

KEY QUESTIONS

the big six

6



How is the EU's ODA spent?

The EU disburses nearly all its ODA bilaterally

The EU reports virtually all its ODA as bilateral ODA (99% in 2016). 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 or geographic priorities and is thus reported as bilateral ODA. In 2016, the EU channeled 19% of its bilateral ODA, or US\$3.5 billion, to multilateral organizations. A large share of EU contributions to UN agencies are reported as bilateral ODA, for example, UNICEF (US\$372 million in 2016) and the UNDP (US\$301 million). Other multilateral organizations receiving ODA from the EU include the World Food Programme (US\$451 million) and regional development banks (US\$304 million). Earmarked multilateral funding strongly decreased between 2014 and 2015, which is explained by changed reporting procedures regarding loans provided by the European Investment Bank (EIB): in 2013 and 2014, loans were reported as 'earmarked funding' but were moved to the 'bilateral ODA' category in 2015.

Grant disbursements made up 72% of bilateral ODA of the EU in 2016. One of the Commission's key instruments for the delivery of grants is 'budget support'. In 2016, budget support accounted for 11% of bilateral ODA (US\$2.1 billion), a much higher share than the 1.5% average amongst the members of the Development Assistance Committee (DAC).

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% in 2016) is much higher than the averages amongst DAC donors (9%) and has increased significantly in past years: This is because as the EU started to report unsubsidized loans by the EIB as ODA as of 2011. In 2017, however, the EU decreased the amount of loans it disbursed, which led to a decline in overall ODA levels. The EIB provides finance for investment projects, with almost 90% supporting activities within Europe; however, some loans also support the EU's development policy. EIB loans to ODA recipient countries focus almost exclusively on middle-income countries (MICs): in 2016, they received 81% of EIB's total volume of loans to ODA-recipient countries. Only 8% went to low-income countries (LICs). A change in OECD reporting rules for ODA loans may considerably decrease the amount of loans reported as ODA by the EU; from 2018 onwards only the grant element of loans will be counted as ODA, while currently the full face value of loans is counted as ODA.

Under the framework of the European External Investment Plan (EIP), set up in September 2016 by Commission President Jean-Claude Juncker, the Commission set up a European Fund for Sustainable Development (EFSD) endorsed with €3.35 billion (US\$3.7 billion). This fund is intended to scale up investment in the European neighborhood and Africa 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 European 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 question 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 2014 and 2016 (DAC average: 33%). Low-income countries (LICs) were allocated 25%. Top recipients, based on a 2014-2016 average of OECD data, are Turkey, Morocco, Serbia, and Tunisia. ODA is increasingly being channeled to conflict-affected countries as humanitarian aid and specifically through the Trust Funds set up for Syria or for Africa (see question two: 'What are the EU's strategic priorities for development?').

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): 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, which is the latest year for which data is available). 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 (40% of total funding in 2015, which is the latest year for which data is available). 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 belonged to this category in 2015.

Under the multiannual financial framework (MFF) for 2014 to 2020, the EU sought to close 16 bilateral programs with MICs in Asia and Latin America, with the aim of increasing funding to LICs. Along with other OECD donors, the EU is committed to spending 0.15-0.2% ODA/GNI in less developed countries. However, EU ODA for LICs has not increased (24% of bilateral ODA went to LICs in 2016, down from 26% in 2014).

