

**EUROPEAN DEVELOPMENT POLICY:  
FROM AID EFFECTIVENESS TO GLOBAL DEVELOPMENT –  
CHALLENGES AT POLICY, INSTITUTIONAL AND POLITICAL LEVEL**

**HET EUROPESE BELEID VOOR ONTWIKKELINGSSAMENWERKING :  
VAN EFFECTIEVE HULP NAAR MONDIALE ONTWIKKELING –  
BELEIDSMATIGE, INSTITUTIONELE EN POLITIEKE UITDAGINGEN**

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## Table of Contents

ACKNOWLEDGEMENTS .....	vii
ABSTRACT .....	15
LIST OF TABLES .....	vii
LIST OF FIGURES .....	vii
LIST OF ABBREVIATIONS.....	ix
1. Introduction.....	13
1.1 Structure of this thesis .....	24
1.2 Background of my research.....	24
1.3 Ontology, epistemology and methods .....	27
1.4. EU development policy: Historic origins and recent developments .....	31
1.4.1 From Rome to Maastricht and from Yaoundé to Cotonou .....	31
1.4.2 The reforms of the 2000's and the 2005 Paris declaration on Aid Effectiveness – towards a more effective EU development policy?.....	34
1.4.3 The 2011 Agenda for Change .....	38
1.4.4 The 2030 Agenda, the Sustainable Development Goals (SDGs) and the new 2017 European Consensus for Development – towards a global outlook on development? .....	39
1.5 Filling the gap – the contribution to relevant literature .....	40
1.6 Theoretical framework.....	46
References.....	52
Chapter I .....	65
European budget support and the domestic politics of foreign aid .....	65
1. INTRODUCTION .....	65
2. ANALYTICAL FRAMEWORK .....	66
2.1 Policy heterogeneity and failed coordination of budget support.....	66
2.1.2 Hypotheses.....	69
2.3 Empirical Inquiry.....	70
2.3.1 Econometric Analysis .....	70
2.3.2 Comparing Germany and the United Kingdom .....	76
2.3.2.1 Case selection.....	76
2.3.2.2 Comparing the aid systems in Germany and the United Kingdom .....	76
2.3.2.3 Party Politics and Budget Support Provision in Germany and the UK .....	78
3. CONCLUSION .....	79
References.....	80
Annexes .....	85
Chapter II .....	89
The Europeanisation of budget support: do government capacity and autonomy matter?.....	89

1. INTRODUCTION .....	89
2. Analytical framework: Europeanisation and Budget Support. Europeanisation as a Process .....	90
3. Has Europeanisation taken place in the case of Budget Support? .....	92
3.1 First turning point: the rise of GBS and the EC's first GBS policy .....	94
<i>Digging deeper into the issues of government capacities and autonomy</i> .....	97
3.2 Second turning point: the EC's BS policy reform in 2011.....	98
<i>Digging deeper into the issues of government capacities and autonomy</i> .....	100
4. CONCLUSION .....	101
References.....	103
Chapter III .....	107
The rise and demise of European budget support: political economy of collective European Union donor action.....	107
1. INTRODUCTION .....	107
2. THE PARIS AGENDA: TECHNICAL FIXES FOR POLITICAL PROBLEMS? .....	109
2.1 Background: Principal-agent and collective action problems in the aid relation .....	109
2.2 The Paris principles: taking the 'political' out of the political economy of aid effectiveness.....	111
2.3 The Paris agenda's failure to address the politics of collective donor action.....	112
3. Empirical case: the rise and fall of budget support in Europe .....	114
4. Explaining the demise of European GBS from a collective action perspective.....	117
5. CONCLUSION .....	119
References.....	121
Chapter IV.....	127
From Poverty Reduction to Mutual Interests? The Debate on Differentiation in EU Development Policy .....	127
1. Introduction.....	127
2. The debate on differentiation in the EU context so far .....	128
3. Two evolving challenges.....	131
3.1 Poor Countries or Poor People?.....	131
3.2 A Global Rationale For Development Policy.....	136
4. CONCLUSION .....	140
References.....	144
Chapter IV.....	151
A Typology of Political Conditionality 'beyond aid': Conceptual Horizons Based on Lessons from the European Union.....	151
1. Introduction.....	151
2. A TYPOLOGY OF POLITICAL CONDITIONALITY .....	153
3. The EU's Political Conditionality Instruments 'beyond aid' .....	158
4. Using the typology on EU Political Conditionality to identify Research Gaps.....	166

5. Conclusion .....	170
References.....	172
Conclusion .....	179
1. Key findings of the research papers: Challenges within EU development policy – The implementation of the Paris Declaration on Aid Effectiveness in the EU from a Political Economy Perspective .....	181
1.1 Summary OF Findings On The Challenges <i>Within</i> EU Development Policy And The Political Economy Of EU Aid .....	184
2. Key findings of the research papers: Challenges of EU development policy – from aid effectiveness to ‘beyond aid’ and a global perspective on development .....	188
2.1 Summary Of Findings: Challenges Of EU Development Policy – From Aid To ‘Beyond Aid’ And a Global Perspective On Development .....	191
3. Further research.....	195
4. Implications for the policy level .....	198
References.....	200
SAMENVATTING (SUMMARY IN DUTCH) .....	205
CURRICULUM VITAE .....	206



