiving these services and projects? I would hesitate to go down the "fair share" route. I think I would prefer just to see if I can get you the facts.

Q146 Mr Gyimah: Just a quick question, Minister, with reference to Mr Lefroy's question. Do we have the stats for DFID procurement in UK companies?

Mr O'Brien: They are there, and indeed I have occasionally given written parliamentary answers to questions that have been put. Again, rather than carrying them in my head, I am very happy to seek to put together an information note for the Committee, if that would be helpful.

Q147 Mr Gyimah: That would be helpful.

Mr O'Brien: Let me just add, in answer to both questions, I have no doubt in my mind that there are many British companies in the private sector, many institutions, charities, NGOs and civil service organisations who stand comparison with the very best in the world, and indeed are regularly winning tenders and projects. I don't think that there is any question that we do not have either adequate skills or adequate energy in being able to offer as the tenders come up for competition.

Q148 Chair: I think some of the smaller organisations will say the same about DFID—that it is sometimes quite difficult to meet the criteria. We had some anecdotal evidence that some of the smaller NGOs would say that the bureaucracy in dealing with the EU was such that it was not even worth applying to do the work; it was just disproportionately burdensome.
Mr O'Brien: I am prepared to say that is—We hear that a bit, as well, and in the GPAF, for instance, which has two windows, the impact and innovation windows, this is continually under review, because wherever you have a process that is an application to see public money spent, clearly we have to look after the UK taxpayers' interests and guard the interests of appropriate spending of public money. At the same time, if we are finding that the process of doing that is becoming itself a barrier or deterrent, then it behoves us to continually keep those under review and do what we can to simplify the process. I accept that that is certainly being said, and we have it under review.

Q149 Chair: Last October, the Commissioner published his Agenda for Change, about which we had a discussion with him and with others. First of all, to what extent do you think the Agenda for Change, if it is followed through, brings the EU closer to DFID's objectives? What concerns do you have about it? You might see it as either not meeting our objectives, or diverging further, or still diverging on things where we are not really at one.
Mr O'Brien: We welcome the Commission's attempt, certainly, to modernise the EU development aid, its increased emphasis on poverty, results and value for money. The UK has pushed very hard to ensure that aid is targeted where it will have the most impact, very much based upon individual country needs, as properly assessed, and the priorities we have set. The fact that the EU is also looking under that Agenda for Change for a more co-ordinated approach to development is absolutely essential, and that it is seeking better to co-ordinate its aid, trade and foreign policy, and its emphasis on fragile states, are patently important. I am pleased to see that they are looking to support economic growth and the private sector, which is again aligned with the realignment of DFID policies for the UK, and that not least through regional infrastructure, energy and telecommunications issues.
I think that in that connection it is absolutely vital that the External Action Service, which now is responsible for drafting policy, and DEVCO, which has responsibility for implementation, continue to build an extremely good working relationship. Whilst that will often be robust, it needs to be well co-ordinated in order to make sure that that alignment takes place. We are doing our best to make sure that we are talking to both at the same time, and I am pleased to say that we have a number of UK officials—of which I am sure you in the Committee are aware, Chairman—who are working in key roles to influence the direction of the External Action Service, to make sure that those linkages and that coordination is working well. There is an increasing alignment.

Q150 Chair: Is the UK seeking changes to the agenda, given that obviously you have the usual issue of getting 27 states to approve it? To what extent is the UK seeking to change or amend it?
Mr O'Brien: The area that, perhaps, we have been most concerned about has been the discussion on joint programming. We are really clear, and I think we have had this discussion before, that however the EU co-ordinates its effort, which will include some joint programming approaches, the result they need to achieve on that is country-led processes, based upon country need, and that it must be based upon a partnership approach, very much the way we at DFID are determined to run our programmes. Ultimately we know that part of sustainability and development, rather than simply humanitarian plugging of gaps, is that there is a sense of ownership by the partner country, the recipient country. We would steer clear of any EU-led mandatory process when it comes to some form of a joint programme.
That has been part of the discussion that has come out of the Agenda for Change and has cropped up at various Council meetings, certainly the ones I have attended in Brussels. We have made our position very clear. The joint programming thoughts do have divergence of views across member states, and we are very clear about where our red lines are on that, and we continue to push that case very strongly: it has to be country-led, it has to be owned locally, and it must be in a partnership arrangement. It must not be a mandatory, EU-led process.

Q151 Chair: Although there is a sort of logic, is there not, that with the odd situation you get in countries, they see the EU member states with all their various development programmes, and then they see the European Commission looking like another member state.
Mr O'Brien: Yes.

Q152 Chair: There clearly is some logic in trying to coordinate that more effectively, is there not?
Mr O'Brien: I agree with the coordination point. I think the idea of the EU itself becoming the 28th state is a difficulty that we need to seek to avoid. Very often it is represented by as simple a thing as the fact that the blue flag with its yellow stars often stands out on a board where the help has taken place in a country, much more than all the other agglomeration of member states or development agency logos, which would seem to not compete with that rather plain blue representation. That can often spark some discussion—indeed, to the point where we are conscious that very often the DFID logo seems to get lost in the melee, and whether we should do something about that.

Q153 Mr Gyimah: Minister, on the European External Action Service, one of the points you made earlier in this evidence session is how the EU covers all 43 fragile states, for example. As far as DFID is concerned, DFID made a decision at the end of the Bilateral Aid Review that we cannot be everywhere. I think that is the right approach. The question I have for you is, why does the EU have so many fingers in so many pies? What can you do to get the EU to rationalise the number of countries they provide development funding to, to further than the proposed cut of 19 countries, which I think is from the DCI, and include countries from the ACP group and the Neighbourhood Instrument?

Mr O'Brien: I certainly understand the point that the EU is obviously quite widespread. It does already have, as your question indicated, a plan to come out of 19 countries. We think that is correct, and we welcome that. I think it would be fair to say that the UK is a pretty strong member state when it comes to its own programming and its bilateral, and there are many countries that come under the various forms of EU assistance. There are 11 instruments—12 if you were to split the DCI between its geographic and thematic instruments. All of these instruments have different definitions and purposes. Some of them are quite small, but that is why the spread is greater. It goes to some degree to why the administrative cost burden is greater, as we discussed earlier.

That is where the External Action Service, so long as it does not seek to extend its powers beyond what is envisaged under the Lisbon Treaty, has sufficient remit and mandate now to seek to co-ordinate, to develop policy, to articulate that policy, and then to charge others to deliver that. I am conscious that it should be focused as much as possible on the pro-poor projects, and that is why we have had the discussion already about the balance between middle-income and low-income, and the Chairman himself has made the point of the difficulty then, if you are doing country-by-country, which the EU also does, as we do, of what you do about some of the very poorest people. 70%, it is estimated, of the poorest people in the world live in middle-income countries. There is a real reason, given that the EU has the scale, its huge scale, which makes a big difference, and often the regional economic integration requires infrastructure spend, which can be very pertinent for the EU to be focused on, given its scale, rather than individual member states through bilaterals.

Q154 Richard Burden: Could I continue perhaps a little where you left off there, Minister? Earlier on in the session, we were talking about the situation in Turkey, and that goes down as a middle-income country. As you yourself indicated, however, the majority of the world's poor do not necessarily live in the poorest countries, and we do need a much more sensitive way of targeting development assistance so that it targets poor people, whichever country they live in. In practical terms, as the EU is looking at how it co-ordinates its actions, how it develops its policy instruments and so on, do you have any ideas in practical terms about how it could do that without slipping into a situation where development assistance is targeted on things that hit the DAC definition and are politically expedient, rather than having a policy for middle-income countries that is sensitive to being, as you put it, pro-poor?

Mr O'Brien: Yes. There is always a lag between the design of a project and its implementation, and therefore for populations, particularly those in countries where growth is a feature, there is often a timing issue and a sequencing issue. It is quite difficult for the processes to keep up. That said, we should look at each instrument for appropriate spend, but I think—it may seem slightly as though I am jumping between subjects—part of the answer to your question is to look at where the future of the EU's budget support goes, because if one is looking, as we are, to see a reducing proportion of the spend being allocated through budget support, and more through more targeted projects, then it is highly likely that even for the EU—we would not be, as a bilateral—but where the EU is, through an appropriate instrument, targeting money on the poverty in a middle-income country, then it is easier to do that through a project than through budget support.

Even if you have the most robust agreement between your country and the Ministry that would be responsible for allocating the money, because it has the intervention of a Ministry, however much you are seeking as part of the instrument, if it is the IPA, to strengthen the capacity and democratic accountability of that country as part of its pre-accession readiness, none the less if your focus, which I think was the focus of your question, is how to get a more targeted approach that goes below the country definition and into the poor populations, then I think looking to—as the trajectory is going—the reducing element of budget support versus the amount of programme support is an indication of where some of that can happen in a way that is going to meet your challenge.

Q155 Richard Burden: If that is the case in relation to the EU, is it the case in relation to DFID as well?

Mr O'Brien: It is broadly the case that we are anticipating that there will be a reducing proportion of our overall spend that will go through budget support over time. These are balanced judgments, of course, to make, about what is the most effective way of getting the programme delivered on the ground, to achieve the greatest impact for poor people. You have to look at each case on its own merits, and to keep it under very strong and rigorous review, and as you know—whether or not it will be part of today's session I do not know—there are all sorts of discussions about how one calibrates the conditionality of budget support without the danger that it will be over-rigorous. The EU, equally, is in this debate, and there are very different views, of course, across all member states as to what would be appropriate conditionality, and how you would define that, particularly when you look at the broad waterfront on human rights. You are well aware of cases that have come up against that. How do you make sure that you do not then withdraw the budget support, which then would impact the very poor people that the whole purpose of your programme was intended to address? We are always looking very carefully at the way this works.

Q156 Richard Burden: I have a sneaking suspicion you may be asked about conditionality a bit more in a while.
Mr O'Brien: Okay. I am sorry to anticipate.

Q157 Mr McCann: Minister, we have already touched upon the joint programming issue. I get the sense from your previous responses and comments that you see it as a positive development, and I was wondering whether you had any particular views on the joint programming pilot in South Sudan. Then on the broader question of the 28th donor, or the 28th state comment that you made earlier, is the logical conclusion of joint programming, if it became a success, that we would throw out our bilateral programme and would rely exclusively on the joint programme being run by the EU?
Mr O'Brien: Let me be absolutely clear. We would never sanction the idea of joint programming going to the point where ultimately Ministers were not responsible for the decision that we make about the way that DFID's budget is spent, and about the way that we can achieve greatest value for money through the impact we can have on the poorest people. I am not quite sure whether what I said earlier made it absolutely clear, but let me just restate that we welcome the approach through the broad determination of Commissioner Piebalgs and his colleagues in the Agenda for Change for a more co-ordinated approach to the way the EU is looking to spend its development money, but it absolutely has to be country-led. By that I mean that the basis for the programme must be led by the partnership with the recipient country. It has to be on a partnership basis rather than a donor/recipient basis. Whilst that may be factual, it is not the right mindset for the relationship, and for the underlying contracts that exist. Therefore it becomes owned, both legally, in terms of the contractual expectations and responsibility for enabling delivery, but also owned politically and psychologically by the country, not least because that helps democratic institution building with a certain degree of democratic accountability for the programmes.
The joined-up working within the EU, whilst it clearly must be beneficial to the partner country, and must be pragmatic, flexible and open to other donors—which is another great aspect to the joint programming approach: to do our best to increase the burden share or whatever the programmes are, and in the EU they are also looking to burden share along with other development partners, reduce transaction costs and particularly as we move more into climate change, looking at the realities on the ground and the challenges on the ground—but as I have said, we must absolutely steer clear of any EU-led mandatory process, and resist the plans to regulate or impose the single, Brussels-led approach to joint programming. I have made that explicit in meetings I have attended in Brussels, as indeed have other Ministers. I think that that is seen to be something on which there is a series of views around the member states, and it is being debated, but at the moment there is an understanding that there is no proposal on the table that would look to an EU mandatory process.

Q158 Mr McCann: Specifically on South Sudan, as you know we were there in December last year, and there was a feeling with the private discussions we had there about the number of NGOs, the number of operations, and we got a very good sense that they were not all in harmony with each other. How do you feel that the joint programmes operate there in that particular pilot country?
Mr O'Brien: We did touch on this in the other inquiry, in the evidence session. The feedback on South Sudan is that the way the pilot is progressing in having a co-ordination between the significant, by scale, donors—ourselves, the EU and others—is going well, and it is very much a co-ordination, I like to think along the lines I have described. It is not a mandatory process; it is one that has come together in order to be pragmatic, to bring those together. I think it is fair to say that perhaps the nature of the circumstances, the particular needs of that country, which are massive, the fact it is starting ab initio means that perhaps a lot of very interested, skilled parties, some not of scale, have crowded in whilst there is an advantage to crowding in as much aid and development as you can get, be it humanitarian or resilience and development programming.
It is recognised that there needs to have been a greater co-ordination, particularly of those smaller NGOs and other players, and indeed some private sector players as well, and that that has taken up too much time of some of those who are in the fledgling Government of South Sudan Ministries in trying to see everybody. There is a role for a representative. We know from experience elsewhere that it is not always easy to get people to come together and allow one to be the lead, to be the representative of all the NGOs. Many of them have different experiences, skills and agendas. Some have a great deal of pride in being very independent. I will not mention any names. It is quite difficult; perhaps somewhat tangentially I can say that it is as difficult as getting a headteacher in one's constituency to represent all the headteachers of all the schools. So far I have not succeeded, in Eddisbury anyway, and I seem to have to have a meeting with each headteacher, because they never quite feel that the other headteachers might represent well.

Q159 Mr McCann: I understand that part. I genuinely understand that part, and if you could start off with a blank piece of paper it would be often much better. Do you think that joint programmes are the way forward? Do you think it will happen more and more, based on the knowledge that you have from the pilots?
Mr O'Brien: I think pragmatically, joint programming will happen where it is appropriate. Maybe South Sudan is a good example at this stage. I am absolutely clear that by joint programming we do not mean this kind of formalised mandatory process. What we mean is one where people come together in order to share what they believe to be the best way forward, to be tailored to the country, to be country-led, to be negotiated partnership arrangements, and then to make sure that there is a real sense of ownership and that it is not the EU effectively in a mandatory position where member states will have to go along with the

programming that it dictates. I think that would be wrong because ultimately we as Ministers have to be accountable, whether it is to you as the Select Committee or at the Dispatch Box, or through written parliamentary answers, to account for the way that we spend the UK taxpayers' money through the DFID budget.

Q160 Chair: But country ownership could be the other way around. Countries have complained about too many donors and too many meetings, like Ghana and Tanzania on different occasions have complained; what if a country like any of these came along and said, "It is great that we have all of these EU programmes, but frankly, can we just deal with the EU, please, and you just agree amongst yourselves, and we will just deal with the EU? We do not want to deal with Britain, and Denmark, and the Netherlands, and Sweden"?

Mr O'Brien: That does confer a responsibility on us to be co-ordinated, but it would then be a part of the response, if that was a demand that was put in a discussion, that the whole point about having particular countries where you have both multilateral and bilateral relationships is that we are looking to make sure that we can emphasise and push areas that are complementary. I think that very often the EU programmes can be complementary to what we do bilaterally, or, if it is purely through that multilateral channel, it is because we cannot do something at a comparable advantage bilaterally. The obvious areas to be thinking about are these things of scale, when it comes to infrastructure spend, and increasing as we look now in sub-Saharan Africa at the advantages of regional economic integration; I am particularly focused on where the EU can bring a comparable advantage to that. That must mean a degree of high co-ordination, both in terms of the dealings with partnership Governments, but among Governments—

Q161 Chair: Sorry, but that is exactly the opposite. The EU is saying, "You must co-ordinate regionally and deal with us as a single entity, but you cannot deal with us as a single entity."

Mr O'Brien: Yes. So far that is not the way it seems to have arisen. We do have occasional comments, as I am sure was well recognised when it came to the whole discussion that led to the concept of budget support all those years back. It was helpful to have one point of connection. There is, however, a real strength in looking at the complementariness of having multilaterals and bilateral, and not putting it all into one bundle.

Chair: Your position is quite clear.

Q162 Richard Harrington: Minister, I think you are missing out on one point, as I see it, with joint programming, and that is the huge management overhead that is involved with so many different organisations being involved, in an unco-ordinated or indeed even in a co-ordinated way. We sat in rooms in South Sudan, for example, when there were 10 perfectly good organisations involved in perfectly good projects, trying to co-ordinate with each other. Sooner or later this will have to be considered. It will have to be considered with NGOs who duplicate each other, with countries who duplicate each other, and multilateral institutions, because we all know that everyone wants as much as possible of the money—the 0.7% that we hope will spread throughout countries—to reach the people for whom it is intended. I do not think that DFID, or indeed anyone else as far as I can see, has considered the joint programming as a cost-saving idea from a management point of view. You can take that as a comment or you may like to comment on it.

Mr O'Brien: Only very briefly. I would say that we should recognise that at Busan there was a real focus on the effectiveness of aid delivery, and that there are now streams of work that will look at this, not least the merits of joint programming. What do we really mean by joint programming? Do we mean just a single point of contact, a single package of programming, or do we mean a co-ordinating mechanism that also then brings those benefits without attacking the true accountabilities and responsibilities that need to remain at the decision-making levels? That is where I think it is quite helpful that there is quite a lot of work that comes out of Busan, and so rather than Busan simply having been a meeting, I think part of the answer to your question is that there are streams of work from Busan that will help start to address that.

Q163 Mr Gyimah: Minister, moving on to conditionality, I am assuming that you support the Commissioner's proposals for greater conditionality of aid, although I would like to hear your comments on that. More importantly, I would like to hear your comments on how you see that working in practice.

Mr O'Brien: Yes, we certainly do welcome the Commission's communication and its commitment to tighten up its approach, not just to budget support but to ensure better value for money through more rigorous analysis and risk assessments. We, as we have discussed, welcome greater co-ordination on the ground, but as I have said, we are absolutely determined that member states must retain ministerial authority over our respective bilateral budget support operations. Therefore, when you look at conditionality, it has some of the same aspects as what we have just discussed. We are very clear within the UK that a commitment to human rights is a key condition of UK aid. It is one of the four partnership principles that we have brought in under this coalition Government over the last year, against which countries are assessed when DFID considers whether to give direct budget support to Governments.

