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AidWatch

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AidWatch Briefing
Between austerity and political will: EU MS ODA budgets in 2011

Risks that in 2011 genuine EU aid will fall for the first time since 1997[1]

In 2011 collective EU "genuine ODA" is likely to face a slight reduction in absolute terms from its 2010 level. Significant genuine ODA increases in a few EU Members States (MSs) will not be sufficient to balance cuts to 2011 genuine ODA budgets in most EU MSs. It is also clear that ODA/GNI increases will be brought to a halt in 2011, with most EU MSs now even further off-track in meeting their interim and 2015 ODA targets.

Background and aim

Following the passing of national budgets covering 2011 in most EU MSs, AidWatch members have assessed the Official Development Assistance (ODA) landscape Europe-wide looking forward to 2011.

The purpose of this assessment is twofold: to understand to what extent austerity measures implemented by many EU MSs have affected ODA levels; and to identify to what extent decisions on ODA budgets have differed from those on national budgets. The findings below are based on public information on the budgets of EU MSs collected by AidWatch members. As ever, this is insufficient and we look forward to the increases in transparency of aid which will allow more detailed analysis.

In some MSs AidWatch members were faced with particularly limited or poor quality information on ODA commitments, including Portugal, Malta, Romania and Greece. No information at all was available for Cyprus and Bulgaria. This briefing therefore calls on all EU MSs to make clear their budgeted ODA levels when their national budgets are approved.

2010 aid targets will still not be met in 2011

The EU has officially missed its 2010 intermediate aid quantity target set five years ago: to disburse 0.56% of its collective gross national income (GNI) as ODA. The responsibility for this collective shortcoming lies with MSs failing to reach their promised individual aid levels (0.51% GNI for old MSs and 0.17% GNI for new MSs). Only Denmark, Sweden, Luxemburg, the

[1] Data from the OECD's CRS database.

Netherlands, Belgium[2], the UK, Finland and Ireland have delivered on their promises for 2010, a year in which they were pondering heavy national budget cuts in response to recent and ongoing economic challenges.

Our assessment was hampered by the lack of time-comparable information about aid. However, country by country analysis of recently approved EU budgets does yield some headline numbers. The first of which is that the 0.56% EU ODA/GNI target will still not be reached in 2011, as many MSs have cut their aid budgets for 2011. These decisions have been heavily influenced by fiscal consolidation taking place in all EU MSs apart from Sweden and Finland in the coming years. However, the cases of countries safeguarding or increasing aid levels despite their overall budget cuts show that meeting long overdue ODA promises is a matter of political will and certainly need not be derailed by such cuts.

EU MSs increasing or safeguarding ODA levels in 2011[3]

Thanks to general government budget increases, Swedish and Finnish ODA levels will increase by more than overall budget increases (more than 10%). More importantly, some countries have decided to increase ODA in 2011 despite national budget reductions. These include Estonia (+13%), Poland (+7%) and the UK (+3.6% in 2011; +35% during 2011–2014).

Belgium[4], Slovakia, Latvia and Luxembourg have safeguarded current ODA levels in their budgets. Although Belgium reached its EU target of 0.51% of GNI in 2010, it failed to reach its national target of 0.7% by 2010 and it is not clear if this target will be met in 2011. Luxemburg has partially reshaped its ODA allocations in favour of NGOs. Latvia will maintain its 2010 ODA level in 2011 mainly because it is tied to compulsory contributions to multilateral organisations and the European Development Fund. However, it continues to lack political commitment to step up bilateral aid.

ODA cuts lower than those for overall budgets

For all remaining MSs for which data are available, aid budgets are due to decrease in 2011 following plans to reduce overall Government expenditures. On the positive side, most EU MSs in this group are planning to reduce their ODA budgets in relative terms less than their overall budgets.

Although in Germany the 2011 budget for the Federal Ministry for Development Cooperation will increase slightly (+2.5%), in 2014 the same ministry will face a 10% reduction. In addition, budgets from various ministries that also provide aid will be cut by 14%–29%. However, the overall ODA decrease will be proportionately lower than that of Germany's general budget cuts. Portugal has committed to maintaining its current level of ODA, although CSOs fear cuts will occur due to increased repayments from concessional loans. Irish ODA/GNI will be reduced from 0.52% to 0.50% in 2011.

