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Christoph Harendt, Friedrich Heinemann, Stefani Weiss

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Why and How There Should be More Europe in Development Policy

Christoph Harendt, Prof. Dr. Friedrich Heinemann* and Stefani Weiss***

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Abstract

Extreme poverty in certain global regions remains one of our greatest international challenges. Between 2014 and 2016, 800 million people suffered from hunger. Nevertheless, most EU member states spend less than the required 0.7 percent of Gross National Income (GNI) for development aid. In addition, resource use is often inefficient since multiple donors often engage in the same countries, which incurs high administrative and transaction costs for both donors and partners.

Using the concepts of fiscal federalism, we argue that shifting more financing and management of development cooperation from member states to the EU would contribute to overcoming these problems. A larger role of the EU budget for financing development aid would better align national costs and benefits and thus reduce free riding. Moreover, transaction costs could fall by reducing aid fractionalization.

Based on the general insight that stronger EU competence would be favourable, we have developed a model of how this could work. In this model, the centralised development aid from the EU budget would meet the 0.7 percent spending commitment. Since member states contribute to the budget according to their GNI, this target could be met by the EU as a whole as well as the member states. If large income differentials between member states render this GNI-proportionate financing formula unacceptable, a progressive formula could be applied for the development-related contributions to the EU budget. However, member states with equal income levels would be treated equally, thus precluding free riding.

Abstract

The model accounts for the main challenge that a further centralisation of European development aid would face: the need to account for specific national interests in development aid that result from historical links, national interests, and citizens' preferences. As well as the EU budget component, individual member states could conduct additional development financing via trust funds, which would also enable them to pursue individual preferences.

On the operational side, we propose a system in which member states remain involved by being responsible as 'lead states' (or part of a small group of lead states) for the implementation of development cooperation with one or several partner countries. The lead states would act on behalf of the EU and administer aid in a specific partner country. This kind of specialization could overcome the current inefficient aid fragmentation without losing the expertise and information advantages from long-standing ties between donors and recipients.

* Research Department "Corporate Taxation and Public Finance", ZEW - Centre for European Economic Research
** Programme Europe´s Future, Bertelsmann Stiftung

Content

1 Introduction

There is broad consensus about European responsibility for global engagement in development. The elimination of poverty and hunger, and the guarantee of health, well-being, quality education, and gender equality, are some of the Sustainable Development Goals (SDGs) adopted in 2015 by 193 members of the United Nations, including all EU member states (The Guardian 2015; United Nations 2016). While some progress has been achieved in recent decades, much remains to be done. For example, nearly 800 million people experienced hunger between 2014 and 2016, and an estimated 5.9 million children below the age of five died in 2015 from preventable illnesses (United Nations 2016).

Recent challenges, such as the increasing number of refugees and immigrants from developing countries, highlight the importance of development cooperation for creating liveable conditions in those countries. Fundamental problems – unemployment, lack of education, poor healthcare systems, climate change, bad governance, wars, persecution – have triggered flows of immigrants and refugees (BMZ 2011).

This has made development cooperation even more important: not just from the perspective of altruism, but also with respect to donor self-interest (Ayers and Huq 2009; BAMF 2016; World Bank 2002). As a consequence, the amount of official development assistance (ODA) provided by international organisations and national agencies reached a new peak in 2015 (not including expenditures for refugees within donor countries, which are sometimes added to development aid statistics). Furthermore, an increasing number of international declarations underlines the importance of development cooperation as a global task (OECD 2016).[1]

Another difficult challenge will emerge in the long term when the number of people living in developing countries increases considerably. The population of Africa, for instance, will reach 2.4 billion by 2050, which is double its current level (United Nations 2015). This population growth, which will increase pressure to emigrate, underlines the need for a successful approach to development.