Setting political preconditions for EU general budget support is problematic, because member states have got divergent views on what would demonstrate a partner country's commitment to human rights and democratic values. Each country case is of course different, so it would be pretty difficult to set a generic platform or set of specific political preconditions for general budget support. Taking the tougher view on budget support, I am in no doubt, is the right thing to do. Setting very high political eligibility criteria, however, could exclude everybody but the very best-performing low-income countries from receiving any form of on-budget support, and there would be some innocent people and very poor people in some of the countries who would suffer as a result.

We are, as I say, supportive of the discussion on conditionality. We are clear about our experience about the four principles. The right corollary to what I have just said is, "What happens when there is a breach?" If it is part of the four partnership principles, and partnership is withdrawn, we will look to work with other actors to ensure that aid reaches those people who are the poorest and in need of it. We need to see whether that can be replicated by the EU as it discusses its own proposals going forward on this. You will be aware that the Danish Presidency is currently drafting in line to the Agenda for Change, but it encompasses aspects of this, and we are waiting to see what is produced so that we can discuss it further.

Q164 Mr Gyimah: The point you have made just now touches on a concern I had at our meeting in Brussels: what does conditionality actually mean in this context? If it is not enforceable, it is an aspiration. I think the argument I heard was, "It is all about direction of travel." It is not really, from a personal perspective, good enough. If we are going to have conditions, we should be able to enforce them. My question, related to that, is: why would the EU tolerate human rights abuses, for example, in other countries and continue to offer budget support, when it would not tolerate it in countries within the EU, or within their own countries? Shouldn't the conditionality therefore be a lot tougher and more enforceable?

Mr O'Brien: I am with you, certainly, as I am sure every member of Her Majesty's Government, indeed every member of this House, is, that all human rights abuses are unacceptable and intolerable. The question is how you ensure that the very people that we are all pledged to seek to help, the very poorest in the world, do not suffer as part of the penalty in seeking to influence that those human rights abuses, often perpetrated by those who are not the poorest in those countries, are observed and punished.

Taking it away a little bit from the pure human rights focus, in which one needs to be careful in identifying any example and I am not making an equivalence, but we have seen with our approach, under our four partnership principles, that conditions of those principles were not being met in Malawi recently. I know the Committee has an interest in this and has some further investigations that it will be taking forward, but clearly when that was not met there was a withdrawal of the budget support, but we at DFID worked extremely hard to ensure that it did not penalise the very poor people—indeed, there are very poor people in Malawi—who need to be in receipt of the benefits of that expenditure, by looking for other actors.

That was in a sense what we are discussing with the EU, because I think that approach needs to be replicated. As I say, if you try to be very categoric, very absolute, and you have different views and judgments across 27 member states who would wish to see their views reflected by an EU representing them, then I could see that would be potentially very difficult and very fraught, and we could end up with too much discussion with the EU, rather than the effect being in terms of the relationship and the partnership approach that we are seeking to perpetuate.

Q165 Mr Gyimah: Given those difficulties I am slightly surprised that it has even been put on the table as something that the EU is trying to work towards.

Mr O'Brien: I speak for myself, but certainly in Government policy human rights are not negotiable. Human rights are human rights. The issue is how, within the waterfront of human rights, you single any out. That is the challenge.

Q166 Chair: The Committee did it by going for a double negative. We did not say aid should be conditional, but that it should not be unconditional.

Mr O'Brien: If you don't mind me saying, Chairman, I would need further and better particulars before I understood what you had actually said.

Q167 Chair: Read my interviews.

Mr O'Brien: Be it far from me to suggest that the word "fudge" comes into that in any way.

Q168 Richard Harrington: Minister, to move along briefly to economic growth and the private sector, obviously we realise how developments in the private sector in international development can be part of DFID's policy, but as far as the EU is concerned, do you share the Commission's view for a new focus on economic growth and the role of the private sector, given that I think there is a view that economic growth does not always lead to the kind of development objectives that we all think are so important?

Mr O'Brien: As a matter of principle, I imagine it is common ground around this room that one only has to look to the recent example of China. The involvement of economic growth and the private sector has delivered hundreds of millions of people out of poverty. If ever one needed proof of the case that private sector development is the ultimate biggest deliverer of people out of poverty, there you have it.

The EU is putting a big emphasis on economic growth and private sector development, just as we have at DFID, and we are seeking to, as it were, "DNA ourselves" much more in private sector skills and total approach. Likewise, that is very much how we want to continue to work with the EU, so that they become more closely aligned with that dynamic as well. We are very clear that impressing the Commission to focus on building local institution and business capacity, to encourage the development of small and medium-sized enterprises and co-operatives, and indeed social enterprises, creating a business environment conducive to growth through regulatory and legislative framework reforms, is absolutely vital. Equally it behoves the EU, looking more broadly than just the development arms of it, to promote the reduction of trade barriers, so that developing countries do have a chance to compete on a level playing field. That is equally important.

Q169 Richard Harrington: I was hoping you would say that. Given that DFID are ahead of the game with using the private sector for development objectives, are we really influencing the EU? Are we really pushing them and sharing the experiences that we are having?

Mr O'Brien: Absolutely we are, and I think it goes beyond just the Agenda for Change, important as that is, because that clearly is offering an opportunity to increase the EU's support for developing competitive local private sectors, and very much on the same analysis as we have made at DFID, which you are very familiar with. At the moment there is an enormous amount of work going on between us and our EU counterparts in looking at EU blending mechanisms and more effective use of the European Investment Bank in supporting the private sector, which will boost the resources available to business. Equally, however, I would say you cannot divorce this from trade, and whilst at DFID I am deeply conscious that I do not tie aid and trade, as the EU we would say that its development arm should move to a fully untied position when it comes to its development programmes.

The EU also exists—maybe even primarily exists—in order to be the ultimate single market trading body, and therefore looking at making sure that we as the UK, across Her Majesty's Government, are working to ensure a strong focus on developing countries in all our EU trade negotiations, pressing for trade liberalisation, negotiating a new generalised system of preferences for developing countries, and the economic partnership agreements with the African, Caribbean and Pacific countries, the ACP countries. Then, as you know, I hope it does not sound like a hobby-horse of mine, but I am completely focused on how to turn what is at the moment quite a lot of rhetoric into the reality of how we use the EU, the world's largest economic single market grouping, to engage with other regional groupings, whether it is the East African Community, or the SADC, or ECOWAS, in order for them to talk to each other and through, for instance, Trademark East Africa—we have had discussions here about that—then using those arms to get the professional investability that will get behind those infrastructure projects. Then you will have that matching of body to body.

Q170 Richard Harrington: If it is a hobby-horse, I think it is a good one, personally.

Mr O'Brien: Thank you; I will continue riding it.

Richard Harrington: I think it is really very, very, very important.

Q171 Jeremy Lefroy: We received some evidence from Bond about the Agenda for Change: "Its narrow focus on GDP-led growth and a reliance on 'trickle-down' effects of private sector development alone, without full consideration of environmental and social impacts and resource constraints, will only deliver unsustainable development, the challenges of which will far outweigh any short-term gains." I do not really recognise that statement as a statement of the impact of the private sector, particularly if one considers the large element that smallholder agriculture plays in the private sector in developing countries. I wonder if you could perhaps comment on that, Minister.

Mr O'Brien: I could not have put it better myself, Mr Lefroy. I am completely with you. I do not recognise the concern that Bond expresses. On the contrary, I think the evidence points in all the other directions, and particularly if we look at the private sector being and including, very importantly, even emphasising the smallholder farmers and those involved in agriculture and the supply and value added mechanisms that flow from that, we are addressing probably the greater part of the populations of all the very poorest people in the world, be they in conflict-affected, fragile, or indeed peaceful states. I do not recognise that. I think that this is quite recent policy development, being so explicit about the benefits of an integrated approach to development, which includes private sector and growth strategies as part of what delivers the poorest people out of poverty. I would hope that many more would get alongside and aligned to that evidence-based approach to the relief of poverty, which will help best deliver the MDG targets and the ambitions we all have.

How shall I put this? I don't think there is a wilful obstinacy here. I think there is a deeply ingrained suspicion on the part of some people that there is somehow a complete wall between the use of public money and private sector activity and that sometimes public money, whether it is derived from us or indeed elsewhere, should not somehow lead to the pump priming, the opportunity for leverage in the private sector, and that nobody should be able to make a profit out of it. Some of the most effective poverty alleviation, capacity building, sustainable resilience building, economic and humanitarian, have been the projects that you as a Committee have examined very closely out of the PIDG. If ever that was a transfer of money into the leveraged private sector with benign advantages, I cannot think of any. I think I have made my view pretty clear.

Q172 Mr McCann: Minister, the discussions on future budgets are ongoing, and I understand that they are expected to conclude next year. I was wondering what your expectation was in terms of a proportional increase in ODA, with the prospect of a reduced overall EU budget, and what the British Government are doing in relation to those negotiations in terms of making their input.

Mr O'Brien: Thank you. I am entirely with you that of course within an overall reducing envelope, not only will we, the UK Government, keep our promise of 0.7% on ODA, but we will strongly urge, and of course, with our own position and credibility, we hope that will have a significant influence on persuading other member states to get up to their promise of 0.7% across the EU by 2015. We are some way short of that at the moment. There is quite a stride to be made.

I think in terms of looking forward on the multiannual financial framework, and the way the broad position is being developed and negotiated in the run-up to its inception in 2014, to run until 2020, the proposals for EU external actions in the next MFF are positive. However, the overall level of the next MFF must be carefully contained. That is our Government's very clear position, which is recognised. We oppose increases beyond real growth in any budget headings, but we also think that maintaining or increasing the proportion of ODA within a smaller overall budget is a priority for the multiannual financial framework. We continue to push the Commission in that direction and for the effectiveness of development spending under the different instruments to be enhanced. There are many meetings that go on and we make those points, some would regard, ad nauseam. That will only mean that we recognise that we might possibly be getting our messages across.

Q173 Mr McCann: Would it be wrong to conclude that given that some member states have not met their targets and have reduced the money that they have given to aid even before the knowledge that we have now in relation to the wider problems within the eurozone, whilst we are putting forward the point that even through these difficult times we still have a commitment to the world's poorest, that will be even tougher when we have independent states within Europe who are suffering even worse in terms of unemployment and various other measures than we are in the UK?

Mr O'Brien: I am in no doubt how tough maintaining this commitment is when you have austere times in any domestic budget, not least here in the UK. It is a political choice. It is a political judgment. It is a matter of policy. It is a matter of political accountability. Whether it is members of the Government or those who share their position, not least the Chairman and Members of this Committee, it is vital that we make the case, and we all know the case has to be made, that it is not just the right thing to do but it is also in our own interests. Equally the EU has to make that case for itself for its programmes, and the effect and impact that it can have.

There is great variability amongst member states as to where they are on the question of ODA-qualifying spend. As we have indicated at the very head of this discussion, there are some member states who would not really be getting there at all were there not the EU development programmes and budgets, because that is where, at the moment, what they contribute is going. It is going through that. I am very clear that we all need to redouble our efforts to seek to be very persuasive about making sure that we do not get ourselves out of our own economic problems on the backs of the very poorest in the world. That principle drives what we do, and I hope it is what will drive all the member states. I can certainly say that that is shared by Commissioner Piebalgs; I am sure you have picked that up yourself. It is very much part of the policy background to what External Action Service is producing, both through Baroness Ashton and her colleagues and the various officials who are working to draft the policy.

Q174 Mr McCann: I will not press you any further on it, but best of luck in those negotiations.

Mr O'Brien: We are certainly determined.

Q175 Chair: Can I just clarify that the UK Government's position has changed? We have traditionally been opposed to bringing EDF into the budget. We apparently are now supporting the idea of bringing EDF into the budget, provided we get certain conditions, which I think predominantly is to protect the ODA component and the priority towards the poorest countries. How realistic do you think are the prospects of getting such a commitment?

Mr O'Brien: As a matter of detail, the primary concern is to ensure that we retain what, under the Multilateral Aid Review, are the benefits that are identified of the EDF.

Q176 Chair: Yes. So it would go into the budget but would be ring-fenced within it?

Mr O'Brien: In many ways this is a subject for negotiation, but the EDF currently represents half of all off-budget expenditure. The future of the EDF will clearly be negotiated as part of the multiannual financial framework, and the UK has made it clear it is not going to accept changes to the EDF that might prejudice its current effectiveness, its focus, its allocation criteria and unique partnership model, all of which were identified on a comparable basis under the MAR. The fundamental principles of the Cotonou agreement must also be upheld, and you will be aware that that basically covers the human rights, rule of law and democracy issues. However, the UK Government is concerned by the lack of transparency shown by the Commission in its proposal for very substantially increased off-budget expenditure, and so we consider this to be unacceptable and want to see all the items included in the budget to ensure proper clarity and sound financial management. The best way I can describe the issue is that if the EDF is going into the budgetised element, it must retain the highest common factor of its efficiency, rather than being reduced or subsumed to a lowest common denominator. Indeed, others should be brought up to the level of what we regard as being the efficiency of the EDF.

Q177 Chair: I think we got the impression from the Commissioner that he was not quite up to speed with this switch in the British position. He was basically arguing, "Why rock the boat? Let us just wait until 2020 when Cotonou and the ACP are up for review." How realistic, in other words, is the UK's position? Is it, in fact, given that the Commission is saying, "Do not budgetise it," likely to be the one that carries the day? Or alternatively is the UK, by switching its position, making the chances of it being budgetised subject to these conditions more achievable?

Mr O'Brien: I am probably going to have to rest my case, given that we are in a negotiating situation. The concern is that there is at the moment a lack of transparency shown by the Commission in its proposal for these very substantially increased off-budget expenditures. You have to look at this issue in that context, and—

Q178 Chair: Like Mr McCann, we need to watch this space.

Mr O'Brien: The position has been, I hope, made clear on the basis of that context.

Q179 Pauline Latham: I was going to ask a question, but I do not think you are going to answer it.
Mr O'Brien: As you know, I always try very hard, particularly for you, Mrs Latham, to answer your questions.

Q180 Pauline Latham: If it fails, what do we do?
Mr O'Brien: Like every negotiation, you do not enter by believing you will fail.

Q181 Pauline Latham: But this is Europe.
Mr O'Brien: I will have to come and report back to you in due course, depending on the circumstances.

Q182 Pauline Latham: I did not think you would answer it.
Mr O'Brien: I did answer, but not perhaps the way you wanted.

Q183 Pauline Latham: Europe has not, as a whole, met its target of 0.56% yet on the GNI as official development assistance in 2010. What is the UK doing to help them to get back on track, and to meet the 0.7%, as we are doing, by 2015? If you are helping them, how realistic is it that they will all comply?
Mr O'Brien: To some degree, it is quite a multifaceted question, because trying to ensure that within an overall envelope that is reducing, none the less we have a higher ODA spend under heading four, if that is where we get to with the multiannual financial framework, clearly will then give greater capacity for those member states, as well as the EU as a whole, to be able to reach the 0.7% target by 2015. Another context is that the EU and the 27 member states were all a part of the September 2010 meeting in New York, when the UN came together to reaffirm the ambition to reach the MDGs by 2015. It is difficult to see how you get to those MDGs without those member states stepping up to the 0.7%, in order to have the resources sufficient to meet the scale of challenge yet to be run between 2010 and 2015. We are now not far short of halfway through that period. Challenge there is, without question. The specifics of what we are doing about it, apart from the fact—I restate, but this is pretty obvious to you as well as everybody else—that our own position, as the UK Government, as the coalition Government, to hold to our promise of 0.7%, and get there by next year, is itself the highest point of credibility that can help us have persuasive opportunities to bring others to recognise that this is absolutely the right highest priority, for their own citizens as much as, of course, for the relief of poverty across the countries of the world in which, both bilaterally and multilaterally, we operate.
The EU donors made the historic decision in 2005, so they had 10 years to reach the 0.7%. As you rightly say, we are well short. The EU missed its collective target of 0.56%, the interim target of ODA GNI by 2010; in fact, at 0.43%, it was appreciably short. Some countries within have done better, but apart from some honourable exceptions, most are below the run rate that you would need to get there. I believe we are in a strong position to hold others to account on their ODA commitments, and thanks, I think, in a large degree to very significant lobbying from the UK, not least us as Ministers, EU Development Ministers adopted the first annual report to the European Council on EU aid targets at the May 2011 Foreign Affairs Council. The report went to leaders at the June European Council, the JEC. This has created an aid accountability mechanism at the highest level, and we will insist that this accountability is maintained.
It is in the realms of political activity. It is not something that one can simply order, or design off a peg, as you more than readily appreciate. We are doing everything we can in the political sphere to seek to make it happen, and as much as being persuasive and having credibility, it comes back to why the results framework, assessing impact, having evaluation and monitoring are so vital. It is the evidence of what works and is therefore having the desired and intended effect, and that we can have the trust that we have good anti-corruption measures in place, good ownership and co-ordination without going down the mandatory route, as we have discussed. All these things become the evidence that helps encourage others that this is both desirable and doable; that is ultimately what we want to get to, because that is the best persuader.

Q184 Pauline Latham: Good luck.
Mr O'Brien: Thank you very much for the good luck.

Q185 Jeremy Lefroy: The EU has shown great desire over this weekend, through the Compact, to insist on budget deficit targets, I think, of no more than 0.5% over a period of time, and indeed to enforce these, possibly, in the future with things like fines. Given that the EU has shown this kind of determination to deal with recalcitrant members in that regard, do you think they could take similar action in respect to members who are under the 0.56% or 0.7%?
Mr O'Brien: Until you asked the question, Mr Lefroy, I had not given that any thought whatever, so I will not attempt to give you an answer off the cuff, particularly on something so significant and potentially incendiary. I think we will observe, clearly, what is going on under the Compact. That is dealing with a whole raft of very different dimensions in terms of economic activity and the prospects for growth and recovery, and particularly as what we deal with in terms of development is to do with ultimately the transfer of our resources in order to create impact outside the electorates of the member states, I suspect that may have a somewhat different complexion, politically, than the disciplines that are required in order to do things where there is electoral accountability through member state Parliaments and indeed through Members of the European Parliament.

Q186 Jeremy Lefroy: The point I was trying to get to was that there seems to be political will on the one hand over the Compact, and a decided lack of political will among some of the major nation states involved on the other hand.
Mr O'Brien: In many ways, I understand the discussion and debate, and I respect the way you put it. I might even be tempted to suggest that political

will is rather a benign way of expressing political necessity.