## **LIST OF TABLES**

1.	THE EMPIRICAL CASE OF EU BUDGET SUPPORT POLICY: FROM ITS INCEPTION TO ITS DEMISE	38
2.	DOMESTIC DRIVERS OF BUDGET SUPPORT DISBURSEMENTS	75
3.	SCORES OF SELECTED CASES ON GOVERNMENT CAPACITY AND AUTONOMY AND PREDICTED EFFECT ON EUROPEANISATION	93

## **LIST OF FIGURES**

1.	OVERVIEW OF MY PHD THESIS	24
2.	AVERAGE DONOR SHARE OF GBS IN OVERALL COUNTRY PROGRAMMABLE AID, 2002–2012	69
3.	AVERAGE IDEOLOGICAL COMPOSITION ACROSS 15 EUROPEAN DONOR COUNTRIES: 2002-2012	73
4.	TYPOLGY OF POLITICAL CONDITIONALITY	156
5.	TYPOLGY OF EU POLITICAL CONDITIONALITY	166





## LIST OF ABBREVIATIONS

AASM	Associated African States and Madagascar
ACP	African, Caribbean, and Pacific Group of States
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
BS	Budget support
BTC	Belgian Technical Cooperation
CDU	Christlich Demokratische Union (Christian Democratic Union of Germany)
CFSP	Common Foreign and Security Policy
CPA	Country programmable aid
CRS	Creditor Reporting System
CSP	Country Strategy Papers
CSU	Christlich Soziale Union (Christian Social Union of Germany)
DAC	Development Assistance Committee (OECD)
DCD	Development Cooperation Directorate (OECD)
DCI	Development Co-operation Instrument
DED	Deutscher Entwicklungsdienst (Germany)
DEVCO	European Commission's Directorate-General for International Cooperation and Development
DEVE	Development Committee of the European Parliament
DGs	Directorate-Generals
Deval	German Institute for Development Evaluation
DFID	Department for International Development (United Kingdom)
DGD	Directorate-General for Development – Belgian Development Cooperation
DIE	Deutsches Institut für Entwicklungspolitik / German Development Institute
EC	European Commission
EDF	European Development Fund
EEAS	European External Action Service
ENPI	European Neighbourhood and Partnership Instrument
EPA	Economic Partnership Agreement
EU	European Union

FDP	Freie Demokratische Partei (Free Democratic Party of Germany)
FTA	Free Trade Agreement
GAVI	Global Alliance for Vaccines and Immunisation
GBS	General Budget Support
GDP	Gross Domestic Product
GIT	Governance Incentive Tranche
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (Germany)
GNI	Gross national income
GPG	Global Public Good
GSP	Generalized System of Preferences
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (Germany)
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
InWEnt	Internationale Weiterbildung und Entwicklung (Germany)
IOB	Institute of Development Policy and Management
IPA	Instrument for Pre-Accession
JEPP	Journal of European Public Policy
KfW	Kreditanstalt für Wiederaufbau (KfW Development Bank)
LDC	Least Developed Country
LIC	Low-income country
LMIC	Lower-middle-income country
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MEP	Member of the European Parliament
MIC	Middle-income country
MFF	Multi-annual financial framework
MP	Member of Parliament
MPI	Multi-dimensional poverty index
MS	Member States
NGO	Non-governmental organisation

ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary least squares
PBA	Programme-based approach
PCD	Policy Coherence for Development
PFM	Public financial management
PRSP	Poverty Reduction Strategy Paper
SDG	Sustainable Development Goal
SPD	Sozialdemokratische Partei Deutschlands (Social Democrats)
TFEU	Treaty of the Functioning of the European Union
UK	United Kingdom
UMIC	Upper-middle income country
UN	United Nations
UP	Underlying principles



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## **ABSTRACT**

This PhD thesis deals with the challenges ‘within’ and ‘of’ European development policy in the period of time between 2005 and 2015. In this time period, these challenges have moved from aid effectiveness concerns and inherent challenges within the EU development-policy system to questions of how to reform the policy area ‘beyond aid’ and how to integrate development policy into wider responses within the full array of EU external policies addressing global challenges. The findings of this thesis show that both internal as well as external factors have played a role explaining why the EU has moved from an emphasis on aid effectiveness to a focus on ‘beyond aid’ and global development challenges. Using political economy analysis this thesis has shown that internally, the EU collectively has not been capable of delivering on the commitments of the Paris Declaration on Aid Effectiveness. The example of EU budget support (as the most prominent aid modality of the aid effectiveness agenda) revealed the influence of domestic politics in member states that have created disincentives for effective aid in favour of low-risk, short-term, and more visible forms of aid. Three chapters of this thesis have analysed the domestic political factors in Member States and the influence structures between Member States and the EU that have affected decision-making in EU development policy and that have led to the weak implementation of the Paris Declaration. However, the aid effectiveness agenda has not only lost in importance due to the EU’s internal incapability and domestic political impediments, but also through drastic global political and economic shifts that require both urgent responses along with more substantial reforms of the EU on institutional, policy and political levels. Two chapters of this thesis looked at global trends (mostly related to changing geographies of wealth, poverty and power) from different perspectives and analysed the implications for the EU, both as a donor and as a global actor. More specifically, the chapters analyse the EU’s cooperation with middle-income countries and the implications of global trends for the concept of EU political conditionality ‘beyond aid’.





