



The future of European development aid

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ABSTRACT

Development assistance represents one mechanism for the redistribution of global wealth. This article examines key external challenges that the development aid systems in the EU currently confront. Among the most important elements of the changing backdrop against which decisions on preparing EU development cooperation for the future will be made are the increasing differentiation of countries within the developing world and the rise of new global development actors, and the growing prominence of issue linkages between security and development and the environment and development. These challenges raise important questions for the EU concerning the future rationale and organization of development assistance.

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1. Introduction: development aid and global welfare provision

In academic analyses of foreign aid giving, the provision of development assistance has sometimes been considered to represent an international extension of domestic welfare efforts. In this vein, Lumsdaine [1] prominently argued that a foundation for economic assistance to the developing world was provided by the moral commitment to addressing poverty that underpinned the development of modern welfare states. Differences in the overall generosity of aid donors have also been linked to variations in the nature of their domestic welfare regimes [2], with the historically strong commitment of the Nordic countries and the Netherlands to development assistance seemingly mirroring the higher degree of universalism in their social welfare systems in particular. The relationship between domestic welfare and foreign aid is not necessarily obvious, however. On the one hand, the welfare state can be interpreted as having a protectionist quality [3] and serving the economic function of cushioning domestic populations from volatilities associated with integration into the global economy [4]. On the other hand, it can be noted that a variety of interests have motivated aid giving over time, with diplomatic and commercial considerations representing important objectives alongside the goal of contributing to poverty reduction in the developing world [5].

Development assistance represents one mechanism for the redistribution of wealth in the global economy. However, while Official Development Assistance (ODA) by definition refers to financial flows having economic development and welfare improvement in developing countries as their main objective, in practice aid does not always represent a real resource transfer. The Reality of Aid project has for example criticized the propensity of donors to count debt relief figures and refugee and student expenditures as aid, while noting that donors can also dilute the value of aid transfers by disbursing funding through national contractors or tying aid to domestic purchases [6]. Given the large variety of purposes for which aid is provided and the diversity of channels through which it is disbursed, even where there is a net transfer of resources to developing countries, this is not a guarantee that aid serves to redistribute wealth to the poorest populations living within these countries. These qualifications are important to keep in mind in linking development assistance to welfare provision.

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This article discusses how European development aid could evolve in the future. The focus of the article is on the development policies of the European Union (EU) and its member states, which together form a development policy system [7]. The EU system is the source of the majority of development assistance globally, and in 2008 provided some €49 billion in aid in total [8]. To examine possible changes in European development aid in the future, the article first provides a brief overview of key features of European aid in the present, paying special attention to the rationale and organization of the aid system. It then outlines major external challenges confronting European donors which provide a backdrop against which future development aid decisions will be made. These challenges relate to the growing differentiation among countries where development aid is implemented on the one hand and the increasing salience of issue linkages between security and development and environment and development on the other. The article concludes by discussing the implications of these pressures for the future rationale and organization of European development assistance.

2. A picture of European development aid today

European development policy today is firmly embedded in the broader global development agenda. One main pillar of this agenda is the set of development prescriptions listed in the Millennium Development Goals (MDGs), which have set ambitious targets to halve the shares of the world's population living in extreme poverty and experiencing hunger. The MDGs attach special importance to improvements in the health and education sectors as measures of development progress. At the policy level, the EU accepts the MDGs as a primary reference point, with poverty eradication serving as an overarching goal of development cooperation [9]. There is evidence for this emphasis in examining where the EU directs its development resources. In 2008, some 27% of aid provided at the EU level went toward investments in social infrastructure and services, giving social sectors a light lead over investments in economic infrastructure and commodity assistance and general budgetary support. At the level of EU member states, investments in social sectors are an even larger priority in the aggregate, representing about 38% of aid allocated by EU members of the OECD's Development Assistance Committee (DAC) in 2008 [10].