Q187 Jeremy Lefroy: Moving on to the thorny question of the Common Agricultural Policy, which a group of prominent Africans have suggested is a hindrance to development in many of their countries in sub-Saharan Africa and elsewhere; I would entirely agree with them. In fact, they said the abolition of it would do more good than any aid programme. I am not sure I would go quite as far as that, but certainly the point is well made. Bond have made a similar statement, that indeed these obstacles in the way of international trade in agricultural products are not helpful. I wondered what the Government's position on that is at the moment.

Mr O'Brien: I hope you will forgive me if I do not stray too far into the broader issues about our position on the Common Agricultural Policy. That is clearly a matter for the Foreign Secretary and the Secretary of State at Defra. That said, I think the emphasis I would wish to place, for those of us concerned with development, is there should be completely open access to our markets here for products. There are very good examples already where trade is trumping aid, particularly where there has been the ability to use local production to take on the added-value processes, before effectively the final product is shipped into purchasing power markets that are represented by the West. There are some very well known examples.

For a long time the barriers have been the model by which the value chain has been set up, for reasons that we know are largely historic, and of course the purchasing power that we all represent as the UK, for instance, goes hand in hand with the quality assurance we insist upon whenever we make a selection of a product from a supermarket shelf or purchase a car, or whatever it may be. I think there is a need to ensure that as much value-added is done locally, and that there is no barrier to entry of those products being sold into the high-purchasing-power markets of the traditional West. However, that puts a huge premium on predictability, consistency and quality assurance in the countries of production, which has often been one of the impediments in the past. I am somewhat swerving your direct question, but that is because you are raising issues of much wider policy, which I think are beyond my remit.

Q188 Jeremy Lefroy: On a broader question, can you give us any examples of areas within the European Union's competencies, since the Lisbon Treaty, where there has been greater policy coherence between broader issues and the development agenda?

Mr O'Brien: I touched on it slightly earlier, before you were able to join us, and that is that particularly as we look forward, I believe it is common ground amongst us all that as part of the development agenda there will be a much greater element and emphasis on the adaptation and mitigation of the effects of climate change, and particularly the environmental impacts on ecosystems services. Whilst all that is in grave danger of being lost into the mire of jargonese, in a sense we need to keep focused on the human consequences of climate change, because that is ultimately what we are dealing with in terms of poverty, survival and economic opportunity. I think in terms of policy coherence for development, we know development is not just about aid; it is what comes beyond aid. We can go through the quite simple theory of change and models that get us to the graduation from aid, whether that is within this Parliament here in the UK, or whether that will mean that Ghana itself graduates. We wait and see how that develops. However, patently it has to be a candidate country to graduate from aid in the shorter term.

That is, if you like, one area of policy coherence, but to improve the EU's policies and their coherence as affects developing countries clearly requires further progress on implementation to link conflict, trade, climate change and development. I think it is a really important area, and we are pressing for significant improvements and internal coordination. It is something we are all working really hard on here in the UK as well. This is certainly not easy. It is not just a question of crashing down the silos across Government. It is getting these evaluations of where you put your emphasis, and climate change has forced us all to have to think very carefully about—if you have, as we do in this country, a big commitment, £2.9 billion of international climate facility—how best to deploy that to greatest impact. Of course, you can either do that across a range of things, or you can try to do it in a rapier-like approach. Policy coherence absolutely is critical to that set of criteria and analyses. In particular we are going to push for greater co-ordination and coherence between DG Clima and DG Europe Aid, so we get a much clearer EU position on climate finance in the next multiannual financial framework, and to generally make the EU much more climate-smart. There is a clear stream of work.

Q189 Jeremy Lefroy: Just finally, would you also accept that the greater emphasis in the Agenda for Change on private sector development is a great sign of policy coherence as well? The EU, if it is anything, certainly as far as I am concerned, is all about improving trade and improving markets within Europe, and in fact an emphasis on the private sector is about improving markets within the countries in which we are operating with the development programme.

Mr O'Brien: I am really pleased that you have made that supplementary, because that is entirely correct. I should in a sense have made that an equal emphasis in my first response to you. I chose to highlight the climate change aspects, but in many ways more immediate will be the coherence that comes in recognising the private sector and economic growth, and ensuring that you have access to finance. I think it was at this Committee; I certainly am in danger of overusing this example, but I keep in my mind the whole time this imaginary 26-year-old guy on the outskirts of Kano in Nigeria, who has amazingly managed to save $1,000 under the mattress. He already has 14 dependants, and is charging around on the most amazing amount of activity, most of it unproductive, but he keeps himself and his dependants fed. He now really needs $10,000 to set up a motorcycle repair shop. Where does he go to get that?

He is ultimately the person who will drive the emerging middle-class growth of Kano, which will be the deliverer out of poverty more than anything else. For us, that is a challenge. It is not microfinance. It is not foreign direct investment. As we all know, I think this Committee not least, it is that great chunk in the middle. I keep that theoretical person in my mind the whole time, because if I were half the age I am now, that is precisely where I would be if I was living in Kano, and I would want to know who I would go and ask for the money, if I did not have a dad who was rich or was not connected to the Chief.

Q190 Chair: Minister, at the end of this report, of course, we have to make a judgment about how effective we think the EU is in terms of delivering aid that matches the UK's objectives, how much control we have over it and how much we can vary it, and I suppose finally, the extent to which it does it better than the World Bank or the Asian Development Bank or the African Development Bank. From your position as a Minister for Europe when these negotiations are going on, do you envisage a situation where the UK is likely to want to put more money through the EU compared with other multilaterals over the next 5–10 years, or less?

Mr O'Brien: It is a perfectly fair and a very good question, Chairman. I am not even going to duck it. The answer is that I do not know. We are in a period at the moment where we have clearly gone through a major Multilateral Aid Review, which identified the strengths and weaknesses and the agenda for reform and change in the current setup. We are also in the process across HMG of looking at the multiannual financial framework and the negotiations, the positioning, and where that leads to, and what the envelope will look like. Relative to other expenditures, I hope that I have at least been able to give some indication where we think the EU has got strengths versus other bodies, not least in terms of scale; the fact that it is aligning with our priorities and that it is able to represent and draw on the support of 27 member states.

Whilst we know we need to chase them for their commitment on overall ODA spend, none the less, through the budgetised amount there is a formula that helps bind them in, so therefore they all have a shared ownership of that. Therefore, there are real opportunities of scale, particularly as we go down, as Mr Harrington observed, the regional-to-regional dimension of economic integration and activity, where there are real opportunities for achieving the economies of scale and the economic growth that comes from that. I think the EU therefore will always have that place. Where that fits in terms of increase, decrease, proportionality I would not be giving you a fair reflection of a view, because I do not think it is possible to determine, but I think it is certainly worth working on improving the processes, because the EU is a very important partner in development, and today stands as the largest development agency in the world. With that, we need to make sure that it therefore works at the very best level of world class.

Q191 Chair: Thank you very much for that. Thank you for the time you have given to us this morning. I am not sure when we are planning to produce this Report. It will be two or three months away, but I hope that you will find it informative and useful. I am sure it will be controversial here and there, but we look forward to delivering it and we hope you will engage with us. I am sure you will in future. Thank you very much, indeed.

Mr O'Brien: Thank you very much indeed, Chairman. I promise to write those letters that I promised.

Written evidence

Written evidence submitted by Bond

Introduction and Summary

1. The EU is currently the world's largest provider of development assistance with an aid budget in 2010 of €12 billion, the main trading partner of many developing countries, and a key actor in political dialogue. In addition the EU is committed to poverty reduction and to reaching the MDGs, through a wide range of instruments designed to achieve positive development outcomes.

2. The Department for International Development will have disbursed about £3.7 billion of UK aid as core funding through multilateral organisations during 2011, about a fifth of this will have gone through the European Commission budget instruments and 15% through the European Development Fund. In addition to this, the UK must continue to be a key player in the discussion on EU development assistance and to be involved at the political, strategic and programming levels.

3. During the past 10 years, the effectiveness of EU external assistance has improved considerably (as demonstrated by the 2007 OECD peer review and acknowledged by DFID's Multilateral Aid Review) with the adoption of a single development policy, formal commitment to the principle of Policy Coherence for Development (PCD), the adoption of the EU Code of Conduct on Complementarity and Division of Labour in Development Policy and the establishment of specific development instruments such as the EDF and the DCI.

4. Bond welcomes this inquiry by the International Development Committee which comes at a critical time of a European economic and political crisis, EU budget negotiations as well as EU Member States falling behind in their international development commitments. Bond would like to stress the importance of the EU as a development actor and the need for the UK Government to strongly support this role and invest in this relationship. We would like to highlight the following key points which are outlined in more detail in this submission:

- Bond members acknowledge that the EC is an important multilateral channel for aid which has a comparative advantage to bilateral donors in its policy reach, effectiveness and efficiency and coordinating role.
- We welcome that the EC has over the last years improved its effectiveness particularly in the areas of predictability and coordination.
- The UK Government should play a leading role in supporting the EU to improve its performance and practice as well as to play a key political role in EU policy dialogue.
- The new *EU Agenda for Change* re-emphasises key commitments to focus development efforts on poverty reduction and human rights. Yet Bond members have concerns about its strong focus on growth as a key driver of development without considering how to deliver inclusive and sustainable growth.
- Bond members welcome the planned increase in external spending in the EU budget and emphasise the need for the DCI and EDF to be both 100% ODA eligible.
- Tools and instruments of Policy Coherence for Development (PCD) need to be improved and properly implemented, including strengthened capacity on PCD within the Commission and formalised complaints mechanisms to give the recipients of development efforts a stronger voice.

The comparative advantage of the EU as a channel for UK development and humanitarian assistance and the UK's ability to influence EU development policy

5. As other policies at the European level, the principal justification for organising aid programmes at the EC level comes from the "subsidiarity" principle. This states that any policy that is managed at the Community level is there because it can achieve its objectives more efficiently than if it was done only at national level. Bond supports this emphasis and we would particularly highlight the following positive examples of that (or similar):

6. Policy Reach: The EC has responsibility for a wide range of externally-facing policies beyond simply development assistance, as well as a global geographic presence. This allows the EC to sit at the centre of partnership agreements with many developing countries covering policy areas such as trade, agriculture, migration, environment, energy, security, fight against drugs, terrorism. Bond therefore calls on the EC to position development cooperation more effectively and align it with other policy areas to achieve coherent policy-making—with development objectives at the forefront and development cooperation as an instrument for achieving this.

7. The scale of the EC is also linked to the question of efficiency and effectiveness. Bond believes that one larger donor has the potential to deliver large-scale aid more efficiently than 27 smaller donors. Improved cooperation between all donors—including EU Member States and the EC—can make, and increasingly is making, significant gains in efficiency. We would like to highlight in this regard a recent Commission report

(*Aid Effectiveness: the Benefits of Going Ahead*) supporting this argument by showing that better coordination and planning of policies of the EU and its Member States could save up to €5 billion per year.

8. The budget framework of the European Community allows EC aid to be more predictable than bilateral aid, being normally committed over multi-year frameworks, disbursed according to clear performance criteria, providing direct support to governments working together on cross-border issues and therefore increasing efficiency which Bond welcomes and encourages bilateral donors to copy. In 2008, the European Commission launched the *MDG Contracts* in eight ACP countries, which we believe are a positive example of linking delivery of aid to results, in a way which helps developing countries reach the MDGs.

9. Coordination: The EC is committed, most recently pursuant to the Lisbon Treaty, to ensure coordination of its aid policy and cooperation with Member States. This gives the Union a key responsibility in advocating development policy in all of the relevant development forums particularly pressing member states to scaling up aid. As an example, the EC played a very important role in the run-up to the Monterrey Financing for Development Conference in 2003–04 in mobilising Member States to increase aid towards the 0.7% goal. Bond members are looking to the EC to increase this leadership.

The proposals set out in the Agenda for Change

10. The strong commitment in the *EU Agenda for Change* to eradicate poverty, the focus on coordinated EU action at country level and the prominent focus on governance and human rights are all very positive points and welcomed by Bond members. However we believe that:

11. The Agenda fails to recognise that increasing levels of economic growth will not automatically deliver desired development results. Its narrow focus on GDP-led growth and a reliance on "trickle down" effects of private sector development alone, without full consideration of environmental and social impacts and resource constraints, will only deliver unsustainable development, the challenges of which will far outweigh any short-terms gains. For more details and a critique of the focus on GDP alone see the Bond *Growth and Development* (July 2011) paper.

12. The Agenda elevates the status of the private sector's role in development without due consideration for the need for strengthening standards and implementing new strong regulations to eliminate future abuses. The EU should ensure that ODA is used to support an approach to private sector development that delivers maximum benefit for the poor, in respect of human rights, environmental and other international agreements and ensures fair distribution of income, land and opportunities.

The EU should also focus on supporting a strong and diverse domestic private sector in developing countries and should invest in local micro, small and medium enterprises, including supporting smallholder farmers as an important private sector in developing countries and prioritising low-cost, sustainable and farmer-led agriculture.

13. The focus on growth and the private sector in the Agenda does also seem to ignore the needs of women and girls. The 2012 World Development Report: *Gender Equality and Development* specifically notes that "income growth by itself does not deliver greater gender quality on all fronts and that closing differences in access to economic opportunities and the ensuing earnings and productivity gaps between women and men" should be a priority. It also acknowledges that women now represent 40% of the global labour force and 43% of the world's agricultural labour force. A gendered approach to these policy areas (indeed, all policy areas) will be necessary to ensure that women and girls are able to benefit from European development policy.

14. The Agenda proposes a model of "country differentiation" between low and middle income countries without detailing criteria for how the model will be applied. Three quarters of the world's poor live in Middle Income Countries (MICs). Although Bond welcomes the willingness of the EC to focus on the poorest countries, we believe that the approach of making decisions on how to allocate aid on the basis of broad categories eg MICs, LDCs (Least Developed Countries) etc is problematic and inconsistent with the objective of reducing poverty. We would encourage the UK Government to push their European counterparts to follow DFID's best-practice example of using individual country-specific analysis, transparent criteria and a pro-poor approach which allows different, targeted forms of cooperation to be developed.

15. The Agenda does not explicitly reflect the importance of promoting children's rights in internal and external affairs as stipulated in the Lisbon Treaty article 3 and does not recognise the EU's commitment to children's rights as detailed in the EU's communication *Towards an EU Strategy on the Rights of the Child*. Neither does it reflect the *EU Agenda on the Rights of the Child*, which states that children's rights must be fully taken into account in all actions of the EU. Therefore we urge the EC in the EU budget 2014–20 to translate its commitment to children's rights into financial resources by mainstreaming children's rights and creating specific allocations to children from relevant budget headings and instruments.

16. While it is positive that the Agenda states in point 3.1 that "the EU should support sector reforms that increase access to quality health and education services and strengthen local capacities to respond to global challenges", the EC needs to recognise the importance of strengthening of health services and capacity in developing countries as a global challenge in its own right.

17. The Agenda does not define a clear role for global civil society, including EU and Member States' civil society, in European development assistance. The strategy rather sees civil society in a limited way—as watchdog—when governments fail on human rights and democracy. Civil society should be an important and strategic partner in European development assistance in its own right. This has been recognised in the recent EU Structured Dialogue process with civil society and local authorities. The Agenda should therefore also recognize civil society participation as a prerequisite for long-term poverty reduction and promotion of democracy and proactively support and acknowledge the role of citizens and civil society as actors of change.

The proposals for future funding of EC development cooperation

18. Bond welcomes the renewed commitment to the Millennium Development Goals (MDGs) and to the planned increase in external spending as enshrined in the European Commission's proposals for the 2014–20 EU budget. We also support the proposal to include a clear commitment to the 0.7% GNI development aid targets along with a clear focus on poverty eradication based on democracy, human rights, equality, environmental sustainability and respect for the UN Charter and international law.

EU Member States should support the European Commission's proposal on development funding levels also as a way to fulfil their own commitment to 0.7%, and they must take responsibility at national level to meet their MDGs commitments. Bond would like to see the following recommendations reflected in the final agreement of the next EU MFF:

19. The DCI and the EDF should be 100% ODA eligible in the future. The 20% social sector benchmark for basic health and education should be upheld in the design of all future development regulations (including the EDF) and subject to increased monitoring, evaluation and regular reporting on an annual basis. Security measures and military operations should be exclusively financed with the Instrument for Stability and the Common Foreign and Security Policy (CFSP). Humanitarian aid and relief efforts should strictly respect humanitarian law and principles—humanitarian imperative, impartiality, independence and neutrality—and should never be used to pursue particular political interests.

20. The EC should maintain cooperation programmes (geographic envelopes) with all developing countries—even if at different levels. Indeed even small scale targeted actions based on a thorough country analysis could lead to a high impact of aid. Bilateral cooperation with "wealthy" Middle Income Countries (MICs) should focus on the fight against inequalities and poverty by targeting aid by sector and/or by activities and/or by beneficiaries and/or by specific geographic areas in a country. If phasing out of aid for some countries is appropriate, it should be phased out progressively over the period of the next MFF.

21. Stringent benchmarks and more control at implementation level should be applied to investment facilities and the blending of loans and grants to make sure that they really contribute to the fight against poverty and to long-term and sustainable development. The EU should not start using blending on loans and grants without first having carried out a thorough analysis of the impact of existing blending mechanisms such as the Africa Infrastructure Funds.

22. Climate financing must be additional to Official Development Assistance (ODA) commitments already made. Climate change places a new burden on developing countries; therefore, new resources are required to tackle it, while protecting development gains of recent years. The EU and its Member States have pledged under the 2009 Copenhagen Accord to provide "new and additional" resources for mitigation and adaptation in developing countries and therefore should jointly define their definition of additionality and a relevant baseline.

23. It is essential to provide important funding for links between humanitarian relief and development aid (LRRD) and increased resources for the reconstruction phase. The EU's investment in rapid humanitarian aid needs to be complemented with a more effective mechanism to allow EU civil society and their country based partners to fully link relief with re/construction and development, to consolidate efforts made during the emergency response and to contribute to the peace dividend.

See *Bond and CONCORD recommendations* on the EU MFF for more information.