## 1. INTRODUCTION

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The overarching theme of this PhD thesis relates to the challenges ‘*within*’ and ‘*of*’ European (EU) development policy<sup>1</sup> in the period of time between 2005 and 2015. In this time period, these challenges have moved from aid effectiveness concerns, marked by the 2005 Paris Declaration on Aid Effectiveness, to becoming a global rationale for EU development policy. In 2015, with the signing of the 2030 Agenda for Sustainable Development, the global nature of development challenges and the need to adapt to the increasing interconnectedness of the world have moved centre stage. Put differently, the 2005 Paris Declaration on Aid Effectiveness as well as inherent challenges *within* the EU development-policy system mainly demanded the EU as well as EU Member States to focus on how to make aid more effective. While these effectiveness challenges have not been completely met (and arguably have been insufficiently addressed), they have increasingly become superseded by challenges *of* EU development policy. These relate to questions of how to reform the policy area ‘beyond aid’ and how to integrate development policy into wider responses within the full array of EU external policies addressing global challenges. The purpose of this thesis is both analytical and explanatory: First, it seeks to investigate *what* changed in EU development policy between 2005 and 2015, by analysing the changing nature of the development challenges and the changing international agendas. Second, it aims to identify the drivers of these changes and *how* we can explain them.

The changing nature of the challenges *within* and *of* EU development policy also reflects a changing narrative and conceptualization of international development more generally. For a long time, the distinction between ‘developed’ and ‘developing’ countries, the transfer of aid from the world’s wealthiest to the world’s poorest countries, and the perception that poverty is predominantly the problem of poor countries have long been central to development policy (see Severino & Ray, 2009; Kanbur & Sumner, 2011). Termed a ‘classical’ or ‘traditional’ perspective, development policy as well as development studies mostly focused on poor people in poor countries in the ‘developing world’ or even the ‘Third World’ (see Scholte & Söderbaum, 2016). Within this classical perspective, from the end of the 1990s onwards and with the 2000 Millennium Development Goals (MDGs) as the international framework, the EU (just like any other OECD (Organisation for Economic Co-operation and Development)/DAC (Development Assistance Committee) donor) was mostly concerned with the question of how to increase the effectiveness of aid. Globally, mounting empirical evidence showed that aid interventions were often too fragmented to establish coherent incentive systems and too numerous and scattered to strengthen domestic administrative structures in developing countries. In fact, the opposite was often the case: the vast number of projects often overburdened already weak administrations in developing countries by establishing parallel reporting and management systems. In

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<sup>1</sup> For the purpose of this PhD thesis, European (EU) development policy refers to the multi-level system of EU development policy comprised of EU institutions and the EU member states, and in particular the interaction between those different actors.

addition, conditionalities have often imposed policy reforms on countries, while neglecting recipients' own development preferences and strategies (see, for example, Collier, Guillaumont, Guillaumont, & Gunning, 1997; Acharya, de Lima, & Moore, 2006; Knack & Rahman, 2007).

In 2005, as a response to this mounting criticism of the traditional aid system, donors and developing countries entered into discussions on how best to improve the effectiveness of aid. This culminated in the 2005 'Paris Declaration on Aid Effectiveness', signed by over 100 countries, including all European Member States and the European Commission. While these effectiveness principles aimed at addressing general problems in the donor-recipient relationship, the EU had its own set of internal challenges to solve: largely absorbed by ideological and territorial disputes between and within Directorate-Generals (DGs), very complex and fragmented programming procedures and a lack of personnel resulted in great inefficiency and disbursement problems in the 1980s and 1990s (Holland, 2002; Carbone, 2011). This led, around the year 2000<sup>2</sup>, to a far-reaching reform with the aim of making EU development policy more effective and efficient. By 2005 the EU had undertaken important steps in that direction and even became an influential and driving force in the 2005 Paris Declaration on Aid Effectiveness (Carbone, 2012). However, when it came to the implementation of the Paris principles, the EU again showed significant shortcomings, which cannot only be attributed to the effectiveness and efficiency problems of the EU institutions but rather to the entire multi-level system of EU development policy (Carbone, 2013a). The role of Member States in this system continues to be little understood and underresearched, even though it has been widely acknowledged that they play a significant role in limiting the effectiveness of the EU as a collective development system (see e.g., Holland, 2002; Hoebink, 2004b).

Against this background, *a first focus of this thesis looks at the implementation of the Paris Declaration in the EU from a political economy perspective*. Focusing in particular on the use of General Budget Support (GBS)<sup>3</sup> across the EU (as the most prominent aid modality linked to the Paris principles), three different but interlinked chapters analyse the challenges *within* EU development policy and the linkages between economic and political drivers of Member States and EU institutions to explain the preferences, interests and influence structures in EU development policy (Faust & Koch, 2014; Koch & Molenaers, 2015; Koch, Leiderer, Faust & Molenaers, 2017).

Around 2010, these aid effectiveness challenges and questions over how to improve the traditional donor-recipient relationship were successively complemented (if not replaced) by challenges that stemmed from the 'seismic' changes in the development landscape. Starting in the 1990s and accelerating in the 2000s, much of the developing world saw strong economic growth, resulting in tremendous changes in the

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<sup>2</sup> While the general time frame for this thesis refers to 2005-2015, references are made to previous events if they are directly related to either the aid effectiveness agenda or the events leading to the 2030 Agenda for Sustainable Development.