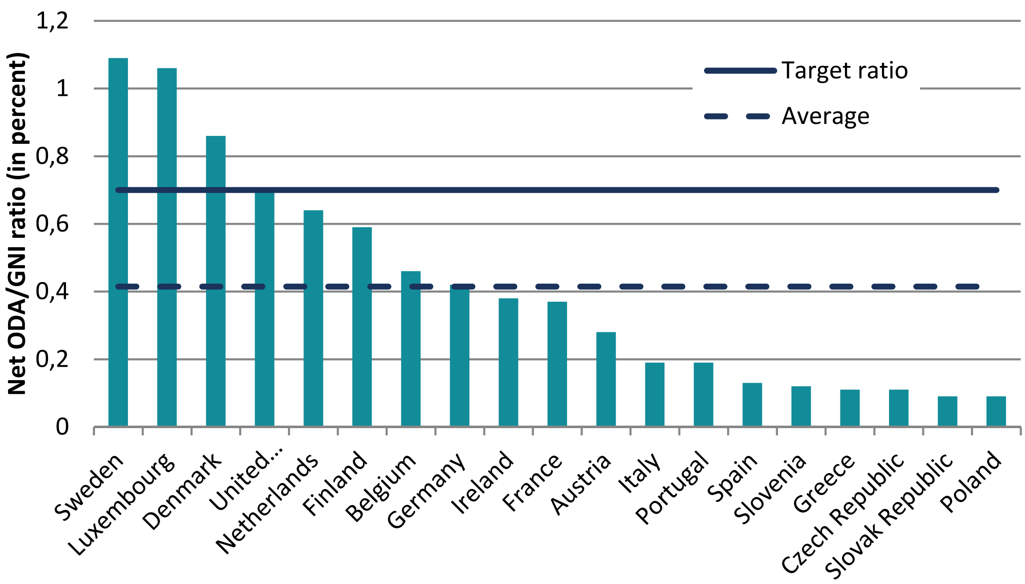
Currently, the EU's development cooperation is conducted bilaterally between individual member states and developing countries, as well as through multilateral donors, including the EU. This approach, however, suffers two major shortcomings.

[1] ODA is a definition of aid flows according to an agreement between members of the OECD Development Assistance Committee (DAC).

First, the large number of donors leads to redundancies within national administrations as well as the fragmentation of aid, which incurs high transaction costs for both donor and partner countries. Attempts have been made to improve effectiveness. Major milestones were the four High Level Fora on Aid Effectiveness, as well as initiatives by the EU. Donors have committed to better coordinate development cooperation and enhance complementarity to avoid some countries receiving significant aid while others receive much less (OECD n.d.-a, European Commission 2007). However, the fragmentation of aid (including that of most EU member states) has not declined in recent years (Fløgstadt and Hagen 2017).

Second, development payments are below pledged levels. The EU has not achieved the net ODA/GNI ratio of 0.7 percent that was adopted as a goal by a 1970 UN resolution (OECD n.d.-b). The 15 countries that were member states before 2004 and all EU DAC members have accepted that goals. Of this group, which is shown in Figure 1, only four countries fulfilled this commitment in 2014. [2] The average net ODA/GNI ratio for these countries is 0.41 percent.

Figure 1: Net ODA/GNI ratios of 19 EU member states (2014)



Note: The figure displays the net ODA/GNI ratio (in percent) of 19 EU countries in 2014. The solid red line indicates the target ratio of 0.7 percent, while the dotted green line shows the average ratio of the 19 countries. Source: OECD (https://data.oecd.org/natincome/gross-national-income.htm; http://stats.oecd.org/)

[2] Note that Hungary is not shown in Figure 1 but has committed to the target through its DAC membership.

The contribution of this analysis is twofold. In a first step, by using arguments from fiscal federalism we show that the current shortcomings of low efficiency and non-compliance with development aid targets may at least partially be overcome by a reallocation of competences from member states to the EU level. In a second step, we will outline a model for designing EU competence for development policy. A core challenge for such a common policy are heterogeneous preferences across member states in terms of both the extent and specific shape of this policy. Therefore, we will describe this heterogeneity in detail and illustrate that our model can incorporate different preferences.

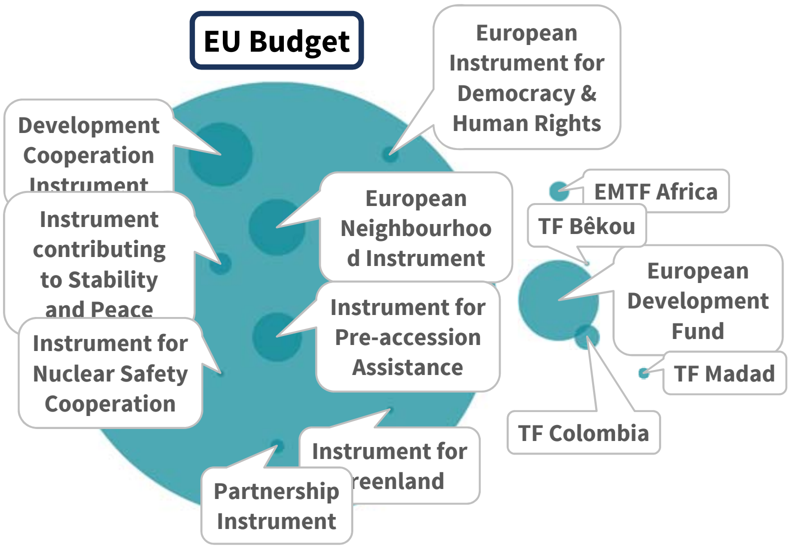
These reform suggestions are highly relevant for design of the post-2020 Multiannual Financial Framework. The withdrawal of the UK from the EU shrinks the budget. As a consequence, the European Commission wants to set priorities in the future budget based on the concept of 'European Value Added' (European Commission 2017). With this in mind, the EU should engage particularly in those policies where it can be more effective than the member states alone. This study clearly points to substantial European Value Added for our model; a European competence for development cooperation could help overcome some of its shortcomings.