Progress towards policy coherence for development

24. Many European Union policies outside of official development assistance, eg on trade, tax, agriculture, climate change and security, have a profound impact on developing countries and ultimately peoples' rights. It is crucial that these policies do not undermine rights nor the achievement of development objectives. The European Union is legally obliged to take into account the objectives of development cooperation in the policies that it implements which are likely to affect developing countries, as stated by the Lisbon Treaty (article 208).

25. Bond believes that, based on its legal commitments to PCD, the EC needs to establish an adequate institutional setup as well as a toolbox of policy-making instruments and mechanisms to systemize the implementation of PCD. In addition, the President of the European Commission has a key role to play as guardian of the Treaty and the EU Council and the European Parliament must exercise their legislative power in a responsible manner, taking account of the impact of EU policies beyond the EU borders. Each Member State is also required to report on their efforts towards policy coherence for development.

Food Security

26. Today, 925 million people throughout the globe suffer from hunger and 195 million children are chronically malnourished worldwide. The EU has a special responsibility in this, among other reasons because it is the world's largest actor in agricultural trade. Realising the Right to Food requires changes in both models of production as well as improved access to affordable and nutritious food, with a greater policy focus on nutrition. In this context, the EU needs to change its current policies affecting food security in the world's poor countries including trade, agriculture, financial regulation, climate, and investment in developing countries to ensure that all these policies are coherent with development efforts and that they promote coherence with human rights frameworks, secure entitlements to food, decent work and social security, and access to productive resources, especially for marginalised and excluded groups.

27. The reform of the EU's Common Agricultural Policy (CAP) is a decisive opportunity to demonstrate the Union's willingness to help facilitate developing countries' transition to feeding themselves. This requires a U-turn from the EU to recognise that the growing global demand for food does not legitimise subsidising European exports which are harmful to EU development objectives.

28. To limit excessive food price volatility for both farmers and consumers, the EU should also lead the way for improved international governance of food security based on the Right to Food. In addition to market regulation, food buffer stocks can help both safeguarding food security and maintaining price stability. Finally, EU policies that drive global trends such as land-grabbing must include strong sustainability criteria that cover both social and environmental aspects, especially concerning biofuels production.

Human Security

29. The EU's security and development agenda recognises that there cannot be "sustainable development without peace and security, and that without development and poverty eradication there will be no sustainable peace". However, there has been little progress to put policies into practice that properly address this connection. Security policies of several EU Member States clearly show clashes between economic and/or security self-interests, and PCD. The EU should not advance its economic and security interests to the detriment of partner countries and their populations. To avoid doing harm and to seize opportunities to build long term peace, EU policies must be more "conflict-sensitive" and adopt a long term preventative approach. In addition, adequate mechanisms must be put in place to ensure that control of exports of military technology and equipment are respected, in compliance with the PCD obligation.

Migration

30. A common trend in EU initiatives is their focus on managing migration flows with the view to realise the EU's unilateral economic objectives, without exploring the full potential of migration and development, which could benefit the migrants themselves, and both the host country and the country of origin. The current restrictive approach to EU migration policy, steered by the EU Global Approach to Migration, lacks consideration for development implications and Human Rights requirements.

Domestic resource mobilisation

31. Ultimately, the EU should work towards inclusive economic development policies through policy stability, promoting good governance and ensuring that states provide essential services. Strengthening the ability of developing countries to collect revenue domestically not only increases the resources available for development spending, but also strengthens governance. In this regard, EU development priorities should also observe policy coherence for development through ensuring that corporate transparency standards in the EU, including country-by-country reporting for all sectors, strengthen the ability of developing countries' governments to hold companies to account for their tax payments in country.

Climate change

32. The EU must ensure strong measures to reduce greenhouse gas emissions at EU level to avoid greater long term impacts on human development and higher adaptation costs in the most vulnerable developing countries. No EU investment—inside the EU and outside—should support infrastructure or technology which results in lock-in to fossil fuels and in particular coal power which is by far the most carbon intensive energy source. Instead the EU should invest in a transformation to a low-carbon economy.

See *CONCORD Spotlight Report on PCD 2011* for more information.

January 2012

Written evidence submitted by Overseas Development Institute

Introduction

1. The International Development Committee's (IDC) inquiry into EU development assistance has come at a momentous time considering the new poverty landscape, changing economic and geopolitical dynamics in the world, the economic crisis, and the possible ramifications of EU treaty change. As the global development scene changes, the UK and the EU's approaches to development must also change.

2. DFID's Business Plan for 2011–15 establishes a UK vision for international development cooperation based on "results, transparency and accountability".[1] Key priorities include: boosting wealth creation; combating climate change; strengthening governance and security in fragile and conflict affected states; improving the lives and women and girls; and improving transparency in aid. Combined with DFID's 2011 Bilateral and Multilateral Aid Reviews,[2] this establishes a new framework to guide the UK's approach.

3. Working with the EU can help the UK to achieve faster progress on a number of these goals. Key global challenges such as climate change and food security can be more effectively dealt with at regional level. Commission instruments to promote international political and economic partnerships, regional integration, aid for trade and the blending of grants and loans can help to promote growth and job creation.

4. At the same time, there is scope for further improvements in the way European Commission (EC) managed aid is provided.[3] The EC's new development strategy—*An Agenda for Change*, combined with the next Multi-Annual Financial Framework (MFF) (2014–20) will bring in some important reforms. However, the UK needs to continue to press for further changes if the EC is to meet its full potential.

5. The terms of reference established for this inquiry by the IDC call for evidence regarding:[4] the EU's comparative advantage as a channel for UK development assistance, *An Agenda for Change*, future funding of EC development cooperation and progress towards policy coherence for development (PCD). These areas of inquiry ultimately lead to four key questions which this submission sets out to answer:

- What development objectives can the UK better pursue through the EC than through bilateral means?
- How much funding should be allocated to EC development assistance?
- What countries and sectors should the EC concentrate its funds on?
- How should these funds be managed?

Background

6. There have been substantial improvements in EC development cooperation since reforms initiated in 2000. These have:

- *Restored the political credibility for EC development aid*. There is now an EU development policy (The European Consensus on Development) based on common values, and a clear treaty commitment (Article 208 of the Lisbon Treaty) which enshrines poverty reduction as the "primary objective" of EU development cooperation;
- *Radically improved management performance.* There is now an effective multi-annual programming system that sets out clear strategies, budget, expected results and guidelines for implementing aid;
- *Reformed financial and administrative control mechanisms*. In 2006, the financial instruments were rationalised from more than 30 to 10 instruments;
- *Speeded up disbursement*. There has been substantial decentralisation—improving the quality of aid and the speed of disbursement; and
- *Made the EC a key donor in the world*. The EC disbursed around €11 billion in 2010—approximately 18% of member states' aid budget. Overall, including the aid programmes of member states, the EU provides 60% of all global development aid.

7. However, the EU has much to do if it is to fulfil its potential. The EU must further improve:

- *Policy coherence for development (PCD)*, which has remained more of an aspiration than a reality.
- *Funding*, which has fallen behind targets.
- *Coordination* between member states.

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1 DFID (2011) "DFID Business plan—Vision", http://www.dfid.gov.uk/About-us/How-we-measure-progress/DFID-Business-plan-2011–2015/Vision-/; and DFID (2011) "Business plan 2011–2015", http://www.dfid.gov.uk/about-us/how-we-measure-progress/dfid-business-plan-2011–2015/

2 Further analysis of the MAR can be found in Annex 3.

3 In this submission, the 'EU' refers to the EU member states together, whereas the '"EC' refers to the European Commission's development programme, funded by the member states.

4 Consult Annex 2 for the IDC enquiry terms of reference.

— *Focus.* The Commission is continually asked to take on new areas of work, resulting in mixed messages and lack of a clear strategic direction.

— *Policy capacity.* The EC is poorly staffed in the policy area compared to its peer group among the large international donors. The EC's weight and influence in global policy debates falls far behind either the World Bank or the UN.

The Comparative Advantage of the EC as a Channel for UK Development and Humanitarian Assistance

8. When the EC works together with member states, it brings comparative advantage, by means of:

— *Shared values* and a *commitment to poverty reduction*, enshrined in the Lisbon Treaty.

— *Shared approaches in development policy*, laid out in the European Consensus on Development, and the potential for greater coherence with other policy areas.

— New structures which at least potentially facilitate *joined-up engagement in international development*, particularly the new High Representative for Foreign Affairs and Security Policy, leading the European External Action Service, and a team of Commissioners in development, humanitarian aid and crisis response, trade, and enlargement and neighbourhood policy.

— *International political and economic partnerships*, with African, Caribbean and Pacific (ACP) countries, through the Cotonou Partnership Agreement, and also with Asia, Latin America and the Neighbourhood.

— *Economies of scale in funding instruments*, which allows the UK to be involved in around 90 country programmes, many of which are HMG priorities but do not receive UK aid.

— *Ability to tackle Global Public Goods.* The EU's size, in relation to member states, makes it better able to tackle problems which need addressing at global level.[5]

9. The EC itself has demonstrated specific expertise in the following areas:

— *Regional integration and cooperation*, with a focus on institution and capacity-building, infrastructure in terms of cross-border transport systems. There is a clear value added in terms of historical experience, lessons learnt and expertise.[6]

— *Food security*, stemming from its critical mass in financial terms, experience in the field[7] and its focus on a regional approach to food security.

— *Trade*. The EC has exclusive competence for trade policy and the EU is developing countries' largest trading partner.[8]

— *Institutional capacity-building, good governance, democracy and rule of law.* A key focus of EC assistance in all areas of the world.

— *Rights and justice*, as European values underpin a welfarist approach to poverty reduction with respect for civil and political, as well as economic and social rights.

The Proposals Set Out in the "Agenda for Change" and the EC's New Proposal on Budget Support

10. The EC's proposed *Agenda for Change* builds on the 2005 European Consensus on Development, and introduces three changes[9] designed to ensure the EC's limited resources are used in a way which fosters value for money:

— the *concentration* of EU activities on two broad priorities: (a) good governance and human rights, linked to greater conditionality; (b) growth, with a strong focus on leveraging in private sector money;

— the introduction of the concept of *differentiated development partnerships*, with new allocation criteria for aid; and

— an attempt to boost EU *joint work*.

[5] An ODI facilitated e-discussion between the EU 'Change-Makers' group in 2009, highlighted that "The EU's influence and capacity to promote a global vision and its approach toward a multilateral world economy hinges on its ability to play a leading role in promoting collective action. Development aid is one of the rare tools available to actually cement that collective action on global public goods". The report can be accessed here: http://www.odi.org.uk/resources/docs/5846.pdf

[6] For more information on the EC's experience, see: Meyn, M and Te Velde, D W (2008), "Literature survey on the state of regional integration in ACP", Study for DG Development, http://ec.europa.eu/development/icenter/repository/Regional-Integration-Report-18–09–2008_en.pdf; te Velde, D W (2008) Regional Integration and Growth, analytical tools http://www.odi.org.uk/resources/download/2498.pdf and te Velde, D W (2007) "Regional Integration, Growth and Concentration", http://siteresources.worldbank.org/INTWDR2009/Resources/4231006–1204741572978/Velde.pdf

[7] For example, the EC's €1 billion "Food Facility" initiative which ran from 2009–11.

[8] Cali, M, and te Velde, D W (2009) "Does Aid for Trade Really Improve Trade Performance?" http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1430492

[9] Gavas, M, Herbert, S and Maxwell, S. (2011) "An Agenda for Change for EU Development Policy", ODI blog, http://blogs.odi.org.uk/blogs/main/archive/2011/10/17/EU_development_policy_an_agenda_for_change.aspx

11. *Concentration.* We welcome the proposal to concentrate on fewer sectors where the EU has clear comparative advantages, as highlighted in the previous section. This is an improvement on the broad nine priority themes identified by the European Consensus on Development.

— *Governance.* While we welcome the focus on good governance and human rights, we have concerns regarding conditionality. Using aid conditionality to further fundamental values (democracy, human rights and rule of law) seems ill-advised given the weak evidence-base surrounding the effectiveness of conditionality.[10]

— *Growth.* We support the proposed focus on growth, a key UK priority. The EC has a particular comparative advantage in responding to crises effectively and at scale, helping to promote growth and resilience in developing countries. This was demonstrated particularly by the €500 million EC "V-FLEX initiative".[11] The EC is also the world leader in providing aid for trade,[12] and has historically provided high levels of support for large-scale infrastructure projects, a key priority for developing countries and an area shown to help export promotion.[13]

— However, we do not support the proposal, made in the Agenda for Change, to spend 20% of development aid on health and education in order to promote "inclusive and sustainable growth". Setting such arbitrary targets can reduce flexibility in responding to country driven priorities and nationally owned development strategies.[14]

12. *Differentiation.* We support the Commission's intention to reassess aid to middle income countries (MICs) (so-called "differentiation") and to focus its efforts on countries that need aid the most. However, with three caveats:

— Aid allocation decisions should not be based on per capita income alone. Now home to nearly one in five of the world's poor, fragile MICs are of critical importance to global poverty reduction. Many are also important for strategic geopolitical purposes.

— For those countries which will no longer receive EC aid, this must be phased out rather than cut suddenly.

— The EC must find ways of continuing to work with important emerging countries to address global public goods (GPGs), even when it no longer provides aid.[15] The Agenda for Change needs to shift from being purely an "aid strategy", to one which addresses GPGs challenges, which in many cases have a greater impact on development prospects than aid.

13. *Joint work.* The European Consensus on Development provides a framework within which EU countries can work together in delivering development cooperation. Operationally, a key milestone was the EU Code of Conduct on Complementarity and Division of Labour, approved in May 2007. This is intended to reduce overlap, cut transactions costs, and ensure more efficient aid. However, progress is slow—everybody wants to coordinate, but no one wants to be coordinated.[16] The Agenda for Change gives a new impetus to this with its proposals for joint programming. We welcome this move, but recognise its limitations, considering that it is a highly contentious issue with member states.

14. The Agenda for Change also calls on the EU to invest more in *sustainable agriculture and efficient renewable energy.* This echoes with emerging findings from the European Report on Development (ERD) 2011–12 on "Confronting scarcity: managing water, energy and land for inclusive and sustainable growth",[17] which ODI is leading for the European Commission and seven member states. The preparations for the ERD[18] suggest that the EU could use its comparative advantage to promote improved management for three resources that are crucial for development by: increasing investments in renewable energy partnerships to tackle scarcity of carbon space (bundling support in areas such as technology, blended loan and grant resources, and technical assistance for regulatory reform); using its own internal policies, trade and investment policies, development co-operation and its position globally to tackle pressures on land and water; and, promoting innovation in sustainable agriculture. Furthermore, in order to promote development and global food security, the EU should

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10 Tavakoli, H and Smith, G (2011) "Insights from recent evidence on some critical issues for Budget Support design", ODI Background Note, http://www.odi.org.uk/resources/details.asp?id=5445&title=budget-support-design-evidence-pfm-public-financial-management

11 The Vulnerability FLEX (V-FLEX) was an ad hoc and rapid, counter-cyclical financing instrument to mitigate the social consequences of the economic downturn in the worst hit countries. It was limited to the ACP region. The funding was sourced from the reserves of the national and regional indicative programmes under the 10th EDF. For more info see: http://www.odi.org.uk/resources/docs/5811.pdf

12 For the rationale for regional aid for trade, see: http://www.odi.org.uk/iedg/Projects/Aid4trade_files/nab12_regional_aid_for_trade_jan_07%5B1%5D.pdf

13 Cali, M, and te Velde, D W (2009) "Does Aid for Trade Really Improve Trade Performance?" World Development, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1430492

14 The 20% target first appeared in the DCI regulation in 2007, however, since then the target has never been met.

15 Koch, S Gavas, M and Furness, M (2011) "EU development policy: ambitious agenda for change or the same old story?", DIE Blog, http://www.die-gdi.de/CMS-Homepage/openwebcms3_e.nsf/%28ynDK_contentByKey%29/MRUR-8MXHBG

16 European Think Tanks Group (2010) "New Challenges, New Beginnings: Next Steps in European Development Cooperation", http://www.odi.org.uk/resources/docs/5811.pdf

17 More details on the ERD can be found at: http://www.odi.org.uk/work/projects/events.asp?id=2323&title=erd-20112012-european-report-development

18 Faure, R (2011) "Key elements emerging from the ERD panels at the EADI/DSA conference in York", ERD blog, http://www.erd-blog.eu/blog/key-elements-emerging-erd-panels-eadidsa-conference-york

implement meaningful reforms to the Common Agriculture Policy, in a bid to reduce damaging distortions[19] and redouble its efforts to invest in R&D in poorer countries.

15. A leading position for the EU in the above areas ahead of the Rio+20 conference in June 2012 is welcome. The EU can lead such negotiations and, when it does, the outcome can be a force for good. The Copenhagen climate change negotiations failed, with the EU[20] being on sidelines, whilst the Durban UNFCCC negotiations produced an outcome document pushed strongly by Europe.

16. In addition to the *Agenda for Change*, the EC published a new proposal on the use of *budget support*, in October 2011. We welcome the EC's commitment to maintain support for budget support.[21] There are four commendable features of the new approach:[22] (1) It reconfirms commitment to aid effectiveness principles; (2) It allows flexibility; (3) It strengthens the EC's risk management framework for budget support; and (4) it responds to growing concerns about establishing appropriate exit strategies. However, as mentioned, we are cautious regarding the use of conditionality, for the following reasons:[23]

- Unless such fundamental principles are prioritised by government and society, evidence suggests that their achievement through budget support is unlikely to be successful. A significant body of research shows that conditionality cannot buy reform.[24]
- Experience discussed at the ODI meeting series on budget support[25] suggests that as a modality it already serves many purposes and this overburdening has hindered its performance.
- If such an approach is implemented, a better understanding of the process of arriving at conditionalities is required to facilitate a process where recipient government and donor preferences are really aligned.

The Proposals for Future Funding of EC Development Cooperation

17. The next Multi-Annual Financial Framework (MFF) for the period 2014–20 offers opportunities to address challenges with the EU aid budget. The right priorities for EU external action need to be identified, and the instruments need to be designed accordingly.

18. The EU budget is divided into five "headings", EU development assistance comes from "Heading 4" "Europe as a Global Player". EU development assistance is resourced from both the EU budget—around 76%—and the European Development Fund (EDF)—around 24%. The management of the EDF and its resources are not the same as for the EU budget, where the European Parliament has a co-decision role together with the Council.

