



EUROPEAN COMMISSION

Brussels, 13.10.2011
SEC(2011) 1173 final

COMMISSION STAFF WORKING PAPER
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

**COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE
EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE
OF THE REGIONS**

Increasing the impact of EU Development Policy: an Agenda for Change

{COM(2011) 637 final}
{SEC(2011) 1172 final}

1. PROBLEM DEFINITION: what is precisely the problem, who is most affected and why is public intervention necessary?

In the current global context, against the backdrop of key international challenges¹, the legitimacy of aid discussion, and the new contextual settings both at EU (post-Lisbon external action framework) and international level (G20, IFIs, UN...), there is a need for change to **“increase the impact of EU development policy”**. The aim is to make the EU's development policy fit to meet the challenges of the coming decade, and to help partner countries bring about the changes needed to accelerate their own progress towards poverty reduction and the MDGs.

Current research² shows that, since 2005, when the Paris Declaration was adopted, global aid allocation patterns have deteriorated. In fact, numerous problems undermine the efficiency and effectiveness of EU and other actors' development policies. Firstly, aid fragmentation has increased in parallel to ODA increases. There is a trend to deliver assistance in smaller parcels. At the same time, donor proliferation has increased: globally, donors are operating in more countries and, within these countries, in more sectors. At the sector level, proliferation is also rife: 41% of all sectors in recipient countries had recorded disbursements from more than three EU donors in 2007.

Secondly, the proliferation of donor-partner country relationships results in high coordination efforts which burden first and foremost the partner countries, but also donor representatives in the field. Duplication of effort with other donors -including Member States- together with the lack of coordination can lead to sudden gaps in geographic/sector coverage (the so called "aid orphans") and can create an atmosphere of uncertainty for the partner countries and the main beneficiaries in these countries, very often including the most vulnerable groups.

Long-term costs of ineffective aid are analysed by academics in terms of their impacts on the quality of partner administration and of the economies of recipient countries. Such costs are mostly given in qualitative terms although in some cases quantitative costs could be found in terms of economic growth foregone or cost increases from lack of predictability in development funding³. For example, long term costs linked to fragmentation alone result in the inability of government to impose order upon project portfolio or even obtain an overview of aid-funded investments and activities, lack of effective planning, geographical patchiness, etc⁴.

2. ANALYSIS OF SUBSIDIARITY: Is EU action justified on ground of subsidiarity (Necessity and EU value added)?

According to the Lisbon Treaty, development policy is a shared competence between the Commission and Member States. The Commission will play its part in increasing the impact

¹ Such as financial crisis, climate change, energy access, food insecurity, migration pressures, state fragility, regional conflicts and international security, emergence of new powers/investors/donors.

² "Trends of In-country Aid Fragmentation and Donor Proliferation: An Analysis of Changes in Aid Allocation Patterns between 2005 and 2009", Report on behalf of the OECD Task Team on Division of Labour and Complementarity, First Draft – 24 March 2011, final version forthcoming.

³ "Aid Effectiveness Agenda: Benefits of a European Approach"

⁴ http://ec.europa.eu/development/icenter/repository/AE_Full_Final_Report_20091023.pdf

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of its aid, while fully acknowledging that other dimensions, aspects and actors (such as policy coherence for development, aid modalities, country ownership, etc) are complementary and ought to be taken into consideration in so far as they have a bearing on the overall impact of EU development policy. Therefore the EU's role in promoting coordination and coherence, its capacity to pool services and resources, and to conduct the EU dialogue with partner countries is necessary as action by the Member states alone cannot sufficiently fulfil these functions. As a result, coordinated action by the EU as a whole has an added value that, in terms of policy and financial leverage, is bigger than the sum of individual action of 27 Member States and the Commission⁵. A 2009 study⁶ estimated that the potential benefits of a European approach to aid effectiveness would be in the order of Euro 3 to 6 billion per year.

As emphasised by the public consultation on the Green Paper, the Commission should focus the aid it manages on a more limited range of sectors and areas; choices should be made more strategically than in the past, taking account of the EU's comparative advantages and potential to make a significant impact. The Commission has also a leading role to play in terms of initiating and coordinating improved division of labour (DoL) between the EU and the Member States.