<sup>3</sup> 'General budget support' (GBS) is different from other forms of budget support such as, for example, 'sector budget support', where funds are earmarked for specific sectors. In this thesis, the terms GBS and budget support are used interchangeably.

geography of growth and wealth distribution with geopolitical ramifications (Rodrik, 2011; Spence, 2011). As a result, the development landscape became much more heterogeneous and differentiated rendering the long-existing distinction between ‘developed’ and ‘developing’ countries increasingly obsolete. By 2015, only 36 countries remained classified as ‘low-income’ (the most widely used term for a poor country), while the number of countries with higher per capita income had increased significantly.

As a result, the understanding of development has moved from a traditional to a global development perspective: “rather than continue to frame ‘development’ as a concept which applies solely to the so-called ‘less’ or ‘under’-developed regions of the world, in a globalizing era all countries and regions of the world are interlocked in a mutual process of development” (Gills, 2017, p. 156). Major development challenges – such as climate change, food insecurity, financial instability, communicable diseases, migration, conflict and insecurity – are global in nature and, to be addressed effectively, require new forms of global cooperation and global governance by all countries (see Scholte & Söderbaum, 2016; Kaul, 2016). The 2015 UN Sustainable Development Goals (SDGs), as a successor to the MDGs (Millennium Development Goals), and the related 2030 Agenda highlight this global character of development as they not only link social, economic and environmental development challenges but also apply to all countries.

For EU development policy, this shift towards global development has important consequences. The first relates to the question of how to adapt aid allocations and aid strategies. As countries become richer in per capita terms, they are also becoming less dependent on aid; development assistance typically accounts for a marginal share of the national budget and a country’s gross national income (GNI). This has led to considerable debates in both policy spheres and academia over the role of aid and development policy in these wealthier developing countries, centered on the question of whether the money of European taxpayers should be spent in countries that seem wealthy enough to fund their own development (see Glennie, 2012; Sumner & Mallet, 2012). Answers to these questions, however, have become even more difficult due to the fact that the rapid economic growth of many developing countries has been accompanied by an increase in social inequalities and insufficient reductions in poverty, leading to a situation where most of the world’s poor people live in middle-income countries (MICs) (Sumner, 2012). For the EU, this debate is particularly relevant, not least due to the EU’s global presence in all developing countries and its above-average funding for MICs (Koch, 2012).

A second consequence and focus of this thesis relates to the increasing intersection of development policy with other EU internal and external policy areas. While aid has (gradually) lost its importance in many developing countries, other policy areas such as foreign, trade, migration, security and climate policies have gained in importance. These greater overlaps between different policies increase the difficulties of coordination, both at the EU institutional level and between the EU and its Member States. It also poses the question of whether the EU is able to combine different policies and instruments effectively and coherently in order to maximize its impact and to strengthen its position as a global actor.

*Two further chapters also constituting the basis of this thesis (Koch, 2012; Koch, 2015) deal with these challenges of EU development policy and the political, institutional and policy-related implications that the EU faces when adapting its development policy to a changing development landscape.* In this context, my research focuses on the EU's engagement with middle-income countries (MICs) and on the concept of political conditionality across the EU's external relations 'beyond aid'.

Without at this point going into the details of the individual chapters, I introduce short abstracts to provide an overview over the research questions dealt with and their key contributions.

1. Chapter I: "Foreign Aid and the Domestic Politics of European Budget Support" (Faust & Koch, 2014)

The paper titled "Foreign Aid and the Domestic Politics of European Budget Support" aims to identify the domestic origins of budget support provision in 15 European Member States during the 2002–2012 period. The paper is based on the idea that the different preferences of European bilateral donors towards the provision of budget support and the different degrees of risk averseness have been systematically driven by domestic politics within European donor countries. Overall, the analysis in this paper contributes to two strands of research. By showing how the economic context and the composition of the government shape the use of a highly political aid instrument and undermine efforts towards better aid harmonisation, the paper contributes to the debate on how domestic donor politics contribute to limited aid effectiveness. Moreover, its findings are also linked to the literature on a common European development policy as they demonstrate how attempts at external policy convergence have been undermined by the political and bureaucratic considerations of national governments.

2. Chapter II: "The Europeanisation of Budget Support: Do Government Capacity and Autonomy matter?" (Koch & Molenaers, 2015)

"The Europeanisation of Budget Support: Do Government Capacity and Autonomy matter?" looks at a potential Europeanisation in budget support policy. It aims to get a deeper understanding of the influence structure in EU development policy and the direction of influence between the EU and the Member State level. The concept of Europeanisation provides a very suitable analytical concept through which to get a better understanding of the role of Member States in EU development policymaking and of their interactions with and throughout the EU level. Yet, it has so far rarely been applied to development policy (see Carbone & Orbie, 2016). This paper contributes to filling this gap by using the concept of Europeanisation as a theoretical frame with which to study the policy-influencing dynamics around the controversial aid modality of budget support at two defining moments: the inception of budget support at the beginning of the 2000s and the EU budget support reform of 2011. For both turning points, we focus on three Member States to explore the possible impact of the EU: Germany, the United Kingdom (UK) and Belgium and compare their positions, capacities and policies over time. In particular, this paper aims at finding answers to two research questions. The first is whether Europeanisation, defined as a

“two-way process in which Member States both shape European policy outcomes and adapt to them” (Börzel, 2002, p. 194) has taken place in the case of GBS. The second research question investigates whether the level of capacities – understood as the capacities and effectiveness of administrations and their autonomy – matters for the degree of Europeanisation (see Schimmelfennig & Sedelmeier, 2006; Börzel, Hoffmann, Panke, & Sprungk, 2010).