19. Figure 1 lists the financial instruments for EU external action for the current period (2007–13).[26]

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[19] Cantore, N, Page, S and te Velde, D W (2011) "Making the EU's Common Agricultural Policy coherent with development goals", ODI Briefing Paper,
http://www.odi.org.uk/resources/details.asp?id=5937&title=common-agricultural-policy-development-agriculture-eu

[20] Keane, J and DW te Velde (2011) "The new landscape of global economic governance. Strengthening the role of emerging economies", EDC 2020 working paper.
http://www.edc2020.eu/fileadmin/publications/EDC_2020_-_Working_Paper_no_13_-_The_New_Landscape_Of_Economic_Governance_-_Strengthening_the_Role_of_Emerging_Economies_v3.pdf

[21] Maxwell, S (2011) "Budget support is becoming an endangered species: what Busan must do to save it", EDCSP blog, http://internationaldevelopmenteu.files.wordpress.com/2011/08/edcsp-opinion-12.pdf

[22] Tavakoli, H (2011) "EU budget support: both a 'name changer' and a 'game changer'", ODI blog,
http://blogs.odi.org.uk/blogs/main/archive/2011/10/19/budget_support_european_commission_new_approach_heidi_tavakoli.aspx

[23] Tavakoli, H and Smith, G (2011) "Insights from recent evidence on some critical issues for Budget Support design",
http://www.odi.org.uk/resources/details.asp?id=5445&title=budget-support-design-evidence-pfm-public-financial-management

[24] Dollar *et al*, 1998; Killick *et al*, 1998; World Bank 1998; Caputo *et al*, 2011.

[25] ODI (2011) "Long-term research perspectives on budget support", ODI Workshop Series, http://www.odi.org.uk/events/details.asp?id=2647&title=budget-support

[26] Mikaela Gavas (2010) "Financing European development cooperation: the Financial Perspectives, 2014–2020", ODI Background Note, http://internationaldevelopmenteu.files.wordpress.com/2010/11/background-note-on-fp.pdf

Figure 1

THE FINANCIAL INSTRUMENT FOR EU EXTERNAL ACTION

BUDGET

Geographic

— Development Cooperation Instrument (DCI, £16.9 billion, 2007–13); Asia, Latin America, Central Asia, the Middle East and South Africa. This instrument also contains thematic programmes covering specific activities in all developing countries.

— European Neighbourhood and Partnership Instrument (ENPI, £11.2 bilion, 2007–13): European neighbourhood and Russian Federation.

— Instrument for Pre-Accession (IPA, $11.5 billion, 2007–13): EU accession countries.

— Instrument for Cooperation with Industrialised Countries (ICI, £172 million, 2007–13).

Thematic

— Common Foreign and Security Policy (CFSP, £2 billion, 2007–13).

— European Instrument for Democracy and Human rights (EIDHR, £1.1 billion, 2007–13): promoting democracy and human rights worldwide.

— Food Facility Instrument (FFI, £1 billion, 2009–11): enabling a response to problems caused by soaring food prices in developing countries.

— Humanitarian Aid Instrument (HAI, £5.6 billion, 2007–13): providing funding for emergency and humanitarian aid relief and food aid.

— Instrument for Nuclear Safety (INS, £524 million, 2007–13): ensuring nuclear safety.

— Instrument for Stability (IfS), £2.1 billion, 2007–13): tackling crises and instability in third countries and trans-border threats.

— Macro-Financial Assistance (MFA, £791 million, 2007–13): promoting macroeconomic stabilisation and structural reforms.

NON-EU BUDGET

— European Development Fund (EDf, £22.7 billion, 2008–13): Africa, Caribbean and Pacific and Overseas Countries and Territories.

Source: Gavas, M (2010)

20. In June 2011, the EC adopted a proposal for the next MFF[27]—"A Budget for Europe 2020".[28] The proposals would see a 25% increase for "Heading 4", in the next MFF taking the budget from €56 billion to €70 billion; and a 34% increase for the EDF, taking the budget from €22.7 billion to €34.3 billion.[29]

21. The proposal sets out the EC's objectives, focussing on value-added and results, with a concentration on:

— Poverty reduction, and assistance to following disasters.

— Stability and prosperity in the neighbourhood.

— Peace, security and crisis prevention and response, notably in most unstable countries.

— EU values (human rights and democracy, multilateral governance system).

22. The EC has also proposed:

— almost all expenditure under the DCI instrument be classified as ODA;

— geographic cooperation will focus on poverty reduction in all developing countries outside the Neighbourhood and the ACP (ie no more grant aid for wealthier developing countries);

— a thematic envelope for GPGs and challenges;

— an envelope for non state actors and local authorities;

— a pan-African financial mechanism; and

— that the EDF remain outside of the MFF.

[27] For more details see this presentation by the European Think-Tanks group (2011) "The Multi—Annual Financial Framework 2014—2020: Implications for Development Cooperation" http://internationaldevelopmenteu.files.wordpress.com/2011/12/european-think-tanks-group-presentation-29-nov111.pdf

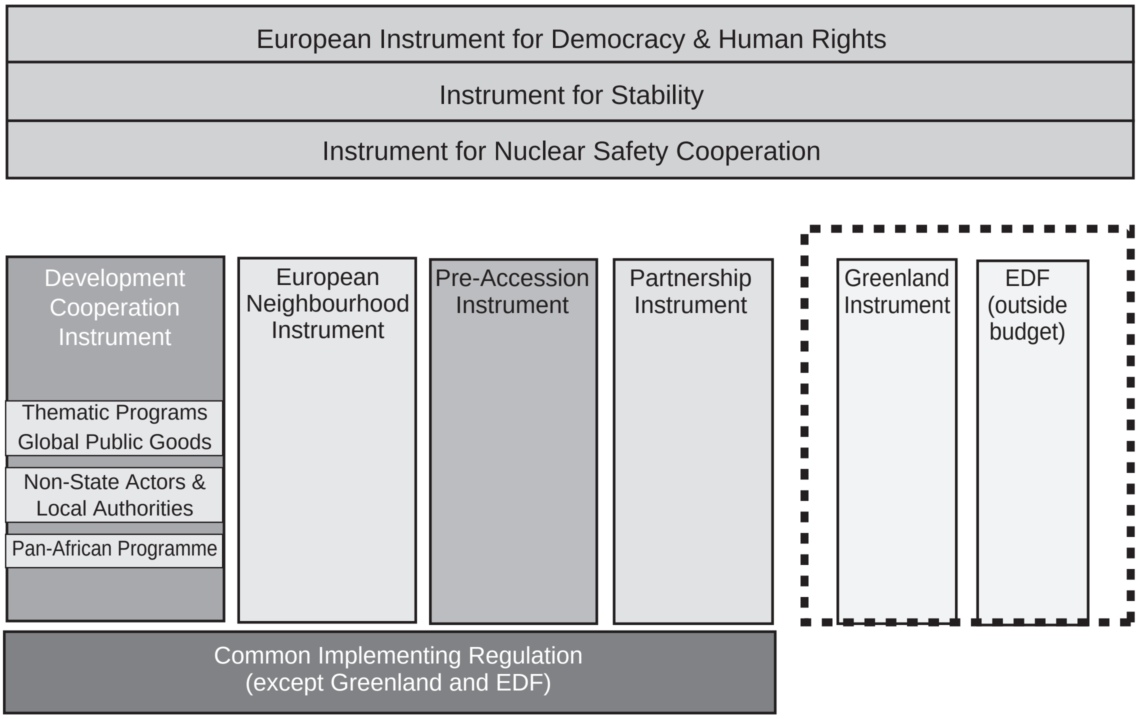
[28] European Commission (2011) "A Budget For Europe 2020—Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions", http://ec.europa.eu/budget/biblio/documents/fin_fwk1420/fin_fwk1420_en.cfm#doc1

[29] European Commission (2011) "Strengthening Europe's place in the world: An external budget for 2014–2020 to respect EU commitments and promote shared values", http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1510&format=HTML&aged=0&language=EN&guiLanguage=en

Figure 2

THE PROPOSED INSTRUMENTS FOR THE MFF, 2014–20

23.[30]



Source: European Commission (2011)[30]

24. With regards to financing, if EU member states meet the pledges they have made for 2015,[31] then aid will roughly double. Figure 3 shows the declining market share of EC aid over the next years, as member state aid increases. This is due to the lack of EU channels for increasing EC aid. Funding for the MFF (fixed for the period 2007–13) and the EDF (fixed for the period 2008–13) mean that the real share of the EC's contribution to the EU's collective ODA will decrease to less than 15%, if member states meet their ODA targets. For the next period, if the EC is to maintain its market share at around 20%, funding would need to double and continue increasing throughout the period of the MFF.[32] The bigger the EC's market share, the more influence it has, compared to other donors.

[30] European Commission (2011) "Multinannual Financial Framework 2014_2020: Heading IV—External relations "The EU as a global player", http://ec.europa.eu/commission_2–1—2024/piebalgs/multimedia/pdf/20111208_mff_extrel_techbical_briefing_en.pdf

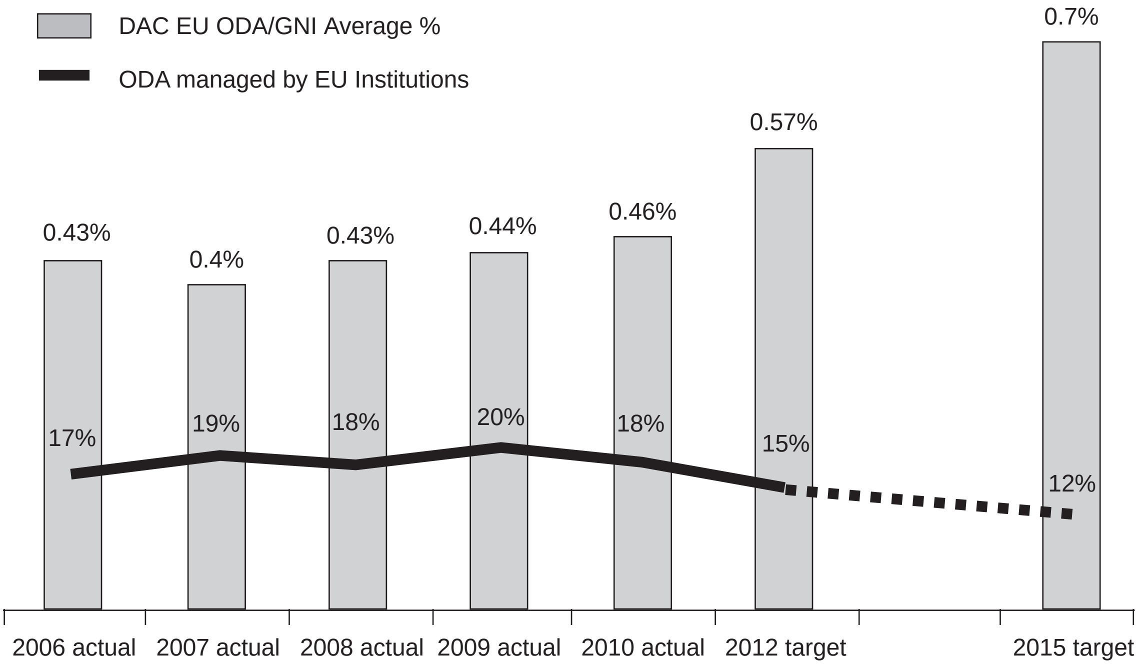
[31] 0.7% of GNI for the EU-15, 0.33% for the EU-12

[32] For detailed analysis of development funding in the next MFF, see: Gavas, M. (2010) "Financing European development cooperation: the Financial Perspectives, 2014–2020", ODI Background Note, http://internationaldevelopmenteu.files.wordpress.com/2010/11/background-note-on-fp.pdf

Figure 3

MARKET SHARE OF EC AID (ODA AS A PERCENTAGE OF TOTAL DAC EU GNI AND PERCENTAGE OF TOTAL DAC EU ODA MANAGED BY EC COMPARED)

25.



Source: Gavas, M (2011)

26. There are three key challenges that need to be addressed in the next MFF:[33]

27. *Rethinking priorities and assistance towards MICs*. The EC has proposed applying "differentiation" to countries covered by the DCI and ENI instruments. Under the DCI it is proposed that 17 Upper-MICs[34] and 2 large Lower-MICs whose GDP is larger than 1% of global GDP[35] graduate to new partnerships that are not based on bilateral aid.[36]

28. The EC has also proposed replacing the Industrialised Countries Instrument (ICI) with the Partnership Instrument (PI) to fund cooperation with MICs. However, the focus of PI seems to be on promoting EU economic interests and business opportunities abroad—not really on partnership and not on tackling the provision of GPGs where MICs are key.

29. Research by the European Think-Tanks Group (ETTG) recommends that the EU needs a more comprehensive strategy to protect GPGs.[37] The EC has proposed funding GPGs through a thematic envelope in the DCI, but the DCI does not allow for a more elaborate policy-mix, as ODA must account for 100% of the geographical programmes and 90% of the thematic programmes. This makes it difficult for the EC to fund economic activities and activities of mutual interest, especially in MICs. The ETTG report notes that the PI would have been the right instrument to fund GPGs had its focus been on tackling regional and global problems in partnership with emerging economies and MICs.[38] The EU's size, compared to member states, means it has a greater potential to play a leading role in promoting collective action on GPGs.[39]

30. *Dealing with climate finance.* The EC proposes three methods to address climate finance: mainstreaming climate policy; creating a thematic envelope in DCI for GPGs (with at least 25% for climate change and environmental objectives); or considering a special fund off-budget.

[33] Ibid. and European Think-Tanks Group (2011) "The EU's Multi-Annual Financial Framework post-2013: Options for EU development cooperation", http://www.odi.org.uk/resources/docs/7164.pdf

[34] Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay.

[35] India and Indonesia.

[36] European Commission (2011) "Strengthening Europe's place in the world: An external budget for 2014–2020 to respect EU commitments and promote shared values", http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1510&format=HTML&aged=0&language=EN&guiLanguage=en

[37] European Think-Tanks Group (2011) "The EU's Multi-Annual Financial Framework post-2013: Options for EU development cooperation", http://www.odi.org.uk/resources/docs/7164.pdf

[38] Ibid.

[39] Gavas, M (2009) "The Future of EU Development Cooperation", Report of an e-discussion by the EU Change-Makers Group, September 2009 to December 2009, http://www.odi.org.uk/resources/docs/5846.pdf

31. Mainstreaming will require considerable strengthening of key elements, particularly transparency, effectiveness and delivery. Mainstreaming needs to be made more explicit, with the establishment of clear criteria, targets, indicators and monitoring systems and concrete provisions to ring-fence dedicated funding that targets climate change mitigation and adaptation measures directly.

32. In addition to scaling up the support for climate change measures in the next MFF, existing spending in other areas needs to be scrutinised to ensure that it is not counter-productive to climate mitigation efforts.

33. *EDF budgetisation*. Changes brought about by the Lisbon Treaty mean that the EDF can be incorporated into the EU budget by a simple decision of the Council. For the first time, the EC has proposed keeping the EDF outside of the budget. The key reason is, given funding pressures, budgetisation would risk a decrease of funds for the ACP.

34. However, a number of member states would like to put EDF budgetisation back on the agenda. The EC has instead proposed that the EDF contribution key is aligned to the key used for the EU budget, and to increase European Parliamentary involvement in the EDF.

35. A move to budgetise the EDF in 2014, six years before the expiry of the Cotonou Agreement, could warrant a much higher political cost compared to budgetisation post-2020, particularly in the absence of an in-depth discussion on the future of EU-ACP relations. Therefore, we recommend that the EDF is kept outside of the budget.

Progress towards Policy Coherence for Development (PCD)

36. PCD has been strengthened by Article 208 of the Lisbon Treaty, which formalises the EU's commitment.

37. However, while recent policy discussions do recognise the need to improve the results-orientation of PCD, there is no clear 'baseline' for it, and it is difficult to measure.

38. The Lisbon Treaty provides a good framework for progress on PCD. The priorities identified are the right ones. Nonetheless, they are diverse, and are in the hands of different institutions, using multiple instruments. The challenge lies in the implementation of the Treaty, and in the means and tools that the EC uses to ensure progress on policy coherence. PCD can only really be fostered if all the actors concerned work together, both at technical and political levels.

39. Putting PCD into practice is a formidable task. The EU Council adopted a set of statements in 2009 that set out the future of the EU's efforts on PCD, with five broad priority areas: (a) trade and finance, (b) addressing climate change, (c) ensuring global food security, (d) migration, and (e) security. This list of issues is an ambitious one, and the inclusion of finance goes beyond the 2005 mandate of the Consensus. In 2010, the Commission presented the Policy Coherence for Development Work Programme 2010–2013, structured according to these five priority areas. Progress will be reported at the end of 2011 in the EU Report on Policy Coherence for Development. In 2010, a permanent position of European Parliament Standing Rapporteur on PCD was created—raising the profile of PCD issues in the European Parliament.

40. The objectives and scope of the 2010–13 PCD work programme go much further than the previous work plan, among other issues by stressing results-orientation, developing indicators to track progress and facilitating dialogue on PCD with developing countries.

41. There are three issues in particular which hamper progress on PCD in Europe:

— The *lack of results-orientation*: Although this might be perceived as a technical issue, it is essentially about clarifying and making explicit one's ambition for change. Existing experiences show how being more specific on the goals to be reached may render institutional coordination and joint action on PCD more effective.

— The *lack of solid research* on the impact on partner countries of EU policy incoherence.

— The *lack of a clear southern voice*: Even where an accountability mechanism exists such as Article 12 of the Cotonou Partnership Agreement, its use is so far only sporadic.

Conclusion

42. From a UK perspective, the EC offers many distinct comparative advantages as a channel for UK aid and as a means to securing UK development objectives. Economies of scale in funding instruments reduce administration costs and allow the UK to be involved in many more countries than its priority.[40] Key global challenges, such as food security, are more efficiently approached at a regional level, and the EU has revealed expertise in this area. Both DFID and the EC highlight private sector growth as key to future development assistance, but only the EU has the variety of instruments allowing for international political and economic partnerships, aid for trade expertise and the blending of grants and loans. Meanwhile, the EC's experience in regional integration and cooperation, and institutional capacity-building, offer the EC a political weight that the UK cannot match.