2 Mixed Competences under the Status Quo

Currently, the EU and its member states share responsibility for development cooperation. On the one hand, individual member states directly support developing countries and fund multilateral agencies that carry out development cooperation. On the other, the EU also acts as a donor. Figure 2 shows the spectrum of EU development cooperation: the size of the bubbles represents the amounts of funding. Several instruments of development cooperation are financed from the EU budget. Among those, the Development Cooperation Instrument is the largest. In total, €95 billion of the EU's seven-year budget (€960 billion of commitments in total in the 2014–2020 Multiannual Financial Framework) is directed to external programmes of the EU (European Commission 2018).

In addition to those instruments, there are others outside of the budget. The European Development Fund (EDF), launched in 1959, is the largest. Also, there are certain trust funds with a strong regional focus. Member states contribute to those funds outside the budget according to individual preference. It is obvious that there are many other, often small instruments. This implies redundancies in development cooperation projects and hence potentially high transaction and administrative costs. Given that member states annually spend together on average about €70 billion on development cooperation (from 2004 to 2014), the development programmes conducted at the EU level are only a fraction of total European development aid.

Figure 2: Development cooperation of the EU



Source: European Commission (https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/where-does-money-come/external-action-financing-instruments_en).

In addition to instruments at the EU level, several commitments and efforts to increase coordination of bilateral development cooperation have been made. For example, the European Commission has proposed that each country should focus on its particular know-how to leverage comparative advantages, while together they can provide a complete toolbox of development cooperation (European Commission 2007). Furthermore, the Council has committed to implement so-called 'joint programming', which includes a joint response to the partner country's development strategy and a division of labour within partner countries among donors (Council of the European Union 2011). Nevertheless, our analysis in the following section shows that there are currently more potentials that can issue further gains in efficiency and effectiveness.

3 Three Fiscal-Federalism Arguments on Why the Status Quo is a Failure

3.1 The status quo's incentives to free ride are huge

3.1.1 Methodology and data source

Currently, member states have strong incentives to provide less development funding than what is actually needed. To a considerable extent, benefits from development cooperation have a 'public good' character. Third countries cannot be excluded from the benefits related to the political and economic stabilization of the developing country. Hence, each donor has reduced incentive to provide development aid, and free riding is a rational strategy.

In the following, we calculate EU member states' benefits and burden shares for both the status quo – a largely national provision of development cooperation – and for a counterfactual situation in which development cooperation is centrally financed from the EU budget.

In estimating the member states' benefits, we focus the analysis on development cooperation objectives. Based on the aforementioned SDGs and the classification of motives by Bandyopadhyay and Vermann (2013), we distinguish the following motives:

1. Altruism – improving economic growth to help developing countries for humanitarian reasons.
2. Paternalism – building institutions, improving governance.
3. Political – fostering reciprocal support in international organisations.
4. Commercial – improving trade relationships, developing resources.
5. Migration and security – reducing migration, fighting terrorism.

These motives could in principle be used to develop indicators for the national benefit from development aid. However, both paternalistic and political motives are very hard to quantify. Furthermore, the importance of altruistic motives and the contribution of aid to economic growth is highly controversial in academic literature (see, e.g., Nowak-Lehmann et al., 2012). We therefore disregard these rather qualitative motives and base our calculation instead on commercial, migration and security motives. The reasoning is that development cooperation can be used to prevent terrorism by tying aid to counterterrorism measures, or by using aid to fight the causes of terrorism through monies for education and conflict prevention (Bandyopadhyay, Sandler and Younas 2011; Young and Findley 2011).

We measure commercial motives using OECD data on member states' imports and exports with least developed countries (LDCs) and compute the respective percentage share of each member state in total imports and exports.[3]

As for limiting migration, we use Eurostat data for the number of asylum seekers from non-EU countries in 2009–2014 and compute the percentage distribution of these figures across member states.[4] The underlying assumption is that the relative number of asylum seekers in one country is a good indicator of the benefits that it receives from limiting migration pressure through successful development cooperation.