3. Chapter III: “The Rise and Demise of European Budget Support: Political Economy of Collective European Union Donor Action” (Koch, Leiderer, Faust & Molenaers, 2017)

A third paper titled “The Rise and Demise of European Budget Support: Political Economy of Collective European Union Donor Action” analyses the interests and incentives of European donors to act in a more unified way and to implement the Paris Principles on aid effectiveness. The main research aim of this paper is to explain this rise and fall of GBS in Europe by applying principal-agent and collective action theories. Why have European donors given up an instrument that (i) has the potential to reduce burdensome transaction costs, (ii) addresses some of the most persistent principal-agent impediments to results-oriented and incentive-compatible donor–recipient aid relations, and (iii) is being shown in a growing number of country evaluations to be an effective instrument to finance national development and poverty reduction strategies? This paper uses the example of European budget support to show the differences in applying principal-agent and collective action analysis to the donor–recipient relationship and the incentives of European donors.

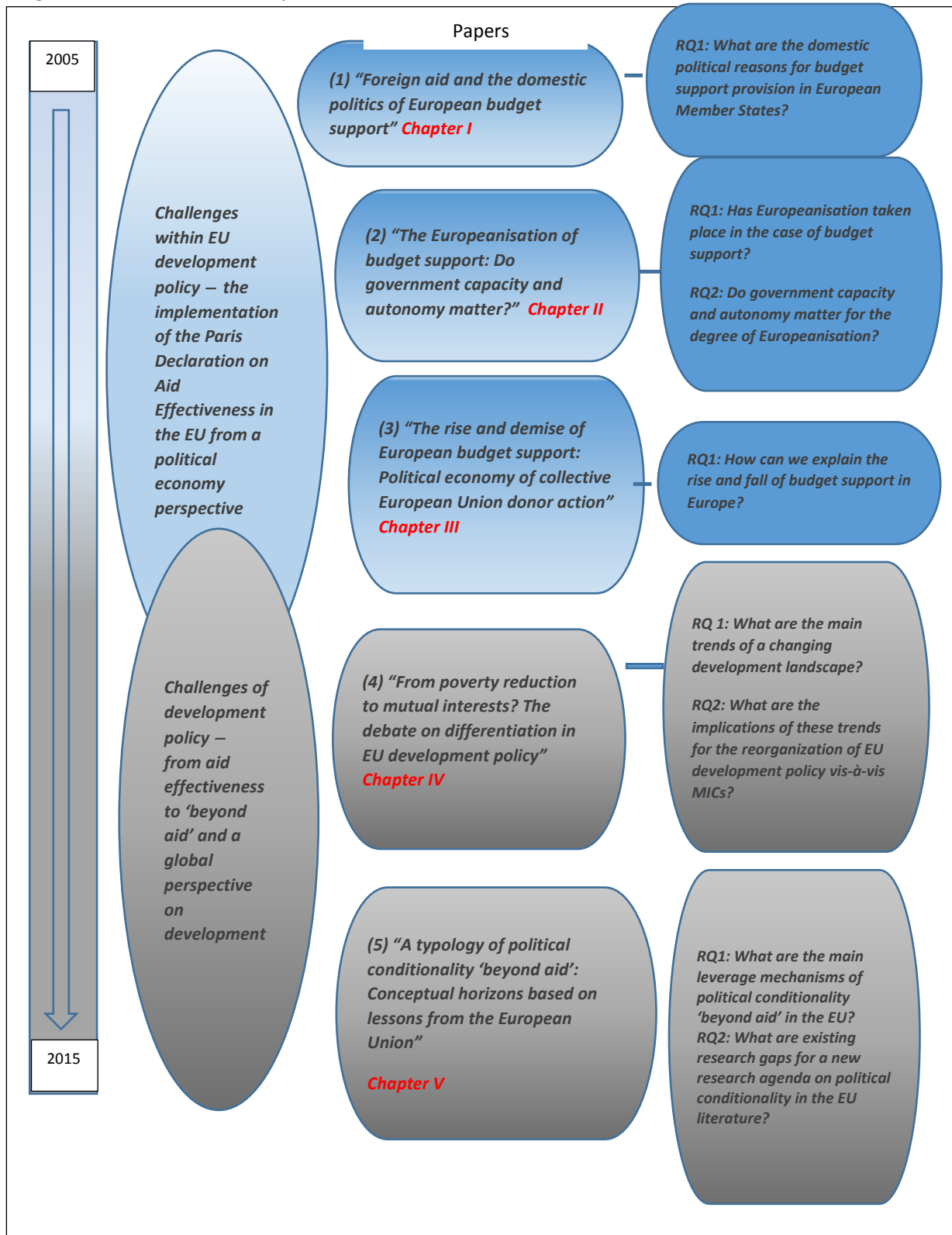
4. Chapter IV: “From Poverty Reduction to Mutual Interests? The Debate on Differentiation in EU Development Policy” (Koch, 2012)