French ODA is expected to decrease by 2% in 2011, after considerable ODA increases in 2010. The fact that France holds the Presidency of both the G8 and G20 in 2011 helps to explain why its ODA budget has been protected to some degree.

[2] At the time of writing, due to an ongoing political crisis in **Belgium**, no budget proposal for 2011 has been submitted to Parliament for approval yet, leaving the Belgium government able to spend 1/12th of the 2010 budget every month.
3 As explained in the introduction, data is lacking or unavailable in a number of countries.
[4] See footnote 2.

ODA cuts higher than those for overall budgets

Hungary – currently holding the rotating Presidency of the EU Council – has cut its bilateral ODA budget within the Ministry of Foreign Affairs by 50%. However, its multilateral aid will be increasing, as the country will start to contribute to the European Development Fund in 2011. Also in Austria, Italy and Spain ODA will pay a higher tribute to austerity plans than other government expenditures in 2011.

In Spain the overall budget cut is expected to be 12% while the ODA budget faces a 17%[5] reduction. Spain is however still committed to reaching the 0.7% target in 2015. In Italy the ODA budget within the Ministry of Foreign Affairs is being reduced by 45%, while general budget expenditures are decreasing by only 1.3%. This will leave Italy with an expected ODA/GNI level of 0.13%[6] in 2011 and far from its 0.7% 2015 target, which it is trying to delay.

The budget of Austria's bilateral aid agency, ADA, will be cut by 10% in 2011 – more than Austria's overall budget reductions – and will be further slashed in the years to come. As Austria continues to report large sums of debt relief as ODA, phantom or inflated aid will make up an increasingly bigger proportion of Austria's total official aid.

Also the budget of Greek's bilateral aid agency, HellenicAid, will be decreasing by almost 19%. In 2010 and 2011, HellenicAid will not start new projects and programmes, but only honour existing commitments. ODA managed by the Romanian Ministry for Foreign Affairs will be cut in 2011 by more than a third.

Impact on 2011 ODA/GNI

It is still too early to assess the extent to which budgeted ODA levels for 2011 will affect ODA/GNI figures. This is because for some EU MSs the shrinking of their economies during the economic downturn may enable them to maintain their current ODA/GNI ratios even whilst they reduce ODA in absolute terms. This is likely to be the case for Ireland.

Despite heavy cuts to "genuine ODA"[7] in absolute terms in 2011, ODA might paradoxically increase for some EU members mainly thanks to a significant debt relief deal for the Democratic Republic of Congo that is expected to be implemented at the beginning of 2011. If this debt relief goes ahead it is likely to inflate EU aid levels by 3.6 billion € in 2011. Refugee costs will also continue to amount to a high share of ODA, notably in Cyprus.

Additional expenditures reportable as official aid might also contribute to increased ODA levels in 2011. This is particularly the case for climate financing. According to a recent EU report[8], in 2011 around 750 million € allocated to support mitigation and adaptation activities in developing countries could be counted as ODA. As an illustration from one EU MS, 37% of the increase in Finnish ODA expected in 2011 is due to climate financing reported as ODA.

AidWatch members are concerned about financial support for climate change adaptation and mitigation in developing countries being counted towards meeting the 0.7% ODA target, as they believe such support should be "additional" to previous ODA commitments. As they headed to the Cancun Climate Summit at the end of 2010, EU MSs did not manage to agree on a common definition of climate change financing that would ensure that the 100 billion € pledged for such investments would be additional to the 0.7% ODA commitment made in the 1970s.