Dreher and Fuchs (2011) stress the importance of development cooperation for fighting terrorism. The member states' incentives to fight terrorism are approximated using the Global Terrorism Database (National Consortium for the Study of Terrorism and Responses to Terrorism 2016). We use figures on the attacks on member states' citizens worldwide, and on attacks on member states' territories.[5] For both figures, we compute the percentage distribution across member states and calculate the average of both shares. The assumption is that the higher the average, the more a country benefits from its own development cooperation, as well as that of other member states.

We calculate the net benefit as the unweighted average of the four individual benefit measures (import, export, migration, terrorism share), which means that commercial as well as migration and security motives are equally weighted with 50 percent. We assume that the distribution of benefits is – at least in the short term – independent from the financing of development cooperation. Burden shares for the current case of national competencies for development aid are calculated using the percentage distribution of the sum of member states' ODA contributions in the 2013–2015 period.[6] The figures comprise bi- and multilateral aid, and thus also include member states' payments

[3] Another idea would be to use information on member states' foreign direct investments (FDI) in countries receiving ODA. However, information on this indicator is lacking for too many countries.

[4] The earlier starting point of the time frame is driven by data availability. We exclude migration figures from 2015 due to the large increase in asylum-seekers that year, and the potential biases resulting from the 2015 European asylum crisis.

[5] For both indicators, we include all types of attacks, weapons, and targets. The number of attacks only refers to international terrorism, meaning that the attack was ideologically international and that the nationality of the perpetrators differs from that of the target(s)/victim(s). If the perpetrator group or target is multinational, the attack is ideologically international.

[6] We use the sum of payments from this period to level out excluded years. The selection of the time frame is driven by data availability. As a caveat, our results (especially for 2015) may be distorted by in-donor expenditures for refugees.

to the UN, World Bank, and EU institutions (comprising the European Commission, European Development Fund, and European Investment Bank).

For the counterfactual, we assume that development cooperation is financed from the EU budget, and use the current distribution of member states' contributions to the EU budget as an approximation of their share in the case of centrally managed development cooperation.

Finally, we calculate net benefits of development cooperation under the status quo and in the counterfactual situation by subtracting the individual burden shares from the benefit shares. Because of missing information for some components in the calculation of the benefit share and the status quo burden share, the analysis only includes 18 countries.[7] All percentage shares are adjusted to these missing values and add up to 100 percent.

3.1.2 Results

The results are presented in Figure 3. The key question is to what extent a fully European situation would reduce the variance of the resulting net benefit indicators relative to the status quo. A feasible way to measure the improvement of the alignment of costs and benefits is to look at the change in standard deviation of net benefits.[8] For this policy, the standard deviation decreases from 4.69 to 2.99 when shifting the competence from the national to the European level. The corresponding relative decrease is 36 percent. Relative to the changes in standard deviations with a stronger European role for other policy fields (Bertelsmann Stiftung 2017), European competence for development scores well according to this indicator.

In robustness checks (see Bertelsmann Stiftung 2017), we consider two other scenarios with differently weighted benefits. In the first scenario, we consider only imports and exports, with equal weight for both. Excluding migration and security indicators is a reasonable robustness check because of certain caveats related to those motives. For example, development cooperation is not the only solution for preempting migration and terrorism. In the second scenario, we take the comparatively strong importance of exploiting natural resources into account, and thus weigh a member state's imports with