The paper “From Poverty Reduction to Mutual Interests – the Debate on Differentiation in EU Development Policy” aims to identify the main trends of a changing development landscape that need to be considered in the strategic reorganisation of EU development cooperation, in particular towards MICs. Overall, it has two research aims: First, it synthesizes two trends of the changing development landscape (the shifts in the global distribution of poverty and wealth and the increasing role of development policy and foreign aid in supporting the provision of Global Public Goods (GPGs)) against which the rationale of aid to MICs needs to be discussed. Second, it analyses the implications of these trends for EU development policy. A key contribution of this paper is to entangle the controversies around the question of aid to MICs and to put these controversies in the context of a thorough analysis of the key global trends that need to be taken in consideration. It was also written against the background of policy discussions in Brussels that revealed the shortcomings of focusing a discussion about graduation from aid simply on a country’s economic development.

5. Chapter V: “Political Conditionality ‘beyond aid’: Conceptual Horizons Based on Lessons from the European Union” (Koch, 2015)

The paper “Political Conditionality ‘beyond aid’: Conceptual Horizons based on Lessons from the European Union” was written against the background of the changes in the international landscape outlined in the previous paper. Its starting point was that the fundamental shifts in the relationship between the EU and developing countries over the last decade have direct implications for the concept of political conditionality. Tying political conditionality mainly to aid will have little traction and not provide sufficient leverage due to the decreasing importance of the policy field, the declining aid dependence of most developing countries, and the emergence of new non-Western donors. The paper makes two contributions: First, it addresses the theoretical gap in the existing literature by conceptualizing the varied conditionality mechanisms across different policy fields in an ideal–typical typology (applied to the EU in a second step). Its second contribution is to highlight existing research gaps by applying the typology to the EU literature and outlining a new research agenda.

Figure 1: Overview of my PhD thesis





## 1.1 Structure of this thesis

This thesis is structured as follows: In the remainder of this introduction, I will elaborate on the background of the PhD research to provide the reader with a better understanding of my motivation and how the interest for the specific topics came about. Beside this professional and practical background, I will also introduce my ontological understanding and epistemological approach in order to make sense of the different papers used in this thesis on a higher theoretical level. This is followed by an overview of the history and origins of EU development policy with a view to embedding the individual papers in an understanding of the evolution, structure and drivers of EU development policy as well as the key defining moments (internationally and EU-wide). In a next step, a literature review of both foci of this thesis – (i) the political economy of EU aid and the implementation of the Paris Declaration and (ii) adapting EU development policy to a global development approach – is presented to identify specific research gaps and the contributions of my thesis. The introduction closes by introducing the theoretical framework of this PhD thesis. The main body of this PhD are the five chapters, four of which were published in academic journals (*World Development*, *Development Policy Review* (2) and *European Perspectives on Politics and Society*) and one as a DIE Discussion Paper (currently in a review process at the *Journal of European Public Policy*, JEPP). The last chapter concludes by synthesizing the main findings of the research articles and by highlighting implications for policy-related debates as well as further research.

## 1.2 Background of my research

The motivation for the various papers forming part of this thesis is closely connected to my job as a researcher at the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE). I have been working in a project on EU development policy since 2011, with a job description that includes and combines academic research and policy advice. Working closely with the German Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, BMZ) as well as with European institutions such as the European Commission's Directorate-General for International Cooperation and Development (DEVCO), the European External Action Service (EEAS) and the European Parliament has provided me with first-hand insights into policy-relevant topics and the research needs of policymakers. Before that, I worked in a research consortium that advised the Development Committee (DEVE) of the European Parliament on specific questions based on academic research.

Most of the research questions of this thesis relating to the implementation of the Paris Declaration and budget support, as well as the ones dealing with the changing development landscape, came to my mind while following policy discussions in Brussels and member state capitals. These research interests and actual debates were then further developed by linking them to academic debates and literature. With regards to budget support, I was first introduced to the topic – and in particular the controversies surrounding it – when in 2010 I was tasked with writing a report for DEVE about budget support and

national control mechanisms in developing countries. The Committee wanted to find out to what extent the Commission was assessing and supporting parliamentary structures and Supreme Audit Institutions in developing countries when providing budget support. In these discussions, I soon realized how politicized the topic was, and how much DEVCO had come under fire from both Member States as well as Members of the European Parliament (MEPs) for a policy that was considered too lax and too insensitive to political issues in developing countries. When the debate on EU budget reform began, I took part in various meetings and workshops between the Commission and Member States and discussed the topic extensively with stakeholders from both sides. This way, I not only gained a better understanding of the different positions and desires for reform, but also realized how little this reform was driven by an academically grounded understanding of what works best in delivering aid effectively.