A second pillar of the global development agenda that guides EU development aid is the commitment to increasing aid effectiveness consistent with the principles of the Paris Declaration from 2005 and the 2008 Accra Agenda for Action [9]. These principles relate to strengthening the level of recipient ownership of development programs and the level of coordination among donors in aid implementation in particular. While calls for greater aid effectiveness are often accompanied by pleas for aid funding increases, the overall logic of the aid effectiveness agenda is to promote a more efficient use of existing resources, or to accelerate progress on development goals by doing repair work within aid systems. Even if the focus is restricted purely to the donor coordination issue, this is not an easy task, given the multiplicity of goals that donors pursue in their aid programs and their desire to maintain visibility to justify aid spending to their domestic audiences. To address problems such as the duplication of donor activities at the country level and the imposition of heavy administrative burdens on recipient country governments, the EU issued a Code of Conduct for a better division of labor in development policy in 2007, stressing the importance of exploiting the comparative advantages of European donors, achieving a higher level of country concentration in bilateral aid programs, and assuring a more balanced geographical spread of overall aid resources [11]. The need to address coordination deficits within the EU has been reemphasized as an essential component of the European contribution to the achievement of the Millennium Development Goals by the European Commission, which has estimated that between €3 and €6 billion in aid resources could be freed if the EU and its member states adhere more closely to the principles of efficiency in aid delivery that they have agreed to [12].

As in other EU policy fields, the EU development assistance system can be considered a multilayered governance system. The community-level institutions and the member states, which independently manage bilateral aid programs, are the key components of this system. Given that development cooperation has the status of a shared competence between the community and the member states, the EU's 27 member states maintain a lead in implementing aid. In 2008, the development aid allocated at the EU level represented about one fifth of European aid overall, with the remainder allocated by member states either to their bilateral programs or to other multilateral organizations [13]. A key feature of the development aid architecture at the EU level has been the division of responsibilities for geographic and thematic aid programming across different Directorates-General within the European Commission, though an ongoing process of organizational reform of the EU's foreign policy apparatus has the potential to increase the level of coordination and coherence in policymaking at this level. At the member state level, there continues to be variation in the organization of aid systems. While member states such as the United Kingdom or Germany currently have independent aid agencies with a cabinet rank, other states such as the Netherlands or Sweden have placed development cooperation more directly under the authority of their respective ministries of foreign affairs. This brief overview of the organization of the European aid system points to two general questions about the future aid architecture. One concerns how development competencies should be divided between EU-level institutions and member states. A second relates to what place specialized aid agencies should have in relation to other foreign affairs bureaucracies at the national level.

3. External challenges confronting European donors

This section discusses two important features of the evolving development landscape that could place especially important pressures on the rationale and organization of EU development aid in the future. The first external challenge

relates to the changing face of the developing world itself, while the second external challenge concerns the nature of issues that are rising in prominence on the development agenda.

3.1. *The new developing world*

One of the main features of development assistance as a policy field has been its wide scope, given the variety of national settings and political and economic contexts in which it has been implemented. In general terms, the logic of development aid has historically been for the world's wealthiest countries to support the development of the world's poorest, with these groupings representing straightforward categories. On one side, the world's wealthiest countries were members of the Organization for Economic Cooperation and Development (OECD), while the 'developing world' (or 'Third World' during the Cold War period) offered a convenient label for countries outside of the Soviet bloc on the other [14]. Though there have always been variations within the 'developing world', the increasing differentiation among non-OECD countries has been a feature of the global political economy since 1980 [15].

The rising prominence of large emerging economies such as China and India has made the changing contours of economic and political power in the world evident to many observers. As the OECD's Development Center has recently underlined, the structural transformation of the world economy linked to increasing wealth in emerging economies has been a long-term process that stretches back at least two decades [16]. Due to sustained high economic growth rates, emerging economies have not only been converging toward the standards of economic performance in OECD countries, but are also gradually displacing OECD countries in terms of their overall weight in the global economy. While OECD economies still account for slightly more than half of global GDP, non-OECD economies are projected to account for close to 60% of global GDP in 20 years time [16, p. 15]. The impressive growth of emerging economies has been associated both with progress in terms of poverty reduction as well as with growing in-country inequalities.