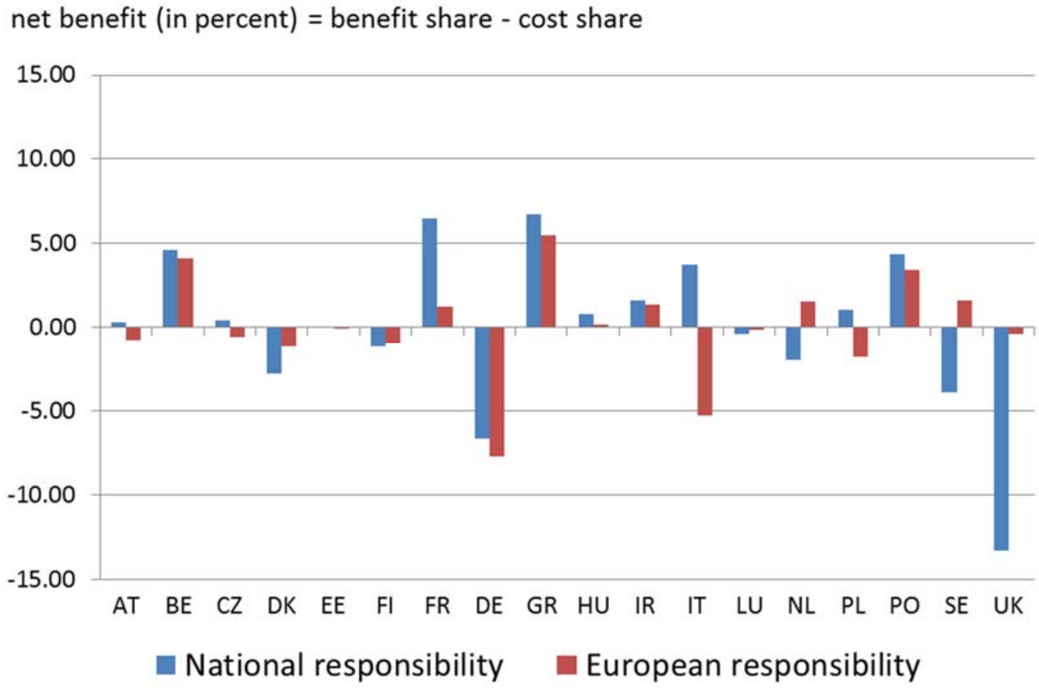
[7] In particular, small member states are excluded. The countries included are Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Sweden, and the United Kingdom.

[8] The standard deviation quantifies the variation of data points around the mean. A standard deviation close to zero indicates that the data points on average tend to be very close to the mean, while a high standard deviation indicates that the data points on average are spread out over a wider range of values.

LDCs with 75 percent (exports with 25 percent). There we find similar results to that above (reductions of standard deviations by 28, respectively 37 percent).

In light of these results, we conclude that a European competence would be favourable with regard to the criterion of better alignment of national costs and benefits.

Figure 3: Net benefits from development cooperation, by country (in percent)



Notes: Bertelsmann Stiftung calculations based on data from Eurostat (http://ec.europa.eu/eurostat/web/asylum-and-managed-migration/data/main-tables), the National Consortium for the Study of Terrorism and Responses to Terrorism (https://www.start.umd.edu/gtd/) and the OECD (http://stats.oecd.org/). The benefit share includes commercial (50 percent) as well as migration and security (50 percent) motives.

3.2 Potential cost advantages of an EU competence

An allocation of competences to the EU level may also lead to substantial cost savings. Some studies have investigated changes in costs due to enhanced cooperation (Bigsten 2013; Klingebiel, Morazán and Negre 2013; Olivié et al. 2013). Bigsten (2013) has identified potential savings in transaction costs of €800 million if there were fewer partner countries per donor and a shift from projects to programmes, i.e. to sector-wide approaches.[9] Similar effects could be expected with an EU competence.

[9] See OECD (2006) together with OECD (2005/2008) for a definition of programmes.

3.3 Harmful competition in status quo

Currently, there are many donors active in development cooperation. This, together with similar shares of those donors, is assumed to increase fragmentation of aid, i.e. the widespread distribution of aid between and within developing countries (Fløgstadt and Hagen 2017). In other words, fragmentation implies that there is a high number of donors engaging in the same partner countries. Different measures of fragmentation are used in the related literature (Fløgstadt and Hagen (2017); Gehring et al. (2017)). However, independent of those measures, an increasing fragmentation can be observed in the last decades. Only in four member states (Denmark, France, Netherlands, Sweden) has the fragmentation declined between 1998–2005 and 2006–2013 (Fløgstadt and Hagen 2017).

Given that fragmentation decreases with the number of donors and the inequality of shares, the EU as a single, dominant donor would reduce fragmentation. Fragmentation could also be overcome by enhanced coordination between EU member states. However, the likelihood that some deviate from the commonly accepted approach renders such a solution susceptible to continued fragmentation.

One may be concerned about a potential monopoly if the EU conducted development cooperation as a single donor. But competition exists not just among European donors, but also globally. Players like Japan, the UN, the US, and the World Bank would limit a far-reaching monopoly of European development cooperation (Klingebiel, Morazán and Negre 2013).

If non-European donors do not require political reforms in return for their aid, a unified EU donor may be needed to enhance such conditionality (Yanguas 2014). Here, the EU could be more powerful than smaller and fragmented EU member states.