On the contrary, Member States seemed very risk-averse and eager to deliver headlines to domestic constituencies and media outlets that they were no longer supporting corrupt regimes in developing countries with budget support. At the same time they did not hide the fact that they were actively lobbying the Commission to stop, and seriously reform, its budget support policy. I also gained first-hand insights into how the Commission was acting in this reform process, how it was trying to take all the concerns of Member States on board and to manoeuvre around the different, and sometimes conflicting, expectations and positions. It also became obvious to me that the different interests were not only between but also within Member States – with ministries, aid agencies and civil society often diverging. It was also the Commission that tried to de-politicize the topic by organizing workshops on various issues around budget support, looking at issues such as corruption, transparency, and public financial management from a more technical perspective, aiming to improve its delivery of budget support. However, against the backdrop of the strong positions of influential Member States such as Germany, Sweden, the Netherlands and the UK and a risk-averse Development Commissioner, the 2011 Communication on budget support reform reflected a defensive approach and a wide-reaching accommodation of the concerns of these powerful Member States. The Council Conclusions watered the progressive aspects that were there (such as the joint budget support contracts of the EU and Member States) further down, resulting in an almost complete withdrawal of the EU from budget support – against the preference of the unit that was managing the instrument.

During the reform process, I was writing policy briefs<sup>4</sup> (mostly jointly with colleagues from other European think tanks and universities) and was engaged in discussions, trying to present arguments why, from a technical perspective, the proposed reform was making little sense while at the same time recognizing the political pressure and politicized environment in which the reform was passed. Getting a better understanding of this politicized environment and of the dynamics between the EU and Member States

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<sup>4</sup> Faust, Leiderer, & Koch (2011) and Faust, Koch, Molenaers, Tavakoli, & Vanheukelom (2012).

was thus my main motivation when I started to research the rise and demise of budget support from various theoretical perspectives. What was driving Member States domestically? What do we know about the supporters and ‘veto players’ of budget support and what influenced them? Was the EU able to reach into the domestic spheres of Member States? And why was it so difficult to provide budget support jointly, or to at least better coordinate European donor agencies on the ground?

At the same time, I realised that aid effectiveness concerns have shifted increasingly into the background in discussions on how to reform and modernise EU development policy. They hardly played a role in the 2011 Agenda for Change – either in the budget support reform, which was mainly politically motivated, or in discussions about how to adapt EU development policy to a changing development landscape. Other issues, such as the EU’s response to the Arab Spring and discussions about EU aid to MICs became more central. For years, the EU has been criticized by a number of Member States (including Germany, the UK, Denmark and Sweden) but also by the OECD/DAC for its above-average spending in MICs. With the rise of China, India, Brasil and other increasingly powerful economies, this debate became even more pressing. As a response to this criticism, the EC held a number of workshops with academia and think tanks to make sense of the changing geographies of wealth and poverty and to inform its aid allocation accordingly.

In these workshops, it became apparent that policy responses had to be based on a clarification and better understanding of very fundamental conceptual and empirical questions and this provided the basis for my research on EU aid to MICs: When can a country be considered a developing country? How does one deal with the fact that economic growth and poverty reduction are not linear processes? When does a country still need aid? Can aid allocations and graduation be based on economic considerations (gross domestic product (GDP)) only as in the case of the World Bank classifications for developing countries? Should donors focus on poor countries or poor people? How does one reconcile spending on poverty reduction with the need to address global challenges? And: What are the implications at the political, policy and institutional level of all these questions for EU development policy?

A second debate centered on political conditionality and EU responses to political crises and deteriorating democratic development. Largely as a result of the Arab Spring and the EU’s perceived unconditional support of authoritarian leaders in that region – but also due to situations of political crisis in a number of African countries – the question on the use and effectiveness of political conditionality became very prominent and debated. The EU has a varied toolbox of political conditionality, from Art. 8 and 96 of the Cotonou Agreement to various instruments and articles in political and trade agreements with developing countries that allow for positive and negative incentives for political change. At the end of the 2000s, when in a number of developing (and mostly African countries) political problems started to mount, it was mostly budget support suspensions that were used (also by Member States) as a political ‘stick’. While some considered these suspensions the most appropriate reaction (mostly Member States), others (including the EC) referred to the damage to poverty-reduction goals and the fact that political

conditionalities were generally found to be ineffective. This latter view is also mirrored in academic circles, where a broad consensus seemed to have evolved that ‘political conditionalities don’t work’. While following these discussions, I was struck by the lack of conceptual clarity: Do political conditionalities only refer to sanctions, and only in aid? Does the criticism also include *positive* leverage mechanisms? Are political conditionalities in aid, trade and foreign policy considered together or separately, and how much sense does it make to research and use these mechanisms separately when aid plays a lesser role in the EU’s relationship with the developing world? These considerations led to the development of a typology of EU political conditionalities ‘beyond aid’ and a closer examination of the EU literature guided by the typology.

### 1.3 Ontology, epistemology and methods

Beside this background of my research, I would also like to introduce the reader to my ontological standpoint and epistemological approach that form the foundation of this research. In general terms, ontology is understood as the ‘theory of being’ and the extent to which the researcher presumes to study an objective ‘real’ world with a number of generalities and regularities or whether he presumes to study a world where meaning is assigned on a more subjective level. According to some, ontology is like a ‘skin and not a sweater’ (Marsh & Furlong, 2002), which means that the ontological position a researcher takes cannot be ‘put on’ or ‘taken off’ depending on the respective research area or question but rather represents a general conviction that a researcher holds. Epistemology refers to the ‘theory of knowledge’ and how, based on our ontological position, we produce knowledge. Here, a dualism is often made between a scientific versus hermeneutic approach and positivist versus interpretist, between explaining and understanding social phenomena and also between quantitative and qualitative viewpoints (see Della Porta & Keating, 2008).

