

## KEY QUESTION

### 6

## How is the EU's ODA spent?

### The EU disburses nearly all of its ODA bilaterally

The EU reports virtually all of its ODA as bilateral ODA (99% in 2015). However, this does not mean that European institutions do not provide support to other multilateral organizations: they often do so through funding that is earmarked for specific thematic priorities or countries/regions and is thus reported as bilateral ODA. In 2015, the EU channeled 16% of its bilateral ODA to multilateral organizations, which implemented projects earmarked for certain geographic or thematic areas. For example, a large share of EU contributions to United Nations organizations (including UNICEF, UNDP, World Food Programme, UNRWA and UNHCR) are reported as bilateral aid. In 2015, the EU's full support to the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) was also reported as bilateral aid.

Grant disbursements made up 72% of bilateral ODA of the EU in 2015. One of the Commission's key instruments for the delivery of grants (within all funding instruments) is budget support. Under this instrument, funds are transferred directly to the recipient country's budget, as a means to strengthen national development policies and reforms, and to foster country ownership. In 2015, budget support accounted for 12% of bilateral ODA (US\$2.2 billion), a much higher share than the average amongst the members of the Development Assistance Committee (DAC; 2%). Disbursements have remained relatively stable over the past years. Sub-Saharan Africa is the largest recipient of budget support (49% in 2015).

Despite the vast majority of the EU's ODA being provided as grants, the share of loans and equity investments in the EU's ODA (28%) is much higher than the averages amongst DAC donors (16%), and has increased significantly in past years: in 2010, loans and equity investments accounted for only 0.5% of the EU's bilateral ODA. This is due to the fact that the EU started to report unsubsidized loans by the European Investment Bank (EIB) as ODA in 2011. The EIB is the European Union's bank, which provides finance for investment projects. More than 90% of investments support activities within Europe, however it also supports the EU's development policy. EIB loans focus almost exclusively on middle-income countries (MICs): in 2015, they received 87% of EIB's total volume of ODA loans. As a result of an upcoming change in OECD reporting rules for ODA loans, the amount of loans reported as ODA by the EU may considerably decrease. From 2018 onwards only the grant element of loans will be counted as ODA (i.e., the concessional part

of a loan), while currently the full face value of loans is counted as ODA. This change in reporting may lead to a considerable decrease in total EU ODA.

Under the framework of the European External Investment Plan (EIP), set up in September 2016 by Commission President Juncker, the Commission set up a European Fund for Sustainable Development (EFSD). This fund is intended to scale up investment in the European neighborhood and African countries through setting up investment windows on a range of social and economic development issues. The EIP also includes technical assistance to support local authorities and companies in developing projects.

### Who are the ODA recipients?

#### Large shares of ODA go to EU neighborhood and accession countries

Due to the large share of ODA funding delivered to neighboring countries through the European Neighborhood Instrument (ENI) and the Instrument for Pre-accession Assistance (IPA) (see section four: 'How is the EU's ODA budget structured?'), a large share of the EU's ODA goes to MICs. They received 58% of the EU's bilateral ODA between 2013 and 2015 (DAC average: 33%). Low-income countries (LICs) were allocated 25%, below the DAC average of 28%.

As the European Development Fund (EDF) and the Development Cooperation Instrument (DCI) have the strongest focus on developing countries and poverty alleviation, this section analyzes the recipients of these two funding instruments in more detail.

- EDF: The EDF focuses on providing development assistance to countries of the African, Caribbean, and Pacific Group of States (ACP countries): of those 79 countries, 48 are in Sub-Saharan Africa. Subsequently, the majority of EDF funding is allocated to countries in the region (82% of total EDF funding in 2015). Funding is also directed towards LICs: nine of the top 10 recipient countries of the EDF in 2015 belong to this category.
- DCI: When considering both geographic and thematic programs of the DCI, countries in South, Central and Far East Asia receive the largest share (50% of total funding in 2015). DCI's geographic programs focus on

South and Far-East Asia as well as Latin America. The thematic fund, however, is more focused on Sub-Saharan Africa, as 27% of the funds in 2015 were allocated to countries in this region. The DCI focuses rather heavily on MICs: with the exception of Afghanistan, all top 10 recipients belong to this category.

Under the multiannual financial framework (MFF) for 2014 to 2020, the EU will be closing 16 bilateral programs with MICs in Asia and Latin America; this will increase funding to LICs.