4 Preference Heterogeneity as a Central Challenge

Deep cooperation requires similar attitudes towards development policy across member states. One way of identifying preferences is by looking at the responses to related questions in the Eurobarometer. In 2016, the first question in the Special Eurobarometer 441 (European Year for Development – Citizens' views on development, cooperation and aid) was: "In your opinion, is it very important, fairly important, not very important or not at all important to help people in developing countries?" Figure 4 shows the answers that were either "very important" or "fairly important". The share of such answers is larger than 90 percent for 14 countries and similarly high for the other 14. Hence, EU citizens agree that development cooperation is important.

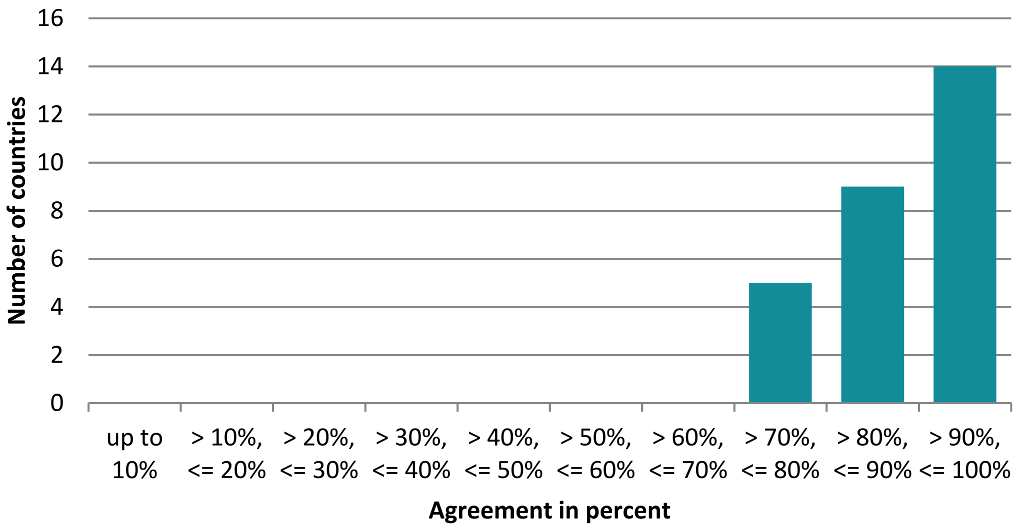
However, besides that member states may vary in their opinions as to precisely how development cooperation should be allocated. First, while some may prefer programmes aimed at economic promotion, others may prefer direct payments to households. Second, while for some countries altruism may be the driving force, others may focus on preempting migration or on economic and political objectives. Third, some donors support especially specific partner countries to which they have historic ties, in particular former colonies, as Dollar and Levin (2006) have found.

Figure 4: Preferences regarding willingness to help developing countries

Special Eurobarometer 441 QA1: "In your opinion, is it very important, fairly important, not very important or not at all important to help people in developing countries?"

a) Very important and fairly important
b) Not very important and not at all important

Results are shown for answer category a).



Notes: The x-axis denotes the percentage of answers with 'very important' and 'fairly important' in a country. Respondents with no opinion are not considered.

5 Model of an EU competence

5.1 General financing scheme

5.1.1 Basic financing from the EU budget

The following arguments point to a larger financing and management role for EU development policy:

1. The status quo may lack incentives for member states to provide development cooperation (the free-rider problem), since benefits from successful aid are not limited to donor countries. This may lead to underprovision.
2. Conducting development cooperation on a larger level is likely to lead to cost savings for donors.
3. The EU, as a single donor, should reduce administrative burdens for partner countries.
4. A unified European donor may increase the impact of development policies compared to the current, fragmented modus operandi.

We therefore propose that EU member states largely pool their development resources, transferring resources from national budgets to the EU.

This way the financial burden of development aid would follow the logic of the European budget and its own resource system. In this system, the national contributions are proportional to each country's GNI.[10] Hence, a budget increase resulting from the centralization of development cooperation would be financed by contributions based on shares in the total GNI of the EU. With this logic, hitting the 0.7 percent spending target both for the EU as a whole and each member state could be achieved, if the EU development budget is set at 0.7 percent of EU GNI. This would end the free riding of single member states.

Through a modification of the GNI resource formula, the EU would also have the flexibility to introduce an implicit progression in financing the development share of the European budget and to vary national re-financing needs so that poorer member states could pay a lower GNI percentage. Eight member states did not even sign the agreement to spend 0.7 percent of GNI (none of which are included in Figure 1, except Hungary). However, this would no longer prevent the EU from fulfilling its spending target in the aggregate. An essential feature of any refinancing system would be that EU member

[10] Currently, the British rebate complicates the system. It will be moot, however, as a consequence of Brexit.

states of identical income level would also have identical financial burdens from European development spending, which would limit free riding.