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' within the DCI and 'national/regional indicative programs' within the EDF, are developed by EU delegations in the partner countries on the basis of

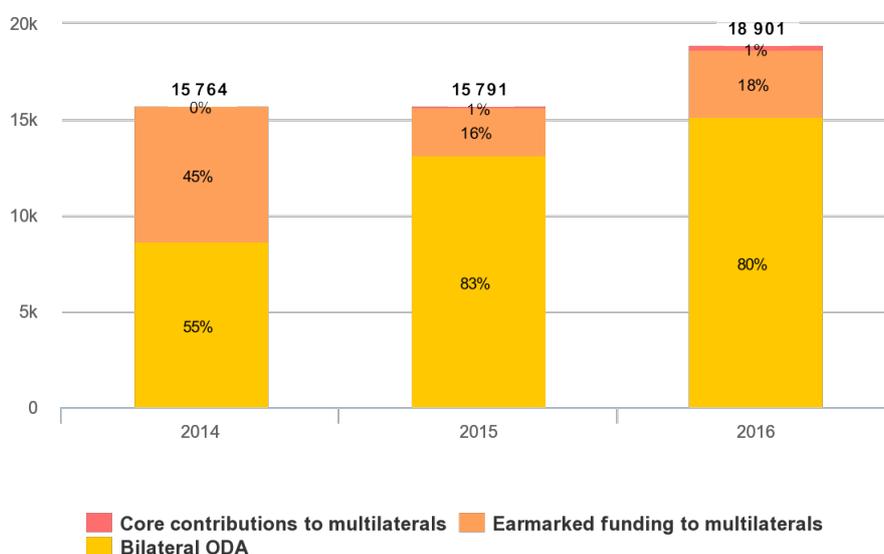
pre-existing national development plans or strategies and with instructions from DG DEVCO and EEAS. They define priority sectors of bilateral cooperation between the EU and the partner country and state indicative amounts allocated to each sector. The agreements established with each partner country within the EDF also specify the contribution key for each EU member state; the final country agreements therefore also need to be ratified by each EU member state (by and large, the member states follow the shares as proposed by the Commission).

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 question four: 'How is the EU's ODA budget structured?') is opaque, nor is the exact contribution of the Global Public Goods and Challenges (GPGC) budget to each 'flagship programme' clear. A 2015 study by the NGO consortium CONCORD Europe found that many of the flagship initiatives are not in fact new programs but rather use new knowledge and "lessons learned" to improve and build on existing ones.

THE EU'S BILATERAL AND MULTILATERAL ODA

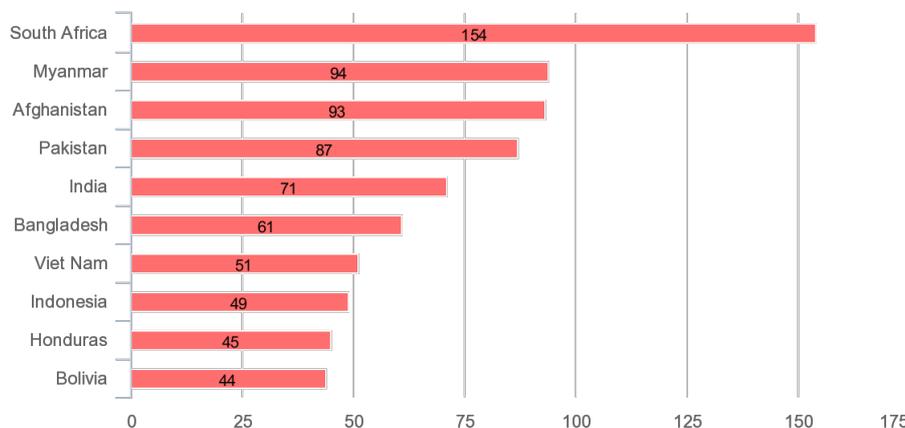
US\$ millions



OECD DAC 1 table. Gross disbursements; in 2016 prices.