Apart from China and India, regional economic powers such as Brazil, Egypt, Indonesia, Mexico, South Africa, and Turkey also illustrate the changing face of the developing world. While these countries continue to confront development challenges internally, they provide a source of economic dynamism in their respective regions and have a growing power to shape global governance processes [17]. Due to their economic size and their potential to influence the quality of political and economic development in their regional neighborhoods, these countries represent increasingly important dialog partners for OECD countries. In absolute terms, the countries in some cases remain significant recipients of development assistance. India received close to \$830 million in aid from EU members of the DAC in 2008, for example, while China's aid receipts reached some \$889 million in the same year [18]. These figures represent only a small portion of the more than \$70 billion in aid disbursed from EU DAC members, but nevertheless give both countries the status as leading EU aid recipients.

The sizeable sums of aid distributed to the emerging powers can be justified by the still large numbers of poor people living within the most populous developing countries. It is for instance estimated that somewhere between 300 and 740 million Indians live in poverty, depending on the definition used [19]. However, aid to these recipients also raises questions about the logic of aid provision. Though the sums are impressive in the context of global development assistance flows, they are small in relation to the size of the emerging economies themselves. In these contexts, aid may play a limited role in contributing to poverty reduction and economic development in comparison to government policies or other forms of public or private investment, and as a small sum, may only provide a limited lever to promote reforms. At the same time, aid may be increasingly regarded as an instrument for strengthening ties to governments in order to promote cooperation on global issues and open economic opportunities. As European states have reconsidered aid to China, for example, the EU has also shifted its focus in aid provision, giving a higher priority to environmental sustainability [20], an emphasis that might not only contribute to reducing China's greenhouse gas emissions and improve the quality of the global environment but also enhance the position of European firms in the area of green technology.

The World Bank currently identifies 101 states as middle-income countries, a category that includes countries with per capita national income covering a broad range from \$976–11,906, suggesting the variety of economic experiences persisting within this group [21]. If this label hides a diversity of development trajectories, the large size of the group nevertheless suggests that the major emerging economies have not been alone in graduating from the ranks of the poorest countries. While some countries still identified as low income countries, such as Ghana, Rwanda, or Uganda aspire to achieve middle-income status in the near or medium-term, a host of others face a combination of development challenges related to institutional weakness and limited governmental capacities, limited economic diversification, and vulnerability to conflict, among others [22]. For countries fitting this description, which would include many states in the Sahel and in Central Africa, as well as places like Afghanistan and Myanmar, development aid may continue to provide a key response to humanitarian needs given the inability of national governments to mobilize resources for development via domestic taxation or foreign direct investment and to provide their citizens with basic services. The scale of the obstacles facing these states nevertheless suggests that aid alone will not be sufficient to place them on a development path leading to long-term progress in providing increased welfare and security to their populations. As the OECD DAC has noted, donors must increasingly recognize the interdependence of political, security, and economic conditions in coordinating responses to fragile states [23]. Depending on the country context, this may imply focusing on improving the security situation through peacebuilding operations as a prerequisite for increasing engagement on the development cooperation front. As a result, these complex situations may demand increasing dialog and coordination between the development aid community and actors working in other policy fields, especially in the security arena.

This discussion of the changing character of the developing world broadly construed has emphasized how the variations in the characteristics of developing countries might open new avenues for reflection on what development aid can and should accomplish. A related stimulus for this rethinking is the diversification of the donor landscape itself, reflecting the rising economic fortunes of major emerging economies and their growing internationalism in particular. Although the OECD DAC donors continue to provide a large majority of the world's development assistance, the last decade has been characterized by increasing aid flows from donors outside of this club. Due to persisting limitations in the transparency of reporting on aid giving from non-DAC donors, figures on the scale of this giving remain rough estimates [24]. Estimates of annual foreign aid outlays from China have for example ranged from \$1.5 to \$25 billion, with part of the difficulty in accounting coming from the blurred boundaries between aid and foreign direct investment [25]. There is evidence at a policy level and through tangible development projects of a general trend toward increasing South-South cooperation, of which development aid represents one component.

