

# European Parliament/DEVE - Hearing on 'Effectiveness, efficiency and results of EU aid for sustainable development'

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1. We appreciate the active and positive role the European Parliament is playing in furthering the development effectiveness agenda in the EU.  
Most notably:
  - Resolution of 22 November 2016 that stressed the key role of this agenda to eradicate poverty, reduce inequalities, deliver essential public services, support good governance and called for strengthened implementation
  - Resolution of 14 April 2016 on the private sector and development. It emphasised the need to ensure transparency, accountability, ownership and alignment with country priorities and debt sustainability when using ODA to leverage private finance
  - Resolution of 27 March 2019 proposed a cap on the amount of the budget to be used for the external action guarantee under the EFSD+
2. It is clear that ODA is a vital and irreplaceable resource for eradicating poverty and tackling inequalities. To unleash its catalytic impact to the fullest requires:
  - a) Ensuring ownership by putting partner countries in the lead of development processes. Donor procurement of goods and services accounts for a significant amount of ODA (an estimated US\$55 billion in 2015 alone). Opening up donor contracts to companies in partner countries, ODA procurement can build local supply chains for essential goods such as food and medicine, it can incentivise local companies to act in equitable, socially responsible and environmentally sensitive ways, it can start a chain reaction of local economic growth and increase productivity of local MSMEs, sectors in which women represent a substantial proportion of the entrepreneurs.
  - b) Ensuring financial and development additionality of ODA. This means ensuring that the investment would not have taken place anyway even if there was no incentive provided using development finance; and that investments made maintain the highest social, environmental and Human Rights standards.
3. However, in reality we see that progress on development effectiveness is stagnating. The most recent GPEDC progress report shows that:
  - Donors are less often aligning their strategies and projects with partner country priorities
  - Donor plans are becoming less predictable and transparent to partner countries
  - Even though financial management systems of partner countries are getting better, little over half of all donors are using them
  - Although aid tying is declining, this is happening very unevenly across donors and partner countries. In LDCs, we are seeing an increase in aid tying.
4. Tying aid- when ODA delivery is conditioned on it being spent to procure goods or services from the donor country itself- is in fundamental contradiction to the development effectiveness principle of ownership. It increases costs by 15-30% resulting in a waste of valuable and scarce resources. It means developing countries have less scope to use aid to boost domestic economies (so-called 'double dividend' of ODA).

Key figures from Eurodad research :

- EU is making progress on untying aid. In 2017 75% of EU aid was untied.
  - But over 50% of EU procurement flows back to EU companies, in some EU Member States this proportion reaches nearly 90%. Eurodad assesses the direct cost of this inefficiency to be between 2 and 5,4 billion dollars in 2016 alone.
  - A focus on private sector instruments (through EFSD+ for instance) risks further increasing 'informal aid tying'
5. The report on development effectiveness principles that was provided as the backgrounder for this hearing clearly shows the development effectiveness agenda does make a difference, that development cooperation has more impact in bettering the lives of people in poverty when these principles are applied.
  6. This underlines the need for a time-bound action plan to fulfil key development effectiveness principles from Paris to Busan with all stakeholders, including partner countries and civil society.
  7. Equally important is the need to set-up instruments such as EFSD+ differently to ensure that local firms benefit from it the most and that local markets can benefit. This is the surest way to support local economies, generate jobs and ensure decent livelihoods for women and men.
  8. The research on development effectiveness principles interestingly stresses the need to establish checks and balances when partnering with the private sector to bring in additional resources to reach the SDGs. Currently, the EU is putting a strong focus on using public development resources to leverage private capital to close the SDG financing gap (e.g. in the context of NDICI in the next MFF). But there is limited evidence that using public money in this way actually improves the lives of people.  
Available research presents a reality check for this approach as it clearly shows blended finance is not delivering on its towering expectation of turning 'billions into trillions'. In the absence of compelling evidence of its effectiveness, we think the EU should refrain from any moves to scale up blended finance and adopt a cautious and evidence-based approach towards blended finance.
  9. Eurodad suggests the European Parliament builds on the important role it has been playing to ensure:
    - Poverty focus of ODA (as we know blended finance has a strong bias towards MIC and 'hard' sectors)
    - ODA is not wasted by ensuring it does not subsidise investment that would have happened anyway
    - Ownership and transparency of ODA
  10. Finally, it is important to address the current discussions to reform EU financial architecture for development. These discussions are so focussed on the practical and technical engineering to set up new institutions that they risk forgetting to draw lessons from the failings of the current architecture. Civil society has pointed out that strong accountability and transparency frameworks and environmental, social and Human Rights standards were and continue to be a blind spot in the current institutional framework. Failure to acknowledge and amend this will most probably lead to this remaining a blind spot in any new institutional set-up. The European Parliament should take the opportunity of the current debate on the EU financial architecture to raise the transaction costs of setting-up

new institutions and the need to address the 'development effectiveness deficit' in the current set-up.

11. In conclusion, Eurodad hopes that the European Parliament will continue to put poverty eradication and reducing inequality at the heart of EU development cooperation and champion Policy Coherence for Development.

In recent years, we have seen an increasing trend to include several categories of in-donor costs, particularly refugee costs, that do not constitute an actual flow to developing countries and contribute little or nothing to sustainable development. 'Inflated aid' continues to represent 14% of the EU's ODA and is a clear symptom of the trend of instrumentalizing EU development policies for other interests away from poverty reduction. Reversing this trend will be a clear signal of the EU's seriousness in upholding the development effectiveness agenda.