[40] For more details see this presentation by the European Think-Tanks group (2011) "The Multi—Annual Financial Framework 2014—2020: Implications for Development Cooperation" http://internationaldevelopmenteu.files.wordpress.com/2011/12/european-think-tanks-group-presentation-29-nov111.pdf

43. To maintain the EU's global presence and influence, the EC's market share of EU ODA will need to be protected, which necessitates an increase in funds allocated to "Heading 4" for the next MFF.

44. The Agenda for Change establishes a clear framework for the EC to concentrate its resources on fewer sectors and countries, thus enabling it to make better use of its comparative advantages. This focus should be protected, however the EC must address concerns over how to deal with MICs, GPGs and climate finance.

45. DFID's MAR notes that, "Within the Commission there is a strong track record of delivering change, and there is an EU-wide interest in further reform".[41] With rapidly changing contexts both at home and abroad, the EU, now more than ever, needs to be innovative and show leadership in building an EU development strategy fit to confront future global challenges.

Annex 1

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Annex 2

In DFID's Multilateral Aid Review (MAR) in 2011, aid channelled through the EU budget was rated "weak" in its contribution to UK development objectives, "satisfactory" in its organisational strengths and "likely" in regards to its capacity for positive change.[42] Meanwhile, the European Development Fund was rated "strong" in its contribution to UK development objectives, "strong" in its organisational strengths and "likely" in regards to its capacity for positive change.[43]

The MAR notes specifically, on:

— *Results*: The EU budget suffers from weaknesses in its results reporting. The EDF fared reasonably well against the criteria.

— *Innovation*: The EC is seen as innovating for results with the MDG contracts. The MDG contracts offer long-term, predictable budget support with a variable performance tranche to low income countries, mainly in sub-Saharan Africa. The aim is to accelerate real improvements in reaching the MDGs by 2015. The MDG Contracts clearly link EDF funding to results.

— *Financial Resource Management*: Financial resource management is satisfactory in the EDF, but weak in the EU budget instruments. Both have strong financial accountability processes, and clear and transparent resource allocation procedures based on need and performance, although the EU budget instruments' regional envelopes are broadly influenced by political considerations. Long programming cycles offer high predictability and there is a full range of instruments on offer. Funds are generally released on schedule, and this continues to improve. But there is limited flexibility to re-programme funds away from poorly performing projects, or to respond rapidly to changing needs, and continued complaints of cumbersome procedures.

— *Administrative Costs*: The EC has moderate to low administrative costs in delivering development assistance and good internal systems to ensure economy in project and programme implementation. However, some of these systems, such as the strict procurement rules designed to finance only the most cost-efficient tenders, may be delivering economy but slowing down implementation. The Commission is starting to develop a broader vision of value for money, including through assessing the potential efficiency savings that could be generated by implementing a Europe-wide aid effectiveness agenda, and its size and attention to harmonisation and alignment helps to reduce transaction costs for developing country partners.

— *Aid Effectiveness*: The EC performed particularly well on partnership behaviour. It is strongly committed to the Paris agenda. It has a good record of aligning with country priorities and systems to reinforce the country led approach. It shows good leadership on donor co-ordination. Its budget support is not tied to policy conditionalities, and it can engage in joint co-financing arrangements with other donors. The EDF also benefits from a legal framework that includes joint (with developing countries) parliamentary oversight structures, joint Ministerial meetings, and joint reporting.

January 2012

[42] DFID (2011) "Multilateral Aid Review: Assessment of European Commission Budget", http://www.dfid.gov.uk/Documents/publications1/mar/ecbudg.pdf

[43] DFID (2011) "Multilateral Aid Review: Assessment of the European Development Fund (EDF)" http://www.dfid.gov.uk/Documents/publications1/mar/edf.pdf

Further written evidence submitted by ODI

I hope the evidence session on Tuesday was useful for you. I wanted to follow up on the question of administration costs.

Admin costs in development agencies can vary according to a number of factors including—the number of countries with programmes, legal requirements in both donor and recipient countries, the local environment (i.e. working in fragile states), etc. There is no perfect ratio of admin costs to ODA.

Therefore, I would urge caution in comparing DFID's admin costs with the EC's (EU budget and EDF).

The EC, for example, is present in many more countries in the world than DFID (EC is present in 143 countries, DFID is present in 28 countries). Also, DFID spends 37% of its ODA budget through multilateral organisations, contrasting with only 2% spent by the EU institutions (this is a comparison of core funding). If we also include non-core multilateral funding, these figures are higher at 50% and 14% respectively (see p.106, http://www.oecd.org/dataoecd/23/17/45828572.pdf). The costs of administering multilateral funds, particularly core multilateral funds, are minimal. So, by channeling 35% more of its ODA through multilateral institutions, I expect that DFID reduces its administration costs significantly.

Finally, it is by no means conclusive that the EU has high administration costs on its development funds. In fact, the 2010 QuODA report, by Center for Global Development and Brookings, actually rates the European Commission's (EC*) development programme to have lower "administrative unit costs" than the UK (See p.78 for the data, p.46 notes that the EC has the smallest share of admin costs among the multilaterals at 7%, http://www.cgdev.org/content/publications/detail/1424481). *Note that in the QuODA report, the term EC appears to include both the European Commission and the EDF.

April 2012

Written evidence submitted by the Department for International Development (DFID)

Introduction

1. This memorandum focuses on the comparative advantage of the European Commission's (EC) development assistance in response to the International Development Committee (IDC) inquiry. Specifically it outlines:

- The analysis contained in DFID's Multilateral Aid Review (MAR).
- The coalition's reform agenda for the Commission's development spending.
- The proposals set out in the recent Communications on EU Development Policy: *An Agenda for Change* and the Future of EU Budget Support.
- The proposals for future funding of EC development cooperation.

2. The UK channels a proportion of its aid through the EU each year, the majority of which goes through the European Commission's (EC) budget as part of the UK's treaty obligations. A further voluntary contribution goes through the European Development Fund (EDF). Based on the 2010 report on the 'EU Contribution to the Millennium Development Goals (MDGs)', UK aid through the EU has contributed to helping 24 million people living in extreme poverty benefit from seeds and tools, direct cash transfers and food. In addition, more than 31 million people gained access to improved drinking water sources and 9.3 million connections were made to sanitation facilities.[44] DFID is accountable to the public and to Parliament for ensuring these funds are spent effectively and deliver maximum value for money for British taxpayers. This has been a particular priority, as the committee will know, of the Coalition Government.

Multilateral Aid Review

3. The Multilateral Aid Review (MAR) assessed the value for money for the UK of 43 multilateral institutions, including the EU. All organisations were assessed against the same set of criteria, interpreted flexibly to fit with their different circumstances, but always grounded in the best available evidence. The methodology was independently validated and quality assured by two of the UK's leading development experts: Dr Alison Evans, Director of the Overseas Development Institute, and Professor Lawrence Haddad, Director of the Institute of Development Studies and President of the UK and Ireland's Development Studies Association.

4. The sources of evidence that were used for the MAR included the organisations' own results reporting, strategy documents and evidence submitted to the Review; surveys and other assessments; evidence submitted by UK civil society; DFID visits to 10 countries; discussions with developing country governments; evaluations and also stakeholder views.

5. The MAR separately rated the European Development Fund (EDF), the European Commission's budget instruments and the EU Humanitarian Aid agency, ECHO.

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[44] Further information on the Commission's report on their contribution to the MDGs, can be found in the annex.

Humanitarian Emergency Response Review

6. The Humanitarian Emergency Response Review (HERR) was launched in March 2011 and was an independent review commissioned by the Secretary of State for International Development into how the UK responds to Humanitarian Emergencies. The Review was forward looking, so rather than evaluating the UK's work in emergencies to date, the review noted where past response was most effective and looked for ways to enhance what has been done well. Its role was to ensure that UK aid delivers maximum benefit to those affected by emergencies whilst attaining value for money for the UK taxpayer. The review looked at the way the UK can work with other international bodies—one of which was the EU's humanitarian agency, ECHO (also rated by the MAR).

The European Development Fund (EDF)

7. The MAR rated the EDF, which covers African, Caribbean and Pacific (ACP) countries, as a good performer—both in terms of its contribution to UK development objectives and its organisational strengths. The EDF's activities and mission fit closely with the UK's objectives and structural reform pillars. The strong poverty focus of the EDF, with 85% of funds spent in low income countries (LICs); make it critical for poverty reduction and, in turn, the achievement of the Millenium Development Goals (MDGs). Similarly, the size (€3.6 billion per annum) and scale of the EDF enables it to provide regional funding; further joining up countries across Africa. Furthermore, the EDF provides a high level of results-based aid, with funds allocated according to needs and performance.

8. In terms of its organisational strengths, the MAR outlined that the EDF is built on a unique partnership model that is highly appreciated in country. It has strong monitoring and finanical management systems, with moderate administration costs. Additionally, the MAR assessed how the EDF ensures predictable funding, allocated according to needs and performance. It was rated highly in terms of transparency and accountability; with funds generally released on schedule.

9. However, despite a number of strengths, the EDF still has clear areas to improve upon. In particular, the MAR stated that the EDF rules can be inflexible and cumbersome, which can hamper its focus on results. In addition, its strategy on gender, although adequate on policy, is weak on implementation. The EDF is also less able to demonstrate value for money on non-budget support assistance.

EU Budget Programmes

10. The MAR rated the Commission's budget instruments as satisfactory. In terms of strengths it identified: strong monitoring and financial management systems, strong transparency and accountability practice; moderate administrative costs; clear country ownership and predictability of funding which is released on schedule; and effective, fast-responding humanitarian aid. The EC also has good partnership behaviour—although this does vary according to region.

11. The sheer size (€7 billion per annum) and regional coverage of the EC make it an important development player. It has high complementarity with UK bilateral aid as the instruments fund some 90 country programmes, many of which are UK priorities but do not receive UK aid. Moreover, the EC has a strong mandate and policy framework for dealing with fragile and conflict sensitive situations, and increasing work on climate change—both reflecting UK priorities.

12. However, the MAR noted that the Commission's budget instruments were too concentrated in Middle Income Countries (MICs) (much more so than the EDF), with a limited focus on the poorest countries. Similarly, there is limited evidence of how spend in neighbourhood and enlargement countries contributes to the MDGs. Proof of delivery was found to be variable, with better results achieved closer to the EU. The EC's rules can be inflexible and cumbersome, which can hinder innovation and limit its results-focus. Like the EDF, evidence showed that whilst the budget instruments are adequate on gender policy, they are weak on implementation.

13. In terms of organisational strengths, the MAR found that the Commission is less flexible in budget allocations than the EDF and regional spending was often based on political decisions. The EC is also less able to demonstrate overall value for money and lacks a comprehensive results framework.

ECHO

14. The EU's humanitarian agency, ECHO, is the second largest global humanitarian donor, disbursing around €1.1 billion per year—of which approximately €165 million is attributed to the UK. ECHO performed strongly in the MAR. It was assessed to fit closely with the UK's objectives—including its needs-based approach to humanitarian aid.

15. Nevertheless, both the HERR and MAR identified the need for ECHO to focus more on gender considerations, attention to the environmental impact of aid and the implications of climate change for humanitarian agents.

Independent Sources of Evidence

16. Since the MAR was completed in March 2011, other independent sources of evidence have assessed EC aid. For example, the Quality of Official Development Assistance (QuODA) assessment reviewed the quality of aid by benchmarking countries and agencies against each other in each year.[45] The study compares the quality of official development assistance on the basis of four dimensions including: maximising efficiency, fostering institutions, reducing burden and transparency and learning. The EC performed well in the assessment—on a par with the International Development Association (IDA) at the World Bank—and showed improvement across all dimensions apart from reducing burden.[46]

17. The independent Phase II Evaluation and the Monitoring Survey of the Paris Declaration provides evidence of performance against the Paris and Accra aid effectiveness commitments. The evidence concluded that the performance of the Commission, and 14 Member States which participated in the Monitoring Survey, is better than global performance overall. However, their performance was less successful in predictability, use of programme-based approaches and joint missions.

Reform Priorities

18. The UK's development reforms for the EU, since the publication of the MAR, has focused on the overarching priority of achieving a much stronger emphasis on results, evaluation and transparency in aid delivered through the EU, and delivering greater value for UK taxpayers' money. The MAR set a clear reform agenda for the Commission's aid instruments, including refocusing them on outcomes rather than inputs, strengthening results monitoring and evaluation and further improving transparency.

19. The UK identified specific areas where the EC can demonstrate clearer results, transparency and value for money from its development programmes. These include:

- Establishing a results-based approach to aid; with a *results framework,* aggregated results and a clear baseline.
- *Learning from other multilaterals* which are ahead of the game in designing results frameworks (eg the Asian Development Bank).
- Ensuring resource allocation is according to needs and performance.
- Agreeing more *flexible procedures*; enabling rapid response, innovation and re-direction of non-performing funds.
- More *decentralised, country-led financial decision-making.*
- Procurement rules that offer better *value for money.*

20. Since these were set, a number of actions have been agreed with the Commission to improve the EU's approach, including the establishment of an EU Results Working Group and working towards an aggregated results framework. The EU has also signed up to the International Aid Transparency Initiative (IATI) and is already publishing key data about its aid programmes.

21. Ensuring coherence across the EU's external policies is also fundamental to improving the effectiveness of EU development efforts. The UK, through DFID, is working with the Commission, the European External Action Service (EEAS)[47] and other Member States to improve the coordination of EU external actions and ensure a joined up approach between the EU's approach to development and its policies on trade, climate change, security and agriculture. Improving policy coherence is essential to delivering effective aid and we will continue pressing the EEAS and EC to demonstrate increased value for money and better coordinated policies.

The EU Development Policy Communication: An Agenda for Change

22. The Commission's *Agenda for Change* Communication followed a green consultation process which the UK provided significant input to, after consultation with the Parliamentary EU Scrutiny Committees. As a result of significant UK lobbying, the Communication includes a large number of UK priorities including a strong focus on demonstrating the impact and results achieved by EU development aid and ensuring strong engagement with the private sector as a driver of growth.

23. We welcome the intention in the Commission's *Agenda for Change* Communication to re-focus the shape of EU development policy, targeting poverty reduction and the MDGs more effectively. The proposed changes include:

- Greater focus on demonstrating the *results* and impact of EU aid and more emphasis on *monitoring and evaluation.*
- "Differentiated" aid allocations, with grant *aid more focused on the poorest* countries and more "blending" of loans and grants in MICs.

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[45] http://www.cgdev.org/content/publications/detail/1424481/

[46] NB: the EDF was included in its assessment of the EC, rather than a separate multilateral.

[47] The EEAS was formally launched on 1 December 2010 and serves as a foreign ministry and diplomatic corps for the EU, implementing the "Common Foreign and Security Policy" and other areas of EU external representation.

- — More flexible, country-led, EU support for *fragile states*, focused on resilience and responding to shocks.
- — Stronger focus on *growth, regional integration*, developing local *private sectors and job creation*.
- — Greater attention to *corruption, human rights*, democracy and the rule of law in partner countries.
- — A renewed commitment to social sectors and implementation of the EU *Gender* Action Plan.

24. The Government has ensured that the Communication does not represent any further decision making powers granted to the EU. We will now continue to engage with the Commission to ensure that the new emphasis on results, transparency and value for money leads to more effective EC aid and better outcomes for developing countries.

The Future of EU Budget Support Communication

25. The Commission's Budget Support Communication outlines the EC's proposed future approach to the provision of general and sectoral budget support. It focuses on improving and refining EC budget support mechanisms, based upon a consultation process launched in November 2010, which the UK and others contributed to.

26. Following UK engagement with the Commission, the Communication has a strong focus on clearly demonstrating the results and value for money of future EU budget support programmes, while also more rigorously monitoring and managing risks should recipient countries not make progress with agreed reforms or breach underlying principles. The Communication also:

- — Provides *greater transparency* about budget support allocation decisions.
- — Emphasises the need for a *stronger focus on results and value for money*—through a strengthened assessment of progress and monitoring of outcomes.
- — *Aims to strengthen domestic accountability* in partner countries—with the new focus on budget transparency as an eligibility criteria.
- — Raises *political governance issues* through its dialogue on budget support with partner governments—with the clear focus on commitment to fundamental values of human rights, democracy and the rule of law.

27. Whilst we support joint dialogue on political and other conditions for budget support, we will ensure that the UK and other EU Member States retain ministerial authority over our respective bilateral budget support operations. The Commission's proposals on management of their own budget support programmes, and any coordination at headquarters or country level with EU member states' own programmes, will and should not involve any transfer of powers, authority and responsibilities to Brussels.

EU Coordination and Collaboration

28. The UK welcomes country-led aid effectiveness based on the Paris Declaration and Accra Agenda for Action. This was boosted during the recent High Level Forum IV on Aid Effectiveness in Busan which both the UK and the Commission have signed up to. Participants agreed that by June 2012 a new, inclusive and representative Global Partnership for Effective Development Co-operation will be established to provide a forum for sharing knowledge and regularly reviewing progress against indicators and targets.

29. The UK strongly believes any incentives for improved EU coordination, including joint programming approaches, need to come out of country led processes, ongoing partnership discussions and be owned by the partner country. Joined up working within the EU must therefore be pragmatic, flexible, open to other donors, reduce transaction costs and adapted to the realities on the ground. Our work together as EU donors should recognise this and we should steer clear of any EU-led mandatory process and resist plans to regulate or impose a single approach to joint programming. Such approaches tend to undermine work already underway in partner countries and reduce national ownership. We will insist on these red lines at every opportunity.

Future Funding of EC Development Cooperation

30. The EC's development cooperation budget falls under the heading—EU's "External Actions" (Heading 4), also known as "the EU as a Global Player" in the longer term EU budget—and under the European Development Fund (EDF). The EDF, which covers EU assistance to African, Caribbean and Pacific (ACP) States and Overseas Countries and Territories, has traditionally been a Member States voluntary fund outside the budget, and under the Commission's proposals for the next Multi-Annual Financial Framework (MFF), this is not set to change.

31. Negotiations on the size and content of the next Multi-Annual Financial Framework and EDF, 2014–20, are now underway following the launch of the Commission's Proposal in June; regulations on the various budget instruments for Heading 4 were published in December. The Commission's Proposal identified commitments overall of €1,025 billion, compared to a €930 billion budget ceiling in the current MFF

(2007–13). €70 billion is allotted for external actions in the next MFF, compared to the current €55.9 billion Heading 4 budget ceiling. In addition, €30 billion is proposed for the next EDF over the same seven year period. This compares with the current six year (2008–13) EDF budget ceiling of €22.68 billion.