In order to maximise this added value, a specialisation and better DoL could lead to greater efficiency, economies of scale and lower transaction costs whose benefits could be used to further reinforce the financial resources available and to enhance the EU's negotiating/bargaining power, thus ensuring that the EU is better placed to play a leading role at global level.

3. OBJECTIVES OF EU INITIATIVE: What are the main policy objectives?

As stated by the Treaty, the main objective of EU development policy and practice is poverty reduction in the context of sustainable development. The internationally-recognised targets under this objective, subscribed to by the EU, are the Millennium Development Goals (MDGs). A key international conference in September 2010⁷ highlighted the gap between current levels of attainment vis-à-vis the MDGs and the targets themselves, with less than 5 years to go; there is particular concern about the lack of progress in certain countries and regions (notably in Sub-Saharan Africa) and against some of the MDGs (notably maternal and child health).

Given the effort still needed if the MDGs are to be reached by 2015, the EU needs to rapidly increase the impact of its aid on poverty reduction. Beyond 2015, the EU will need to continue to support the global effort until poverty is eliminated completely. The objective of the proposed change programme is therefore to ensure that every euro of EU development aid generates the greatest possible impact on poverty in developing countries, in order to maximise the contribution made by the EU to the MDGs and longer-term poverty elimination.

⁵ As demonstrated above with reference to the study on the aid effectiveness agenda: benefits of the European Approach from October 2009

http://ec.europa.eu/development/icenter/repository/AE_Full_Final_Report_20091023.pdf

⁶ "Aid Effectiveness Agenda: Benefits of a European Approach", HTPSE Limited, October 2009, http://ec.europa.eu/development/icenter/repository/AE_Full_Final_Report_20091023.pdf

⁷ UN High Level Plenary Meeting on the MDGs, New York.

It is assumed that impact on poverty reduction can be improved by focusing EU aid geographically and sectorally on a more limited range of countries and areas rather than dispersing small amounts of aid too thinly worldwide. In doing so, the Commission will remain a global actor on development issues, while, as a donor, concentrating its aid on those sectors and countries where impact will be the highest.

In support of this effort, the Policy Coherence for Development (PCD) agenda also contributes to improving the real results of our development cooperation by reducing inconsistencies and promoting synergies between the objectives of internal policies and development. Moreover, increased coherence between external policy objectives and development should be aimed for.

4. POLICY OPTIONS: Which options have been considered and which have been assessed in detail?

Four major options have been identified in the impact assessment:

The first option refers to the *status quo*, meaning that the aid allocation and implementation processes do not change from the current system (no additional EU action) and hence Commission-managed development aid would continue to be allocated in a great variety of sectors and countries. In other words, the EU continues to do "everything everywhere" thus not addressing the problem of aid fragmentation. This option has been assessed in detail looking at the current dispersed and fragmented EU development aid which represents the base for an improvement towards a more efficient and effective system.

The second option refers to sectoral focus; in order to reduce sectoral dispersion of EU aid, Commission would focus mainly on some areas and sectors, particularly where it has comparative advantages, but would continue to provide aid to a large number of countries ranging from the poorest to the most advanced developing countries (LDCs to BRICS).

The third option concerns geographical focus; with the aim being to reduce the geographical dispersion of EU aid, Commission would target its aid towards a limited number of countries (chosen according to their needs, capacities, interests and commitments), but would continue to have a wide sectoral coverage.

In the fourth option, the EU would embrace both the sectoral and geographical foci by proposing a differentiated approach to development aid allocation, as well as an aid offer that is focused on a limited range of sectors.

The impact assessment does not attempt to consider pre-determined sector and geographic choices. Rather, it tests the principles of sectoral concentration and geographic differentiation. The final choice of sectors and countries will be the product of detailed country-by-country analysis and dialogue, following the established principles of ownership and partnership enshrined in the Paris Declaration, and discourse with other donors, particularly EU Member States, within the framework of the Code of Conduct on Division of Labour.

Strengthened PCD, improved EU coordination, choice of aid modalities and the overall levels of finance available for development, all factors which will also have an impact on the EU's success at meeting its development objectives, will be constants relevant to each of the four options. These elements are therefore not considered as part of the assessment of impact.