THE TOP 10 RECIPIENTS OF THE DCI, 2015

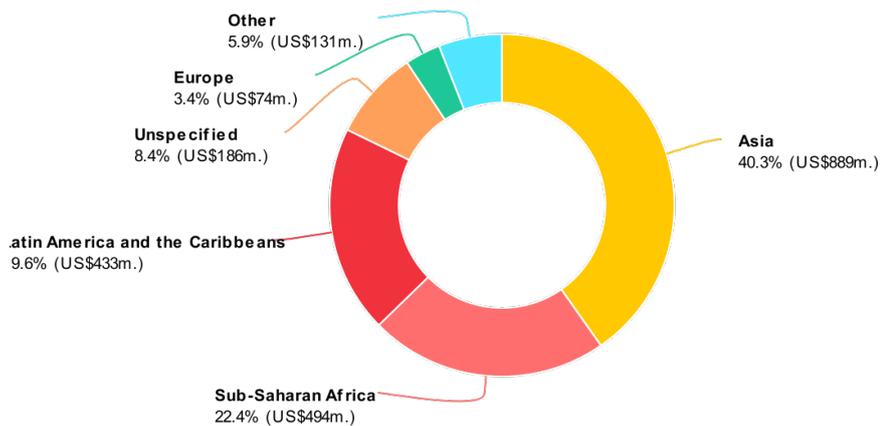
excluding debt relief, in US\$ millions



DEVCO annual report, 2016 (latest data available). In 2016 prices.

THE DCI BY REGION, 2015

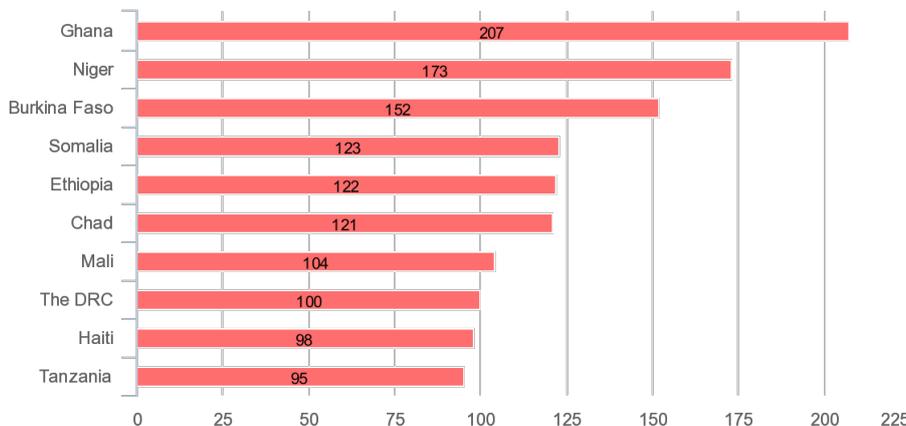
Total: US\$2.2 billion



Devco annual report, 2016 (latest data available). in 2016 prices.

THE TOP RECIPIENTS OF THE EDF, 2015

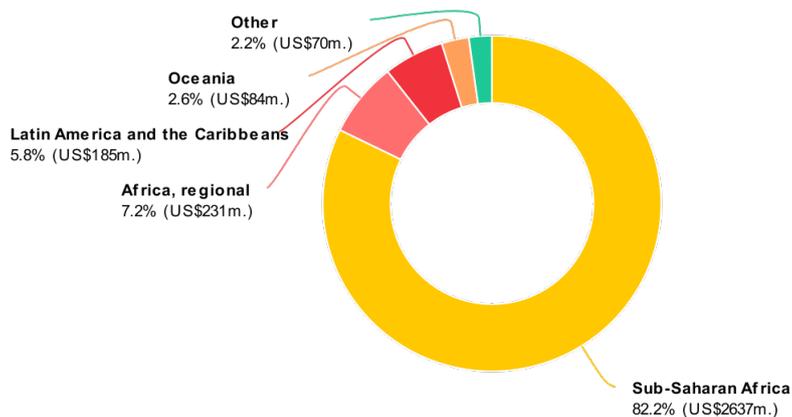
excluding debt relief, in US\$ millions



DEVCO annual report, 2016 (latest data available). In 2016 prices.

THE EDF BY REGION, 2015

Total: US\$3.2 billion



Devco annual report, 2016 (latest data available). in 2016 prices