32. The UK considers that Heading 4 and the EDF are priority areas and, while the UK's overall objective is to restrain budget size and that no single Heading should increase beyond real growth, we consider that these areas should have a proportionately larger share of a budget that, at most, increases by no more than inflation. The UK will therefore be pushing to protect the relative level of EU Official Development Assistance (ODA) within a reduced post-2013 EU budget. In addition, we will push to continue to improve the effectiveness of development spending under the different instruments. The fundamental principles of the Cotonou Agreement, which governs the EDF, must be upheld.

33. We welcome the proposals for better differentiation between poor and better off countries, the intention to focus more on EU value added, and concentrate on results and increased efficiency.

January 2012

Further written evidence submitted by DIFD

UK Aid and the EU, 2010

1. How much UK aid was channelled through:

(a) *Commission Budget instruments in 2010?*

£820 million.

(b) *EDF in 2010?*

£409 million

(c) *How much of DFID's budget was channelled through the EU in 2010?*

Approximately 16%.

2. Breakdown of how much UK aid went to each Budget Instrument and the EDF in 2010*:*

EU Aid Instrument (100% attributed to DFID unless otherwise stated)	*Total value in millions of Euros*	*UK Share in millions of Euros*	*DFID's share in millions of Euros*	***DFID Share in Sterling***
ENPI (Neighbourhood funding—95% ODA)	1,408	215.42	204.65	175.49
EDF (ACP funding—nearly 100% ODA)	3,135	479.66	479.66	409
DCI (Geographic aid—100% ODA)	1,108	169.52	169.52	145.36
DCI (Thematic aid—nearly 100%)	839	128.37	119.38	102.37
Food Facility (Nutrition funding—100% ODA)	362	55.39	55.39	47.49
EIDHR (Human Rights—100% ODA)	154	23.56	23.56	20.20
IFS (Instrument for Stability—30% ODA)	127	19.43	13.60	11.66
NSI (Nuclear Safety Instrument—0% ODA)	62	9.49	0	0
CFSP (Common Foreign and Security Policy—0% ODA)	204	31.21	0	0
IPA (Instrument for Pre-accession—90% ODA)	943	144.28	144.28	123.72
ECHO (Humanitarian—100% ODA)	948	145.04	145.04	124.37
OTHER	551	84.30	80.09	68.67
TOTAL	**9,841**	**1,505.67**	**1,435.17**	**1,230.64**

3. Under EDF 10 roughly 44% of allocated resources are programmed as budget support

4. List of non-ACP countries that receive EU Official Development Assistance

Afghanistan
Albania
Algeria
Anguilla
Argentina
Armenia
Azerbaijan

Bangladesh
Belarus
Bhutan
Bolivia
Bosnia and Herzegovina
Brazil
Cambodia
Chile
China
Colombia
Costa Rica
Ecuador
Egypt
El Salvador
The former Yugoslav Republic of Macedonia (fYRoM)
Georgia
Guatemala
Honduras
India
Indonesia
Iran
Iraq
Jordan
Kazakhstan
Korea, Dem.
Kosovo
Kyrgyz Rep.
Laos
Lebanon
Libya
Malaysia
Maldives
Mayotte
Mexico
Mongolia
Montenegro
Montserrat
Morocco
Myanmar (Burma)
Nepal
Nicaragua
Occupied Palestinian territory
Oman
Pakistan
Panama
Paraguay
Peru
Philippines
Republic of Moldova
Serbia
South Africa
Sri Lanka
St. Helena
Syria
Tajikistan
Thailand
Tokelau
Tunisia
Turkey
Turkmenistan
Ukraine
Uruguay
Uzbekistan
Venezuela
Viet Nam

Wallis & Futuna
Yemen

March 2012

Further written evidence submitted by DFID

EU CONTRIBUTION TO THE MILLENNIUM DEVELOPMENT GOALS
Some key results from European Commission programmes—2010[1]

MDG 1: Eradicate Poverty and Hunger	24 million people assisted through food security related social transfers
	Vocational training has been given to 4.8 million people
MDG 2: Achieve Universal Primary Education	9 million new pupils enrolled in primary education
	720,000 primary school teachers have been trained
MDG 3: Promote Gender Equality and Empower Women	More than 85,000 new female students enrolled in secondary education
MDG 4: Reduce Child Mortality	5.5 million children under one year of age immunised against measles
	Almost 5000 health centres and facilities built or renewed
MDG 5: Improve Maternal Health	10.8 million consultations on reproductive health
	4 million births attended by skilled health personnel
MDG 6: Combat HIV/AIDS, Malaria and other diseases	750,000 people with advanced HIV infection have received antiretroviral combination therapy
	7.7 million people given insecticide-treated nets
MDG 7: Ensure Environmental Sustainability	More than 31 million people connected to improved drinking water
	9.3 million connections to sanitation facilities
MDG 8: Develop a Global Partnership for Development	58 election observation missions deployed
	Up to 12,000 peacekeepers deployed per year in African-led peace operations

[1] The full report can be found at: http://ec.europa.eu/europeaid/what/millenium-development-goals/index_en.htm

March 2012

Further written evidence submitted by DFID

ADMINISTRATIVE COSTS OF THE EUROPEAN COMMISSION (EXTERNAL AID), COMPARED TO ADMINISTRATIVE COSTS OF DFID AND THE WORLD BANK

Administrative cost overview

1. The IDC has requested DFID to investigate the main items included in administrative costs of four organisations: DFID itself; the European Commission; the European Development Fund (EDF); and the World Bank. As the EDF is not a separate organisation from the European Commission, and its costs remain administered by the Commission, its costs are given by the Commission's administrative costs for External Aid. Therefore the administrative costs of the European Commission, DFID and the World Bank are presented.

2. The presentation of administrative costs is *not standardised across institutions* and the level of detail varies significantly between them. It is therefore not possible to ensure that the items under "administrative costs" are the same for each organisation.

3. The data on administrative costs and disbursements have been drawn from publicly available sources. The administrative cost to total disbursement ratios have been constructed here for ease of reference and are not official data.

4. The assessment of the administrative costs of each organisation is shown below for reporting years 2008–09 to 2010–11.

The European Commission

5. The table below shows administrative costs as a percentage of total EC external aid disbursements for the past three reporting years.

	Administrative costs as a % of total external aid commitments/disbursements
2008	5.9 (commitments)[48]
2009	5.3 (disbursements)
2010	5.4 (disbursements)

6. These figures have been calculated from data published in the EC's Annual Reports of 2009, 2010 and 2011, Tables 6.16 (2009), 6.18 (2010) and 5.19 (2011) on Sectoral Breakdown per Instrument.

Department for International Development

7. The table below shows administrative costs as a percentage of total DFID expenditure on development for the past three reporting years.

	Administrative costs as a % of total development expenditure
2008–09	4.2
2009–10	3.5
2010–11	2.7

Source: *DFID Resource Accounts*[49]

8. These figures were calculated using data on DFID administration and total programme expenditure on a resources basis.

The World Bank

9. The World Bank's administrative costs have been presented as a percentage of their total gross disbursements in the table below.[50]

10. The World Bank is comprised of two separate institutions; the International Bank for Reconstruction and Development (IBRD), which operates as a development bank for more credit-worthy low and middle income countries and the International Development Association (IDA) responsible for grant and concessionary lending to primarily to low income countries.

11. Understanding what drives changes in administrative cost measures is very important. The table shows that 2009 marked a significant drop in the administrative costs to disbursements ratio for IBRD, and it is known from other sources that this drop was replicated in other development banks such as the Asian Development

[48] For 2008 only, this percentage is available only for Commitments, and not Disbursements, and so is not strictly comparable to the figures for 2009 and 2010.

[49] Available here: http://www.dfid.gov.uk/About-us/How-we-measure-progress/Resource-accounts/
http://www.dfid.gov.uk/About-us/How-we-measure-progress/Annual-report/

[50] Data taken from the World Bank Annual Reports and Financial Statements.

Bank and the African Development Bank. However, in each case, the primary driving factor was a substantial increase in disbursements, rather than a significant decrease in absolute administrative costs (ie, a much larger denominator, leading to a lower ratio). As a result of the financial crisis that emerged in 2008, many of the banks scaled up their lending activities to support middle and low income countries.

12. Taking as an example the case of IBRD, in 2009, disbursements increased by over 50%, with administrative costs growing by only around 15% over the same period, leading to a fall in the ratio. The improvement in the ratio was made possible by IBRD's ability to raise and disburse more funds, not by a decrease in its absolute administrative costs.

13. When considering the World Bank and the EC, it is perhaps more representative to look at the administrative costs of IDA. IDA's terms and operations are closer to the EC's external aid activities than the IBRD's are, particularly in the "fixed" nature of the budget—meaning that the administrative cost to lending ratio cannot be improved in the short term by a significant increase in disbursements.

14. The table below shows administrative costs as a percentage of World Bank gross disbursements for the past three reporting years.

	Administrative costs as a % of total gross disbursements—IBRD	***Administrative costs as a % of total gross disbursements—IDA***
2008	10.3	**9.7**
2009	6.7	**10.6**
2010	4.9	**10.0**

March 2012

Written evidence submitted by Open Europe

1. The UK spent £7,767 million on external aid in 2009–10, £1,424 million of which via the European Union. The EU is by far the biggest recipient of UK multilateral aid spending, receiving over half of the UK's multilateral aid budget in 2009–10 and 18% of the UK's total aid spending.[51] The Government has taken steps to achieve greater value for money from its aid and has stated that its "plans to redraw the aid map will concentrate efforts on countries where UK aid will, pound for pound, achieve the best results in fighting poverty and building a safer world, and where Britain is in the best position to deliver results".[52] Part of this "redrawing of the map" should include an evaluation of UK aid that is spent via the EU.

2. In 2010, the EU institutions disbursed €9.7bn in Official Development Assistance (ODA) on behalf of member state governments.[53] The question is whether it makes sense for member states to provide so much of their aid via the EU institutions and whether it is spent effectively?

3. Since 2000, in response to criticism about the effectiveness of EU aid, the European Commission has embarked on a series of reforms.[54] However, despite these reforms it remains unclear whether the Commission's role is to act as an all-encompassing aid donor or as a niche player complementary to the member states' existing aid programmes. While the EU could fulfil a valuable coordinating role, it makes no sense for the EU to be a "28th donor" with a large bureaucracy in parallel with the member states.

4. Despite the Lisbon Treaty stating that the EU's development policy "shall have as its primary objective the reduction and, in the long term, the eradication of poverty," not enough EU aid reaches the world's poorest countries. Geopolitical considerations (immigration from and political stability in neighbouring countries) and old colonial ties still dictate where much of the EU's money is spent. In 2009, the latest figures available,[55] only 46% of EU aid reached low income countries, compared with 74% of UK aid, 58% of EU member state governments' aid and 56% of United States aid.

[51] *DFID*, "Statistics on international development 2005–06 to 2009–10", 2010, p 19; http://www.dfid.gov.uk/Documents/publications1/sid2010/SID-2010.pdf; This is the UK's Gross Public Expenditure on aid, which includes DFID's aid budget and all other sources of UK aid.

[52] *DFID* press release, "Mitchell redraws aid map to transform lives of millions", 1 Mar 2011 http://www.dfid.gov.uk/Media-Room/Press-releases/2011/Mitchell-redraws-aid-map-to-transform-lives-of-millions/

[53] OECD figures show that the EU institutions disbursed $13.5 billion in ODA in 2010 (2009 prices and exchange rate); http://www.oecd.org/dataoecd/54/41/47515917.pdf. Using the ECB's 2009 $–€ exchange rate of 0.716949 this gives EU institutions a figure of €9.7 billion disbursed ODA. Disbursements are less than commitments, which in 2009 totalled €12.3 billion.

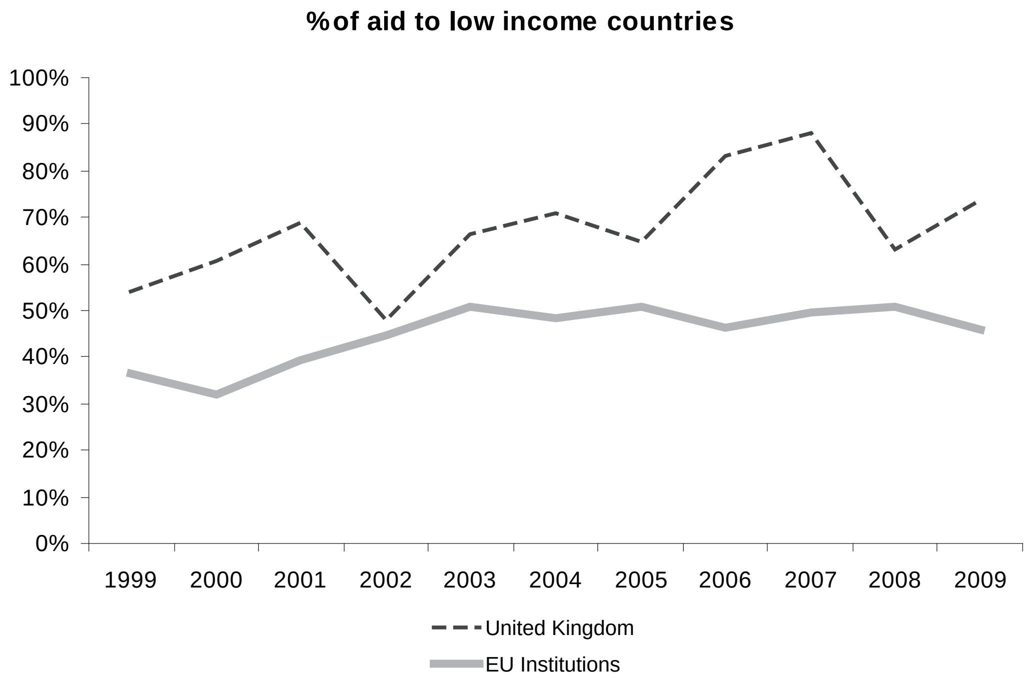
[54] See *Open Europe*, "EU aid: is it effective", 2007 for a more in depth discussion about the history of EU aid; http://www.openeurope.org.uk/research/euaid.doc

[55] At the time of publication the OECD had released its figures for overall aid spending for 2010 but not a breakdown of where funds had been spent so we have used the 2009 figures.

% OF AID TO LOW INCOME COUNTRIES

Year	*UK*	*EU member states (DAC members[56])*	*EU institutions*
2009	74%	58%	46%

OECD DAC database, % of allocable net ODA disbursement to least developed and low income countries; http://stats.oecd.org/index.aspx



OECD DAC database, % of allocable net ODA disbursement to least developed and low income countries; http://stats.oecd.org/index.aspx

5**.** In 2009, the entire EU external aid budget was €12,298 million, €11,764 million of which was counted as ODA.[57] Under the broad definition of ODA, aid to Turkey, for example, through the EU's pre-accession funds is counted in the same way as EU development spending in sub-Saharan Africa.[58] Turkey, which is an upper middle income country, tops the list of recipients of EU aid, receiving €571 million in 2009.

6. There is a legitimate discussion to be had about whether the Commission is simply funding countries that the member states would be helping anyway—what officials describe as the "division of labour". But the UK's Development Minister Andrew Mitchell has called on the EU's aid to be far more "targeted at the poorest people",[59] while the Netherlands' Europe Minister Ben Knapen has suggested, "We need to help our neighbours, that is in our interest. But such assistance must be reconsidered, especially when it comes to the significant assistance to candidate countries such as Turkey."[60]

7. The majority of EU development aid is spent as a portion of the EU's central budget, to which all member states contribute. The rest is spent via the European Development Fund (EDF), to which member states contribute voluntarily.[61] This aid is managed by various departments within the European Commission, the EU's newly formed External Action Service and EU delegations in third countries.

[56] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK are members of the OECD's Development Assistance Committee.

[57] Figures differ to those above because of distinction between "commitments" and "payments"

[58] *European Commission*, "Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009", 2010, Tables 6.3, 6.4 and 6.5, p170–1; http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf

[59] *Telegraph*, "EU wastes billions in aid'', 18 April 2011; http://www.telegraph.co.uk/news/worldnews/europe/eu/8457729/EU-wastes-billions-in-aid.html

[60] *Foreign Ministry of the Netherlands*, "Nederland wil opheldering over foute EU hulpprojecten", 19 April 2011; http://www.rijksoverheid.nl/ministeries/bz/nieuws/2011/04/19/nederland-wil-opheldering-over-foute-eu-hulpprojecten.html

[61] *DFID*, "Multilateral aid review: assessment of European Commission budget", 2011; http://www.dfid.gov.uk/Documents/publications1/mar/ecbudg.pdf; and *DfID*, "Multilateral aid review: assessment of the European Development Fund", 2011; http://www.dfid.gov.uk/Documents/publications1/mar/edf.pdf

8. In its 2011 multilateral aid review, DFID noted that, while the EDF (€3.6 billion a year) has a strong poverty focus (85% of funds are spent in low income countries), more than 85% of the EU's other development aid programmes' budget (€7 billion a year) is spent in middle income countries. The EDF is rated "strong" on both its contribution to the "UK's development objectives" and on its "organisational strengths" but the rest of the Commission's aid budget is rated "weak" and "satisfactory" on the same respective measures.[62] Despite this varying performance, in 2009–10, the UK contributed £397 million to the better performing EDF but a much higher £789 million to the poorly targeted and less effective central Commission budget.[63]

9. DFID officials have suggested that the UK had been able to "drive much better performance with the EDF" rather than other EU aid because the latter was an "assessed contribution over which we have very little choice over the amount."[64] This illustrates the need for accountability: a clear link between aid priorities and UK contributions.

10. Under the terms of the UK's Comprehensive Spending Review, DFID, which manages around 86% of the UK's development aid, is committed to reducing its running costs, which include administration and frontline staff, from 4% to 2% of the total budget by 2014–15.[65] In contrast, the EU's administration costs, as a percentage of ODA disbursed, currently stand at around 5.4%.[66]

11. In addition to this internal bureaucracy, the EU channels a huge amount of money through other international multilateral organisations. In 2009, agreements for a total of €935 million and €469 million were signed with the UN and the World Bank Group, representing around 10% of total EU aid commitments.[67] This means a wasteful chain of transfers: national agencies administering a transfer to the EU, which then administers a transfer to either the UN or World Bank, which then administer the final transfer of aid to the recipient country—with administrative costs and delay at each stage. The result is that less aid reaches the people that need it. The UK is surely capable of transferring money directly to these institutions rather than via the EU.