5. ASSESSMENT OF IMPACTS: What are the main economic, environmental and social impacts of each option particularly in terms of (quantified/monetised) benefits and costs (including estimates on administrative burden, other compliance costs and implementation costs for public administrations)?

Option 1

Under the *status quo* option, Commission-managed aid would continue to be delivered to a wide range of sectors and beneficiary countries. The Commission would thus maintain a global and cross-sectoral presence, potentially giving it influence across the board and possible leverage effect in all countries. The *status quo* option does not tackle the problem of aid dispersion and fragmentation, thereby increasing the risks of inefficiency in the future aid programme. Moreover, scarce aid resources would continue to be spread too thinly, reducing impact and resulting in the loss of relevance, legitimacy and visibility of EU aid.

Option 2

Sharpened sectoral focus could contribute to the higher impact of EU aid by concentrating resources on a limited number of sectors, thus increasing the EU's critical mass. This could also increase specialised expertise, visibility and reputation of the EU in a number of sectors, particularly where it has recognised comparative advantage. In addition, the Commission would maintain its global development presence, thus allowing influence and possible leverage effect in all countries. Sectoral concentration however runs the risk of creating a possible mismatch between Commission's limited offer and demand from partner countries. This could result in difficulties in spending all resources. In addition, a top-down approach to sectoral concentration would undermine country ownership (a recognised essential ingredient for aid effectiveness and overall success of development).

Option 3

Sharpened geographical focus could contribute to increasing the impact of EU aid by targeting limited resources on those countries where they are needed most and where aid could have greatest impact. In doing so, the Commission would apply a differentiated approach to aid allocation and partnerships, based on comprehensive political and policy dialogue with all partner countries, through which the EU would define the most appropriate form of cooperation, leading to informed and objective decisions on the most effective policy mix, aid levels, financial instruments and aid arrangements.

Geographical focus might however run the risk of weakening EU influence and leverage effect in certain countries and regions where it no longer operates. In the absence of enhanced coordination and division of labour between EU and MS, it also risks widening the gap between donor darlings and donor orphans, at a time when an increasing number of EU donors are reducing their portfolios and exiting from a number of developing countries. Both these issues can however be mitigated by accompanying measures, such as a graduated exit strategy, forging new types of partnerships with those countries which no longer receive grant aid and making progress on joint programming and division of labour.

Option 4

Sharpened sectoral and geographical focus could contribute to significantly increasing the impact of EU aid through better and more strategic use and allocation of scarce aid resources.

In doing so, the EU could increase its critical mass in certain sectors and countries, thus allowing strengthened bargaining power and increased leverage effect on resources and policies. By leading through example, the Commission could increase the visibility and legitimacy of its aid and encourage EU MS to do likewise. This would also strengthen the Commission's role as convener and coordinator, notably on crucial aspects of division of labour.

6. COMPARISON OF OPTIONS: What is the preferred option on the basis of which criteria/justification?

The Impact Assessment concludes that Option 4 is the strongest option. It would produce a more strategic, justifiable and visible allocation of scarce EU aid resources which, instead of being spread too thinly over sectors and countries, as in the *status quo* (Option 1), would be focused where they are needed most and where they could have the greatest impact on poverty. Option 4 combines the strengths of each of Options 2 and 3 and overcomes some of the limitations of a single-focus (sector or geography).

The approach embodied by Option 4 will allow the Commission to achieve a more balanced and strategic role as donor, which should have positive spin-offs in terms of its visibility and reputation.

7. MONITORING AND EVALUATION: What are the arrangements to establish the actual costs and benefits and the achievements of the desired effects?

The Commission already has regular monitoring and evaluation systems in place, covering the breadth of its aid programme. It currently evaluates country and thematic strategies, individual programmes and projects. Larger evaluation exercises assess the complementarity and synergy between the different legislative instruments, including non-spending activities. Complex evaluations may also cover overarching political objectives as laid down in relevant political processes as well as address cross-cutting and transversal issues relevant to all or several legislative instruments. As far as possible, the Commission associates all relevant stakeholders in the evaluation phase of the EU assistance, including joint evaluations.