Among the leading development aid providers outside of the DAC are the oil-rich states Saudi Arabia, Venezuela, and the United Arab Emirates, China and India, and regional powers such as Brazil, South Africa, and Turkey [24]. Within this group, China has received special attention due to the scale of its engagement and its rising prominence as a provider of development assistance outside of its immediate regional neighborhood, especially in Africa. Some elements of Chinese development assistance which have been highlighted to distinguish Chinese aid from the aid approaches of DAC donors include the close bundling of aid with other dimensions of bilateral economic relations including the promotion of trade and investment, an orientation toward the implementation of smaller-scale projects in comparison to the program-based approaches favored by DAC donors, and a reliance on loans to finance large-scale infrastructure projects [26,27].

The more prominent role that China and other non-DAC development assistance providers have assumed in recent years brings both new opportunities for the development agenda and challenges for the traditional donors, including the EU and its member states. On the positive side, the non-DAC donors may at a very basic level increase the availability of development financing for poor countries, can potentially broaden development funding coverage in providing resources to areas that are not prioritized by DAC donors, and may provide recipient countries with additional choices and more negotiating space, fostering stronger ownership of the development process [27]. At the same time, the competition that these actors introduce in the aid landscape can carry negative consequences by reducing donor coordination and imposing additional administrative burdens on recipient countries. Hence, the non-DAC development aid providers offer a direct challenge to the efficiency agenda in European development cooperation [28]. One response to the rise of non-DAC donors has been growing interest in trilateral cooperation projects, which would provide a vehicle for knowledge exchange between DAC and non-DAC donors at the country level while identifying shared interests with the new donors and partner countries themselves. However, to work toward more complementary development interventions, strategic dialog and formalized cooperation may be needed at a higher level. Because the development assistance programs of non-DAC donors are closely linked to their own foreign policy strategies and overseen by foreign ministries, this may also place pressure on European donors to increasingly approach donor coordination as a responsibility for foreign affairs bureaucracies in the future.

3.2. *Issue linkages and the development agenda*

Development aid is one of many policy instruments that can contribute to economic and social welfare improvements outside of the European Union. At the EU level, the recognition that policy fields such as trade, energy, agriculture, fisheries, and migration produce important externalities for developing countries has focused attention on the need for increasing policy coherence for development. This awareness of the relevance of many policy fields for relations with developing countries has led to the creation of a policy framework for a whole of the Union approach to development cooperation designed to ensure that development objectives are taken into consideration in policy planning beyond the aid arena [29]. The rising interest in policy coherence for development is indicative of a heightened demand on the aid community to respond to issue linkages between development aid and other thematic areas. This section highlights challenges that issue linkages between security and development on the one hand and the environment and development on the other pose for European donors.

Peace and security issues have attracted growing attention on the global development agenda over the last decade. While it is possible to point to a general trend toward declining intrastate conflict and the diminishing magnitude of conflict globally, part of the reason for the growing currency of security issues has been the perception that in many countries there is a serious potential for destabilization [30]. The notion of vulnerability of states to a deterioration in order is captured by the term 'state fragility', which generally refers to situations where state institutions have limited capacity or political will to respond to the development needs of their populations [31]. Numerous lists of fragile and failing states exist. According to a list compiled by the OECD, 48 states could be categorized as fragile or conflict-affected in 2008, including 29 countries on the African continent alone. As suggested above, one characteristic of this group of countries has been that there has been a growing gap between their performance on measures of development progress in comparison to other developing countries in recent decades [32]. On the one hand, deepened engagement with these states is justified on humanitarian grounds by the prevalence of poverty and human insecurity in these regions. It has been estimated that the difficult environments in fragile states represent a major obstacle to the global achievement of the Millennium Development Goals, as roughly half of the number of people living in absolute poverty outside of China and India call such areas home [33]. On the other hand, increasing resource commitments to states experiencing fragile conditions can be justified from a more strategic perspective

given that donors have a clear interest in limiting possible transboundary spillover effects that can result from state fragility such as rising threats from drug trafficking, piracy, or terrorist activity.