12. Since the EU's 2005 "Consensus on Development", the Commission has placed more focus on co-ordinating the division of labour between itself and member states and among member states. However, the logic underpinning the EU's coordinating role is still centralisation and, in particular, the centralisation of financing. Under so-called "Delegation agreements", national governments' contributions to the EU aid budget are now, in some cases, being sent back to member states because they, rather than the Commission, are judged to be the best conduit to deliver aid to a given country.

13. However, what in theory is a good idea (simplifying the number of donors and prioritising the most effective donors operating in recipient countries), under the current system in practice, simply generates greater bureaucracy and cost at the EU level. It makes no sense for member states to hand over money to the Commission only to get it back again before delivering it to recipient countries. In 2009, there were 48 Delegation agreements (from the Commission to a member state) under preparation or signed for a total of €242.7 million.[68] The system does also work the other way, with member states delegating additional amounts of their bilateral aid to the Commission.

14. Delegating aid to the EU in such a way involves one less transaction and is potentially a good model for providing aid voluntarily through the EU. However, in contrast to the 47 agreements worth €242.7 million to delegate aid *back to the member states*, there were only 17 agreements worth €123.3 million where member states have decided to hand extra aid *to the Commission*. This begs the question of why the net difference (€119.4 million) was ever handed over to the EU in the first place.

15. The EU has placed an increasing emphasis on delivering its aid as 'budget support'. According to its own figures, the Commission has committed over €13 billion in budget support between 2003 and 2009 (about 25% of all commitments in this period). About 56% of commitments were made in Africa, Caribbean and Pacific (ACP) countries, 24% in neighbourhood countries (Eastern Europe and the Mediterranean), 8% in Asia,

[62] *DFID*, "Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations", March 2011, p 170–171; http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf; DFID also rates the European Commission's €800 million humanitarian aid office, the ECHO, giving it scores of "strong" for meeting the UK's development objectives and "satisfactory" for organisational strengths.

[63] *DFID*, "Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations", March 2011, p 170–171; http://www.dfid.gov.uk/Documents/publications1/mar/multilateral_aid_review.pdf

[64] *HoC International Development Committee*, "DFID's Performance in 2008–09 and the 2009 White Paper", 2010, p 39–40; http://www.publications.parliament.uk/pa/cm200910/cmselect/cmintdev/48/48i.pdf

[65] *HoC International Development Committee*, "Department for International Development Annual Report & Resource Accounts 2009–10", 2011, p 5; http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/605/605.pdf

[66] *European Commission*, "Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009", 2010, p 186, Table 6.14 shows total ODA at €9,799.7 million and administration costs of €524.48 million.

[67] *European Commission*, "Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009", 2010, p12 and 162; http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf

[68] *European Commission*, "Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009", 2010, p 25; http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf

6% in Latin America and 5% in South Africa.[69] In 2008, then European Development Commissioner Louis Michel argued, "Budget support and more of it is the only answer", and committed to increasing budget support up to 50% of the EU's total aid.[70]

16. The Commission argues that the use of budget support promotes "local ownership" and ensures "alignment of aid with national policy". It is argued that such support has "had a positive impact for instance on dialogue with partner countries, donor coordination, public financial management and policy reforms in the beneficiary countries," although it admits these findings "cannot be generalised."[71] By aiming to increase budget support to 50% there is clearly a risk of the Commission "picking winners" when it comes to development policies.

17. The recent events in North Africa and the Middle East illustrate the dangers of directly supporting potentially illegitimate regimes rather than civil society groups. The EU had planned, for example, between 2011 and 2013 to grant 50% of its €149.76 million a year funding to the now-discredited Egyptian government as budget support.[72] In a recent consultation on the Commission's use of budget support the Dutch government stated that, "the Commission sometimes underestimates the risks and sensitivities associated with this aid modality. As a result, the Commission may, in certain cases, provide budget support too readily." It stated that that due to the lack of regard to "good governance, human rights and fighting corruption" the Dutch government could not support the Commission's recent proposals to grant budget support in the DR Congo, Namibia, Armenia, Algeria and Nicaragua.[73]

18. The European Commission also rarely gets a good "bang for its buck" in terms of influencing recipient governments' performance with its budget support. The European Court of Auditors (ECA) has noted that, "the Commission often does not play the role in dialogue that could be expected, given its significant financial contributions."[74] Meanwhile, the ECA also warns that the "rationale followed by the Commission in deciding on the amount of funds to be allocated to general budget support in each country is not clear", and calls for the Commission to "demonstrate that the amount allocated to individual programmes is appropriate in view of the objectives and the framework for dealing with risks and benefits".[75]

19. Questions should therefore be raised about how much influence the UK Government has over the use of budget support to deliver EU aid and the power it has to block its use in countries that do not satisfy good governance or human rights criteria or where taxpayers are not getting value for money.

20. In our view, the Government should consider the following approaches to reforming EU aid:

— Contributions to the EU aid budget should be made entirely voluntary as the European Development Fund (EDF) element already is. The UK should spend its aid budget directly through DFID, which performs better as a donor than the Commission on most measures, especially regarding the targeting of poverty, unless there is a demonstrable EU 'value added' in which case it could opt into specific EU programmes, such as the EDF.

— It is widely acknowledged that greater co-ordination of member state development programmes is crucial to increase aid effectiveness. Currently, developing countries have to deal with 27 different EU donors, plus the Commission, each with their own policies. Therefore, to reduce the administrative burden on aid recipient governments, a strong case can be made for greater harmonisation of procedures.

— The role of the EU should be to provide a forum for coordination between donors, rather than acting as a 28th donor. This would allow it to provide a resource for small member states with limited diplomatic networks to coordinate their spending, and divide up responsibilities if they wish. It would mean large savings on administration costs.

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69 *European Commission*, "Green Paper on the Future of EU Budget Support to third countries", 19 October 2010; http://ec.europa.eu/development/icenter/repository/green_paper_budget_support_third_countries_en.pdf

70 *European Commission*, "Budget support: a question of mutual trust", 2008, p 4; http://ec.europa.eu/development/icenter/repository/LM_budget_support_en.pdf

71 *European Commission*, "Annual report 2010 on the European Union's development and external assistance policies and their implementation in 2009", 2010, p 12–13; http://ec.europa.eu/europeaid/multimedia/publications/documents/annual-reports/europeaid_annual_report_2010_en.pdf

72 *European Commission*, "European Neighbourhood and Partnership Instrument Arab Republic of Egypt National Indicative Programme 2011–13", p 7 and p 27; http://ec.europa.eu/world/enp/pdf/country/2011_enpi_nip_egypt_en.pdf

73 *Dutch Government*, "The Dutch government's response to the European Commission's Green Paper *'The future of EU budget support to third countries'*, COM(2010)586, of 19 October 2010", p 2; http://ec.europa.eu/development/icenter/files/green_paper_contributions_future_eu_budget/Public%20Authorities/gp_pa_NL_en.pdf

74 *European Court of Auditors*, "The Commission's management of general budget support in ACP, Latin American and Asian countries", 2010, p 39; http://eca.europa.eu/portal/pls/portal/docs/1/7036731.PDF

75 *European Court of Auditors*, "The effectiveness of the Commission's management of General Budget Support in ACP, Latin American and Asian Countries", p 1, 2011, http://eca.europa.eu/portal/pls/portal/docs/1/7106723.PDF

— As budget support is less bureaucratic it is a way of getting money out of the door faster but, as the share of budget support increases, the risk is that speed is traded for effectiveness and accountability. Due to the inherent uncertainty and risks involved in providing budget support directly to recipient governments, the European Commission should consider setting a 25%–30% limit on the portion of budget support as a total of EU aid. Development funding is a complex exercise that entails risks of waste and inefficiency; therefore the Commission should avoid picking winners when it comes to particular aid policies.

— Aid works only when it is combined with good policies and institutions. A large share of the responsibility lies with developing country governments, but the policies used by donors also matter. In particular, the EU should open up to globalisation and embrace the inflow of goods, people and ideas from the developing world. A good first step would be the phasing out of the Common Agricultural Policy, and a commitment to an ambitious opening of trade with developing countries.

January 2012

Written evidence submitted by Christian Aid

EVIDENCE SESSION ON EU DEVELOPMENT ASSISTANCE, 24 JANUARY 2012

I am writing further to a commitment I made at the above session to ascertain whether Christian Aid colleagues could offer evidence to support my proposition that reducing a donor's administration costs could, in some circumstances, have negative impacts on aid effectiveness.

In light of our experience as an aid agency (delivering development aid for over 60 years, currently to 45 developing countries), we can draw conclusions about the impact of changes in administration costs, by considering the *types of risks* that are generated in decisions to reduce administration costs.

There are three main channels of potential damage. One is that the donor becomes *less effective* overall. Anecdotally, it is understood that DFID has lost skilled staff as a result of increasing pressure on them to carry out administrative tasks, reflecting cuts to administrative staff. Even without staff loss, this process has involved more expensive senior staff time being allocated to tasks that were previously carried out more cheaply. If the amount of administration to be done is not reduced, but administrative capacity is, then other capacity will be allocated to compensate, and efficiency will be damaged not improved.

The second channel of risk is around *effectiveness*. The thrust of the process of aid effectiveness in recent years has been to emphasise the importance of effective evaluation, ensuring that resources are allocated to what works and away from what does not, and ensuring that this process is transparent and accountable to taxpayers. Each of these elements—monitoring, evaluation, transparency and accountability—entails an administrative cost. There is a trade-off then between the extent of administrative cost savings, and the ability of a donor to deliver on these three elements. A donor aiming to have the lowest administrative costs *might* end up being the most efficient; it will certainly run a greater risk of failing to deliver on evaluation, transparency and accountability.

The third channel of risk is that of *approach*. If a reduction in administrative capacity (and costs) leads to a change of approach that seeks to reduce the demand for administration, it is likely that a bilateral donor will end up channelling more of its funds through intermediary donors (since this "Western Union" approach is inevitably less demanding administratively than a process of direct funding of opportunities). If a bilateral donor chooses significantly to reduce its administration costs it runs the risk of moving over time to becoming a "pass-through" agent for funds, to other donors which will themselves consequently have higher administrative costs, while at the same time reducing its own core capacity to assess and deliver direct aid funding.

Colleagues from Christian Aid's humanitarian response team have highlighted another aspect of approach which is relevant to the question of administration costs. This is illustrated by the call, in 2007, by the Tsunami Evaluation Coalition for a "fundamental reorientation from supplying aid to supporting and facilitating communities' own relief and recovery priorities." In order to build the local response capacity, donors must be prepared to commit time and resources to accompanying and supporting local actors to deliver a locally-led response. This involves an enabling and facilitative approach which requires more staff time, and costs more money. If that "administrative" investment is not made, long-term sustainability and resilience are unlikely to be achieved.

A limited view of humanitarian response as "getting funds to a place quickly" may support seeing administrative costs as simply something to be minimised. A more comprehensive view of humanitarian response will understand that there are important differences in the extent to which the most vulnerable groups in each place are reached; and in the benefits achieved, including in the longer-term development and resilience to future crises. In this broader view, there may again be a trade-off between administrative costs and aid effectiveness—so that unquestioningly pursuing the former is likely to undermine the latter.

We welcome the Committee's interest in seeking to better understand the challenge posed by changes in administration costs, which continues to be insufficiently appreciated. We would recommend that the obtaining of systematic evidence in this area should be a much higher priority for donors, to guard against the risks identified. As you are aware the ODI has started to document this issue, but further work needs to be done in this area.

While writing, may I refer to the comments I made in my evidence in the context of questions about aid to Middle Income Countries. Committee members may be interested to see the 2010 report *Global Poverty and the New Bottom Billion,* by Andy Sumner at the IDS, from which some of my input derived: http://www.ids.ac.uk/index.cfm?objectid=D840B908-E38D-82BD-A66A89123C11311F. This is a key document in current thinking about global poverty.

March 2012

Further written evidence submitted by DFID

I am writing to you in response to the question on procurement raised by the International Development Committee during my evidence session on 6 March 2012. As promised, my officials in the UK and Brussels have investigated the details of British Companies that are awarded DFID contracts and the percentage of UK Companies and NGOs that are awarded European Union Aid Contracts.

With regard to DFID, 92% of contracts centrally let by DFID Procurement Group in 2010–11 were let to UK registered companies. Companies are required to register their details with DFID prior to tendering for contract opportunities. Individual contract awards are all published on the DFID website. I hope you find this helpful and informative. This responds, therefore, to Mr Gyimah's question on statistics for DFID procurement in UK companies and the "information note" I promised.

In the case of the EU, the UK is reliant on the European Commission to publish the details of when and where a contract is awarded. It is not currently EU practice to publish disaggregated data as it's a hugely resource intensive exercise.

EU service contracts, which represent the majority of European Commission contracts, are most often awarded to Pan-European consortia including both Member States and the beneficiary countries. It is difficult to identify, out of the Pan European consortia, what percentage of these are British-led tenders or what proportion of funding they receive from the contract award. This problem is not restricted to aid, the Department for Business, Innovation and Skills (BIS) are aware of this and they monitor a variety of UK companies' successes in bidding for contracts via companies who approach them. However, it is worth noting that this does not necessarily represent all companies that bid for Commission contracts or the proportion of funding that goes to UK companies. Thus, this meets my promise to "commission a response in writing" to Mr. Lefory's question on what percentage of the contracts let by the EU go to British organisations.

The Coalition Government is committed to supporting UK business and currently has a team from UK Trade and Investment based in UKREP in Brussels working to ensure that UK businesses are able to compete effectively with other Member States for European Commission contracts. They support UK business in the design, bidding, project development and relationship building with the Commission. Furthermore, post-contract award, the team remains involved in assisting UK companies with project management, contract procedures, legal interpretation of rules and dispute settlements.

In early 2000, a group of Member States including both the UK and France asked the Commission to provide disaggregated statistics by Member States for all their external aid programmes. The Commission argued that it does not have the resources to collect and collate such information. We do not consider this to be a good or transparent practice and we will continue to press the European Commission to publish a breakdown of contract data by Member State.

April 2012

Further written evidence submitted by DFID

An Update on the Danish EU Presidency Development Priorities

Denmark's EU Presidency began on 1 January 2012 and will end on 30 June, to be succeeded by Cyprus. I am taking this opportunity to update the Committees on the Danish Presidency's development priorities and outline the UK's objectives in relation to these, set out below:

Multi Annual Financial Framework 2014–2020

The Commission's draft regulations for the External Actions budget instruments for the Multi Annual Financial Framework (MFF) 2014–2020, published in December, will be negotiated in detail during the Danish Presidency. The UK's top priority for the overall MFF negotiations is budgetary restraint, ensuring that the EU budget contributes to domestic fiscal consolidation. However, the UK sees the EU's External Spending

(Heading 4) as a relative priority and will be arguing for a strong development outcome in the negotiations with a focus on protecting or increasing the proportion of Official Development Assistance (ODA) within a reduced overall post-2013 EU budget.

The Commission has not proposed that the European Development Fund (EDF) should become part of the Budget; under the current proposals, it would maintain its position as a Member States' voluntary fund. The Department for International Development's (DFID) Multilateral Aid Review confirmed that the EDF demonstrated strong value for money and effectiveness and the UK will therefore negotiate to ensure these strengths are protected in the post 2013 arrangements.

Aid Effectiveness and Transparency

Following the successful 4th High Level Forum on Aid Effectiveness, held in Busan, Republic of Korea, the UK will push for concrete implementation of international aid effectiveness commitments and a reduction in the international aid bureaucracy. I wrote a separate letter to the EU Parliamentary Scrutiny Committees on the outcomes of Busan and the UK priorities post Busan, which I have attached for your reference.

Communications on "Increasing the Impact of EU Development Policy: an Agenda for Change" and "The Future Approach to EU Budget Support to Third Countries"

We submitted Explanatory Memoranda 15560–11 and 15561–11 on the respective Communications above on the 28 October, in which I set out the UK's position.

Over the next six months the priorities on EU Development Policy will be:

— To work with the EU, alongside like-minded Member States such as Sweden, Denmark and the Netherlands, to make sure EU development programmes are country-owned, accountable and transparent.

— To continue engaging with the Commission and like-minded Member States to ensure that the new EU emphasis on increasing aid impact leads to clear results on the ground.

On *EU Budget Support to Third Countries* the UK priorities will be:

— To work closely with the Commission to make general and sector budget support more effective, in particular by increasing the focus on transparency, performance, results and value for money. We will aim for stronger assessments and risk mitigation in the new budget support guidelines and through case-by-case discussions at the country level.

The Council Conclusions for both these Communications are expected to be drafted and approved during the Danish Presidency, in the first half of 2012.

Humanitarian Aid

As was recommended in Lord Ashdown's Humanitarian Emergency Response Review (HERR), the UK will continue to strengthen its strategic relationship with the Commission/DG ECHO in order to deliver a more joined-up EU response to humanitarian emergencies. This includes through the upcoming legislative proposals on EU civil protection. Work to establish how the humanitarian and development arms of the Commission can work together more closely is also a key objective.

Trade

Through the upcoming Commission Communication on "Trade, Growth and Development" the UK will push to ensure greater coordination and coherence between the EU's aid programme and its trade policies, in line with the aims of HMG's Trade and Investment for Growth White Paper.

Migration

The UK will ensure the upcoming Communication on Migration and Mobility for Development is coordinated with our overall EU priorities on development, including our continued commitment to aid effectiveness principles.

Gender

We welcome the publication of the first annual report on the EU Plan of Action on Gender Equality in Development (2010–2015). We will work with the Commission and Member States under the Danish Presidency to make real progress in increasing EU support for girls and women.

I am writing in similar terms to the Lord Roper, Chair of the House of Lords Select Committee on the European Union, and William Cash MP, Chair of the House of Commons Scrutiny Committee; and copying this letter to the Clerks of the European Scrutiny Committee and the House of Lords Select Committee on the European Union; and Les Saunders in the European Secretariat.

January 2012

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