## How is bilateral funding programmed?

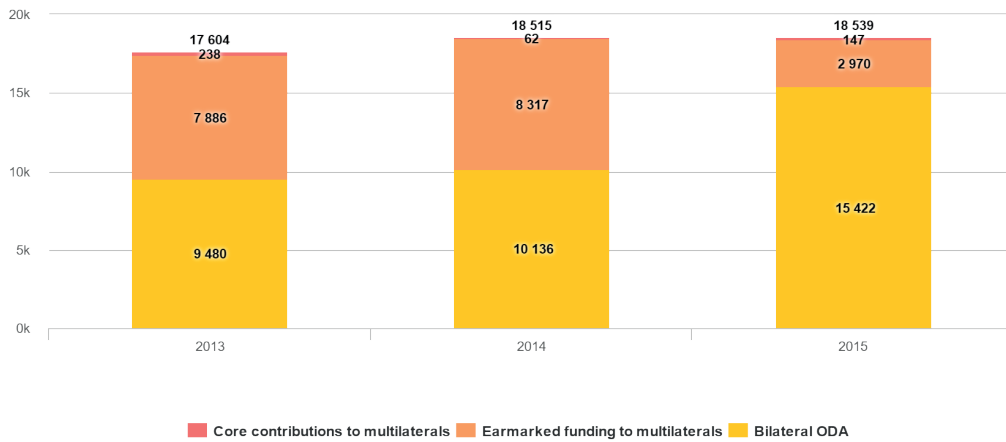
The European Commission's Directorate-General for International Cooperation and Development (DG DEVCO) and the European External Action Service (EEAS) are jointly responsible for approving the EU's seven-year strategy with partner countries regarding EDF and DCI allocations. These documents, referred to as 'multi-annual programs' (for cooperation under the DCI) and 'national/regional indicative programs' (for cooperation under the EDF) are developed by EU delegations on the basis of pre-existing national development plans or strategies and with instructions from DG DEVCO and the EEAS. They define priority sectors of bilateral cooperation between the EU and the partner country, and state indicative amounts allocated to each sector. Both instruments undergo mid-term reviews which offer possibilities to reshuffle programmed EDF and DCI funding, within a country as well as between different countries.

On a yearly basis, DG DEVCO and EU delegations jointly prepare Annual Action Programs (AAPs) that set budget allocations and goals for each country and for the DCI's thematic programs. AAPs are usually adopted by the Commission leadership during the summer following agreement over the budget. DG DEVCO may also adopt 'addendums' to the AAPs towards the end of the year for additional financing of programs.

The decision-making process on 'flagship programmes' (see section four: 'How is the EU's ODA budget structured?') is unclear. DG DEVCO proposed to focus on 12 initiatives that should be partially funded through the thematic GPGC program. In addition, the Commission could, for example, open new 'flagship programmes' on global health and earmark funding for these purposes.

THE EU'S BILATERAL AND MULTILATERAL ODA

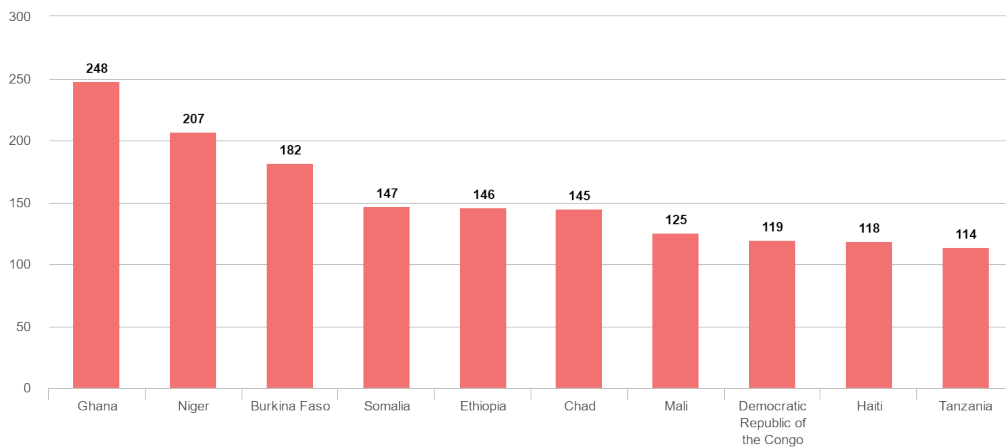
US\$ millions, 2014 prices



Source: OECD DAC. Gross disbursements.