Situations of insecurity generate special dilemmas for aid actors. Where assistance is provided in crisis settings, there is a challenge of providing a transition from short-term humanitarian assistance to more long-term development support that can contribute to the prevention of a recurrence of conflict. Fostering development after a crisis may also require engagement with a variety of actors such as former combatants and security forces or opposing political actors that have played a role in destabilization processes. Developing effective strategies for interacting with these actors and devising ways of not only maintaining peace but diminishing the vulnerability of states in the future may imply a strengthened role for actors outside of the traditional development aid community, such as bureaucracies dealing with law enforcement and military issues. As a consequence, grappling with the security-development nexus will likely place further pressures on donor countries to increase inter-ministerial coordination in external relations [30].

Environmental change may impose further stress on already fragile states. The variability in climatic conditions brought about by changing global temperatures may lead to increased conflict over natural resources such as water and land, trigger wider food insecurity as a result of pressures on agricultural production, generate crisis situations due to the increasing incidence of natural disasters, or create migratory pressures in regions where populations already have limited resources at their disposal. A changing climate may amplify existing distributional conflicts or overtax already weak governance structures, complicating efforts to build more stable and economically prosperous societies [34]. Even if climate change is not framed in terms of a security threat, economic consequences of global warming are likely to be disproportionately felt by vulnerable populations living in the developing world. Calls for increased funding for supporting developing country efforts to adapt to the negative effects of climate change have followed from this recognition, suggesting a need for additional financing mechanisms outside of traditional ODA provided by European donors [35]. As the difficulties that wealthy countries face in mobilizing resources for development assistance has been evident in shortcomings in upholding prior commitments, the need to find additional financing for climate-related adaptation needs in developing countries may spur further attention to how limited aid resources can be used as a catalyst for investment from other sources, including from private sector actors.

The challenge that climate change poses for development assistance is not limited to the increased environmental constraints that it may create within particular countries that will add to the difficulty of achieving national development goals. Climate change is also an issue that exemplifies a demand for improved global environmental governance, since the health of global commons such as the atmosphere or the oceans affects populations across the world regardless of what their contribution to global environmental degradation has been. Climate change also adds demands on the global governance system due to pressure for added risk management in the face of uncertainties created by changes in earth systems [36]. While OECD countries bear a historical responsibility for the changing climate, without concerted action to push developing economies on a low-carbon growth path, the severity of the global climate challenge may only continue to grow in coming decades. In addition to financing adaptation to climate change, there is therefore a need for investments in the mitigation of carbon emissions in developing economies, especially investments related to technology transfer, and public investment from wealthier countries may also have the function of catalyzing further investments from private sources in this context [37].

The linkage between environmental protection and development has been on the global agenda for decades, having taken center stage in United Nations conferences in Stockholm in 1972, Rio in 1992, and Johannesburg in 2002 and being summarized in the widely referenced term 'sustainable development' implying the need to balance development objectives with the preservation of environmental resources [38]. Despite this acknowledged link between development and environmental issues, however, there has often been a lack of integration between the development and environmental policy communities, while deficits in terms of mainstreaming environmental concerns into development cooperation have persisted [39]. The climate adaptation and mitigation challenges offer a stimulus for encouraging aid providers to prioritize the environment-development nexus to an increasing degree. In addressing these challenges, new attention may be drawn to the role of aid in contributing to changing the environmental framework conditions in which development occurs through a leveraging effect that aid may have in changing the behavior of public and private actors.