While the EU budget component stipulating the 0.7 percent commitment would be the backbone of this new European approach, flexibility instruments could cater to the special interests of member states or an even larger willingness to pay. A key instrument for this is trust funds, which we will describe in the following section.

5.1.2 Expansion of trust funds

As can be seen in Figure 1, some donors spend more than 0.7 percent of GNI. Furthermore, should there be an EU competence, others may be willing to donate more because aid to their preferred partners may not be fully coverable by the EU budget or may not find enough support in negotiations.

Those donors could use trust funds. Whereas the payments from the EU budget would focus on the common interests of all member states, trusts funds would allow for individual states to have flexibility. There should be short-term as well as long-term trust funds in order to be able to respond to unforeseen events, but also to ensure long-planning horizons (Bossuyt et al. 2017).

However, trust funds may challenge coherence, effectiveness, and efficiency (Bossuyt et al. 2017). Geographical dispersion, which is the main driver of aid dispersion according to Fløgstadt and Hagen (2017), is likely to prevail through trust funds. Hence, the reduction of harmful competition described above is not likely to be fully achieved. But given the heterogeneous preferences of member states, there seems to be no alternative. However, as we will explain below, monitoring and evaluation may mitigate such undesired effects.

5.2 Division of labour between European Commission and Member States

5.2.1 European Commission

The potential reductions in administrative burdens require development cooperation to be centrally managed. When it comes to the distribution of competencies within the European Commission, the Directorate General for International Cooperation and Development (DG DEVCO) is of central importance. However, other DGs such as Climate Action (DG CLIMA) and DG Migration and Home Affairs (DF Home) are increasingly involved in development cooperation. DG DEVCO should have a leading role in future development cooperation. For most areas of development, the coherence of programmes in a country is assumed to be more relevant than coherence across countries. The coherence within countries can be realized by such units whereas topic-related units may rather guarantee the cross-country coherence.

5.2.2 Member states

Even though European development cooperation should largely be financed and managed at the EU level, it may be beneficial to keep member states involved with particular responsibilities in line with their preferences, specific knowledge, and traditions in international relations. This would reduce the transaction costs of shifting everything to the EU level. In addition, by maintaining some responsibility, some form of quality-enhancing yardstick competition could arise between member states. Yardstick competition implies that countries try to outperform other countries, which increases overall quality. We suggest setting up a system where, within an EU competence, certain member states are responsible for certain partner countries ('lead states').

The matching of member states and partner countries should be based on comparative advantages. This means that member states that conduct long-lasting and extensive ongoing development cooperation with certain partner countries should be matched to those countries. Natural candidates would be former colonial powers (Yanguas 2014). France, for example, could become the "lead state" for development cooperation with Morocco. But donors with relatively little total aid could also become lead donors if their share of aid to the country (relative to their total ODA) is higher than the respective shares of other donors. It might also be possible for a small number of EU member states to jointly take responsibility as lead donors for a specific partner country.

This approach is similar to the concept of lead donors as proposed in the EU Code of Conduct on Division of Labour in Development Policy (European Commission 2007). This refers to bilateral aid and suggests that for given sectors, certain member states should have responsibility for coordination and policy dialogue (Kitt 2010). On the contrary, we denote countries as lead states since, although different countries will execute the aid, there will be only one donor, the EU.

Two examples of similar forms of cooperation already exist between certain (groups of) member states and counterparts outside the EU. First, in Cross Border Cooperation programmes, certain member states cooperate with their neighbouring countries outside the EU (European Commission 2016a). Italy, for example, cooperates with Tunisia. Second, during the accession process, certain member states cooperate with partner countries with the aim of capacity-building in public administration in the latter (European Commission 2016c). One example of this is the cooperation between Germany and the Former Yugoslav Republic of Macedonia in enhancing the latter's Employment Service Agency (European Commission 2016b).

5.3 Implementation

5.3.1 Merge of development cooperation instruments

As shown in Figure 2, a universe of development cooperation instruments exists. We suggest merging some of them in order to enhance flexibility. This flexibility would enable the EU to shift funds between thematic areas. In addition, administrative costs would fall.

5.3.2 Implementation agencies

Currently, various countries have their own implementation agencies: Germany (GIZ), France (AFD), Great Britain (DFID), Sweden (SIDA), and others. In addition, DG DEVCO acts as an implementation agency. We suggest that even with a European competence, the national implementation agencies and DG DEVCO should remain active. In order to reduce transaction costs, a single implementation agency makes sense. However, a single European agency may be prone to inefficiency. Yardstick competition between different agencies would be healthy. In addition, if there would be only one European agency and all employees would receive European wages, which are presumably higher than many national wages. This would lead to increasing costs.