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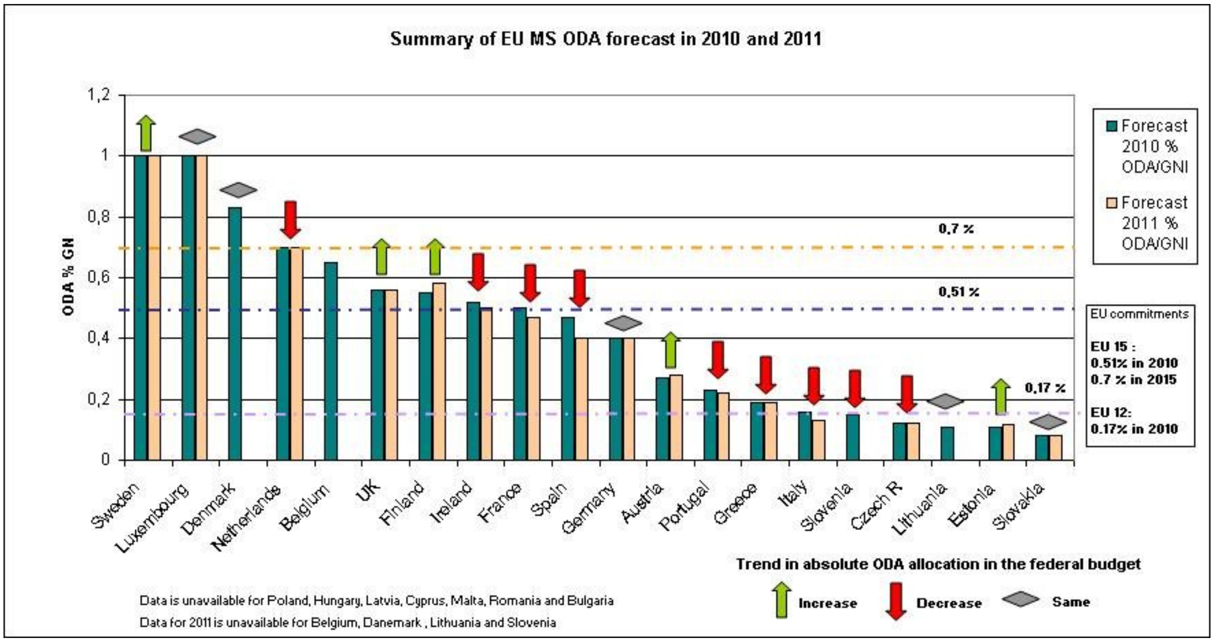
[5] As compared to the original 2010 provision in the government budget before the cuts from May 2010.
[6] Discounting debt relief.
[7] AidWatch defines genuine ODA as ODA excluding debt relief and expenditure on refugee and student costs.
[8] "EU Fast Start Finance Report for Cancun", EU Council, November 2010.

Table 1: Summary of EU MS ODA forecast in 2010 and 2011



Country	Forecast 2010 % ODA/GNI	Forecast 2011 % ODA/GNI	Trends in ODA allocations 2010-2011 budgets	Was ODA budget reduced more than overall government expenditure?
Sweden	1	1	Increase	Not applicable
Luxembourg	1	1	Same	Not applicable
Denmark	0.83	Unavailable	Same	No data
Netherlands	0.7	0.7	Decrease	No data
Belgium	0.65-0.68	Unavailable	Same	Not applicable
Finland	0.55	0.58	Increase	Not applicable
UK	0.56	0.56	Increase	Not applicable
Ireland	0.52	0.50	Decrease	No
France	0.5	0.47	Decrease	No
Spain	0.47-0.48	0.40	Decrease	Yes
Germany	0.40	0.40	Same	Not applicable
Austria	0.27*	0.28*	Increase	Not applicable
Portugal	0.23%	0.22	Decrease	No
Greece	0.19-0.20	0.19-0.20	Decrease	No data
Italy	0.16	0.13*	Decrease	Yes
Slovenia	0.15	Unavailable	Decrease	No data
Czech R	0.12	0.12	Decrease	No
Estonia	0.108	0.119	Increase	Not applicable
Lithuania	0.11	0.11	Same	Not applicable
Slovakia	0.08	0.08	Same	No data
Hungary	Unavailable	Unavailable	Decrease	Yes
Poland	Unavailable	Unavailable	Increase	Not applicable
Latvia	Unavailable	Unavailable	Same	No
Cyprus	Unavailable	Unavailable	Unavailable	Unavailable
Malta	Unavailable	Unavailable	Unavailable	Unavailable
Romania	Unavailable	Unavailable	Unavailable	Unavailable
Bulgaria	Unavailable	Unavailable	Unavailable	Unavailable

* Excluding debt relief. Source: AidWatch members survey December 2010.