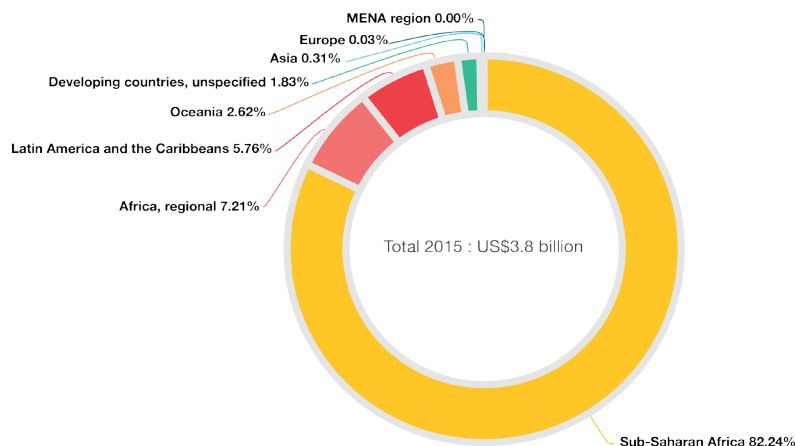
THE TOP 10 RECIPIENTS OF THE EDF IN 2015

excluding debt relief; US\$ millions; in 2014 prices



Source: Devco annual report, 2015.

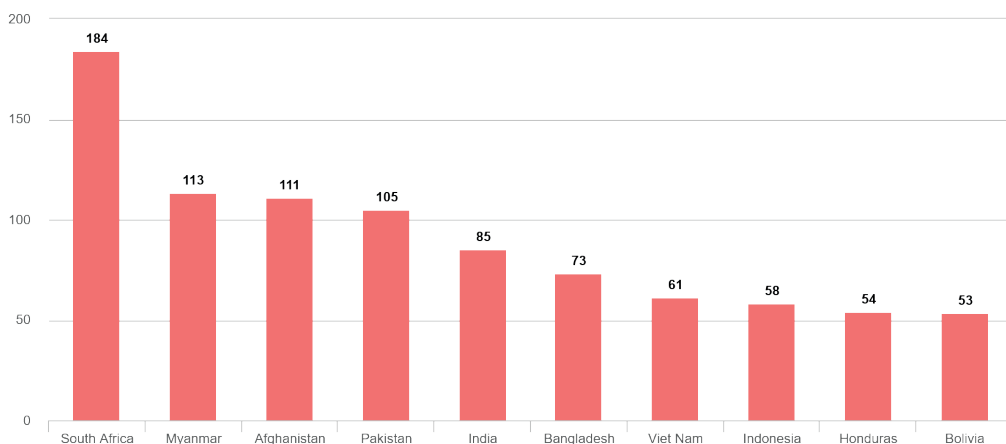
THE EDF BY REGION IN 2015



Source: Devco annual report, 2015.

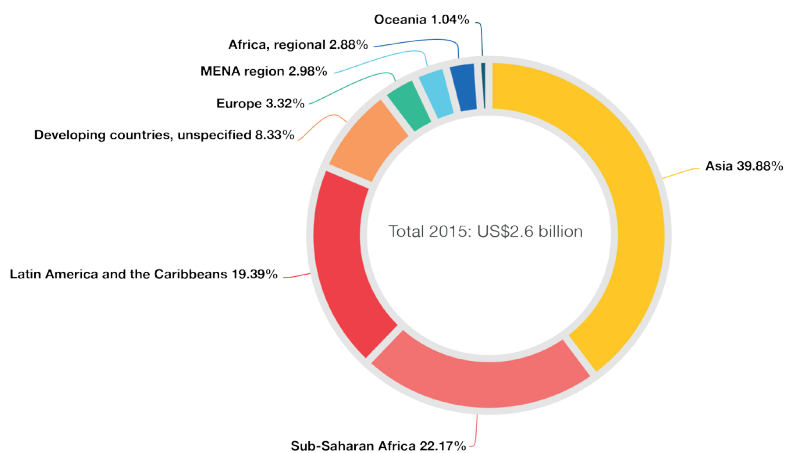
THE TOP 10 RECIPIENTS OF THE DCI IN 2015

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Source: Devco annual report, 2016.

THE DCI BY REGION IN 2015



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