4. Possible pathways for the future of European development cooperation

Limited emphasis on the role that framework conditions such as the domestic policy context or the integration of developing countries into international trade networks has been identified as a key weak spot of the development agenda focused around the MDGs [31]. The social sector focus in the MDGs can be defended by the direct linkages that have been identified between improvements in health and education indicators and the reduction of poverty, which potentially makes investments in these areas a more straightforward choice for donor governments. At the same time, the poverty reduction mandate that the MDGs articulate continues to provide a basic justification for providing development assistance. Given the changing global context sketched out briefly in this article, however, it will likely be necessary for European development assistance in the future to be guided by a rationale that extends beyond the social development orientation of the MDG agenda, which tends to emphasize the role that aid by itself can play in contributing to directly measurable development outcomes. This new agenda could involve strengthening the consideration of broader goals of promoting economic and political transformation in developing countries in order to contribute to the increased mobilization of a variety of global

development actors. This would include emphasizing the influence of governance structures on development outcomes, a point acknowledged in the UN Millennium Declaration [40] but not taken up in the MDG goal list.

The efficiency rationale of European aid provision expressed in a commitment to better coordination among donors, alignment with country-level development strategies, and the measurement of development results has like the MDG agenda been appealing because the logic adds legitimacy to development assistance by highlighting efforts to spend resources wisely. For this reason, a continued interest among European donors in adhering to aid effectiveness principles seems likely. The external challenges outlined above nevertheless signal the difficulty that the treatment of development aid systems as closed systems can pose, with modifications within systems of aid delivery considered guarantors of improved development outcomes on their own. The diversification of the donor landscape and the growing importance of actors outside of the development policy community in external relations suggest that forces apart from European development aid could play a larger role in shaping development outcomes in the future. Hence, determining how aid can be used to influence the development orientation of these actors will be an important complement to donor efforts to reap efficiency gains in aid provision. This implies a shift from considering aid as an input toward obtaining measurable results to viewing aid as a catalyst for broader transformational processes to which a variety of players will contribute.

The changing external environment of development cooperation also has implications for the future organization of EU aid. Further differentiation among developing countries and the politics of issue linkage imply a stronger role for the EU as an aid actor in relation to its member states. As European donors pool resources under the umbrella of a common development policy, they could increase their potential to use limited aid resources to leverage external resource commitments and facilitate pro-development policy shifts outside of Europe. The importance of addressing global challenges related to issues such as fragile states and climate change highlights a demand for strengthened multilateralism, a process to which the EU as a more unified development actor can make a relevant contribution. The growing variety of policy fields with an external dimension affecting European relations with development countries also suggests a need for increasing coordination across bureaucracies both at the EU level and within EU member states. This coordination demand could in turn lead to the further integration of development aid agencies into foreign policy apparatuses, implying that the separation of development aid from foreign policy will diminish in the years ahead.

The general line of argumentation in this article has been that external pressures, in particular the changing face of the developing world and the demand for management of issue linkages offer a potent demand for a stronger European-wide approach to development on the one hand and for more deeply institutionalized coordination between development, foreign affairs, and defense bureaucracies at the EU level and within member states on the other. However, such a development is not the only possibility to characterize the future of European development cooperation. This is the case because in addition to these external pressures, the EU also faces internal pressures resulting from the competing interests of member states and the deficits in coordination and policy coherence that persist at the EU level [41]. In the last decade, the EU has experienced a significant expansion in its membership, bringing countries that in many cases previously had limited relationships with developing countries into the policymaking fold. The multiplication of interests concerning where the focus of EU external relations (including development cooperation) should be placed complicates efforts to find a common basis for strengthened multilateral action at the EU level. In this context, a refocusing of attention to bilateral approaches to development cooperation at the member state level represents another possibility, given impulses in member states to maintain control over where resources for development are directed and their desire to promote national interests and the visibility of national engagement, in part to justify aid to a domestic audience. The political choices made at the member state level related to how much to invest in common European approaches to development cooperation will therefore be critical in determining whether the future of European development aid will be driven by a large collective actor (the EU) or by the loosely coordinated approaches of bilateral actors operating in a more fragmented aid landscape.

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