However, as mentioned above, the competition among different donor agencies for shares of development cooperation contributes to fragmentation. We therefore suggest that, for the donor countries, development agencies be allocated to certain partner countries. Since those agencies are often owned by the member state, this allocation could largely follow the allocation of member states. In addition, there should be a switch from projects to programmes, which saves costs. (Bigsten 2013).

5.3.3 Monitoring and Evaluation

In order to ensure quality, democratic control and evaluations will be needed. External evaluations for development cooperation instruments already exist, and a Coherence Report has been published (Bossuyt et al. 2017). Nevertheless, monitoring and evaluation lag behind (Bossuyt et al. 2017). Therefore, for each programme should be defined ex ante. The evaluation would ask whether, by its design, it is expected to contribute to relevant goals of development, such as the SDGs. And there should be an ex-post evaluation as well based on a scoring that determines whether it actually contributes to the goals. The outcomes of the evaluations should then determine the future distribution of funds.

In addition, extended evaluations should be carried out for randomly selected programmes. One example of such systematic evaluation exists in German development policy. In 2012, an independent evaluation institute, the German Institute for Development Evaluation, was established. Although this institute is run by Germany's Federal

Ministry for Economic Cooperation and Development, formal rules and an advisory board consisting of parliamentarians ensure its independence (Society for International Development Chapter, Bonn 2016).

As mentioned, trust funds may constitute a challenge to coherence, effectiveness, and efficiency. In particular, trust funds may have adverse effects on EU values if they focus on goals such as security or reduction of migration (Bossuyt et al. 2017). Human rights may be threatened by such measures. Therefore, trust funds should be approved by the EU Parliament (if there are contributions from the regular budget), and the contributing member states' parliaments.

6 Conclusion

Despite past efforts, underdevelopment in certain regions, the cause of severe problems such as hunger and disease, is still one of the major challenges of humanity. One explanation for the limited success in dealing with these challenges is that national funding for development cooperation lags behind the necessary contributions. Of the 20 member states that agreed to spend 0.7 percent of their GNI on development, in 2014 only four had actually done this.

In this study, by using fiscal federalism arguments, we show that this underprovision of development cooperation is not inevitable. If development programmes were financed from the EU budget, benefits from development cooperation would be better aligned with the cost. The benefits are largely related to a country's income since richer countries benefit more from progress in developing countries (e.g. by allowing them to open new trade opportunities for their strong industries). The GNI-dependent own resource payments to the EU budget would provide an adequate financing formula with a good alignment of costs and benefits. If necessary, this financing system could be progressive according to GNI.

Besides their contributions to the EU budget, individual member states should remain able to conduct additional development financing via trust funds, enabling them to follow their respective national preferences. However, this may come at the cost of less coherence. Not least because of this, we emphasize the importance of strong oversight of EU development cooperation in general by the European Parliament and, in certain cases, the member states' parliaments. At the same time, evaluation of randomly selected programmes may foster quality.

By switching to a single donor, administrative burdens and transaction costs can be reduced. This would ensure more bang for the buck. We suggest that DG DEVCO maintains a leading role by coordinating other parts of the European Commission's development cooperation, such as DG Climate Action and DG Home.

Despite the role of the European Commission in setting the framework for development cooperation, member states should have particular roles that make use of their knowledge and special relationships to partner countries. Single member states should become responsible lead states for certain partner countries, which would reduce the risk of shifting all operational responsibilities to the European Commission and would sustain yardstick competition. Accordingly, the national implementation agencies should be sustained, too.

In the post-2020 multiannual financial framework, spending priorities should be newly defined as a consequence of Brexit. Our analysis shows that development cooperation is a field with potential for tremendous added value if it were shifted to the EU level. Our model shows how a European competence could help lead the way to such a solution.

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EconPol Europe

EconPol Europe - The European Network for Economic and Fiscal Policy Research is a unique collaboration of policy-oriented university and non-university research institutes that will contribute their scientific expertise to the discussion of the future design of the European Union. In spring 2017, the network was founded by the ifo Institute together with eight other renowned European research institutes as a new voice for research in Europe.

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1) sustainable growth and 'best practice',

2) reform of EU policies and the EU budget,

3) capital markets and the regulation of the financial sector and

4) governance and macroeconomic policy in the European Monetary Union.

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