This dualism, however, is not shared unequivocally. A third paradigm, known as ‘pragmatism’ puts the idea forward that an ‘either or’ approach to ontology overlooks that both positions are actually two sides of the same coin. Dewey, one of the founding fathers of pragmatism, argues that our experiences in the world and the observations we make are naturally restricted by the very nature of this world (which exists without our involvement) but that at the same time, our understanding of the world is also limited by the interpretations of our own experiences (Dewey et al., 1917). So, in pragmatism both worldviews are acknowledged and it is argued that they complement each other (see Morgan, 2014). This need to combine worldviews is also put forward by Kauppi (2010) with regard to studying of the European Union. He argues that ontological dualism is too narrow a concept to capture and study the existence of the European Integration project (or any other political system), which has an interactive character of institutions and individuals, and that it needs to combine and integrate ontological positions to be fully captured and understood (Kauppi, 2010).

Going beyond the dualism in ontological positions is not the only characteristic of a pragmatic approach. While there is no unitary, single definition or understanding, it is generally understood as problem-driven and action-oriented research that aims to find solutions to practical problems (Hellmann, 2009). As such, the research question is the most important determinant of the pragmatist research paradigm, and researchers can combine both, positivist and interpretivist positions, within the scope of a single research framework to support the answering of the research question (Morgan, 2014). Pragmatism also supports the use of a mix of different research methods (mixed-methods, combining qualitative and quantitative research) as well as a continuous cycle of abductive reasoning, all guided by the overall objective of producing socially useful and practicable knowledge (Feilzer, 2010).

In general I tend to be pragmatic in my research, not least due to the fact that most of my research is closely connected to practical, policy-relevant problems or questions. The purpose of my research is always to find solutions to ‘real-world’ problems (within the policy world of EU development policy), yet in such a manner that the solutions are generalizable. This way, I hope that the knowledge I produce can contribute to effecting a change in practice or at least support policymakers in their decisions. I also share Kauppi’s point (2010) that the European Union can only be studied and fully grasped by combining different research approaches and ontological and epistemological positions and research. It is also important to highlight that the research question chosen has been the most important element and starting point of every individual research paper within this thesis, and not so much my ontological or epistemological position. The way the research was designed, the use of theories and concepts, the combination of methods and so on were then adapted individually with a view to finding robust answers to the research questions.

In this context, the three chapters on the political economy of EU aid follow a fairly positivist approach: they aim to establish causal relationships, seek to come to objective and verifiable findings, are largely explanatory and, moreover, presuppose that relationships between social phenomena are observable. The research questions all relate to the establishment of observable and generalizable linkages between two variables, for example, domestic politics and its influence on budget support provision (chapter I), or the link between government capacity and autonomy and Europeanisation (chapter II). A third paper uses collective action theory to explain the demise of budget support in the EU and thus applies theoretical analysis and explanation based on rational choice – also a positivist concept (chapter III). Similarly the article on political conditionalities ‘beyond aid’ (chapter V) also applies a positivist logic, or at least uses positivist concepts. By focusing on political conditionalities, a concept that is closely linked to a rational-choice logic as it defines actors as cost-benefit calculators and strategic utility-maximizers, and by developing an ideal-typical, it stays within positivist logics. It is only the paper on differentiation and EU aid to MICs (chapter IV) that is obviously more problem-oriented as it explicitly aims to provide policy-

relevant answers to how the EU could adapt aid allocations and strategies to a changing development landscape.

Having said this, it is important to note that all individual papers followed an abductive research process. Abduction means the continuous interaction between theory and empirics and is an integral part of the pragmatist research paradigm. It is acknowledged that most research tends to start with the puzzling observation of a social phenomenon rather than with theories that need to be tested or with an idea of clear hypothesis. Given its complexity, EU development policy lends itself particularly well for the application of an abductive research strategy (Delputte & Orbie, 2018). This also applies to my research. Even though in particular the papers on budget support are theory-driven and follow a deductive logic (within the papers themselves), the research process as such was abductive in nature as the ideas for my research all stem from policy discussions and astonishment over empirical puzzles (the demise of budget support in Europe; the confusion about political conditionalities). These observations, in turn, were then connected to theoretical concepts and ideas to get a better understanding why a led to b.

### *Methods*

With regard to the methods used, a similar approach has been followed. Rather than focusing on the methods as the guiding element for the research as such, they were used and adapted for every individual paper depending on what was needed in order to answer the specific research question. While some papers are purely qualitative (on collective action and budget support, on Europeanisation and budget support, on the role of aid to MICs and the typology of political conditionality) others represented a mixed-methods approach, combining statistical analysis with qualitative case studies. This combination of qualitative and quantitative research is also typical for a pragmatic research approach (see Feilzer, 2010).

In addition, I relied on expert interviews and semi-structured interviews in particular for the articles on budget support and the role of aid to MICs. Expert interviews are generally considered a good method to collect first-hand data and insights, in particular during the exploratory, and theory-generating phase of research (see Bogner, Littig & Menz, 2009). The researcher chooses persons he or she considers to be an expert due to their particular and privileged access to information (Meuser & Nagel, 1991). As such, a person is considered an expert if he or she possesses an “institutionalized authority to construct reality” (Hitzler, Honer & Maeder, 1994, p. 8). For the purpose of my research, I interviewed persons in member states’ development ministries and departments as well as in units of the European Commission who were directly responsible for drafting the related policies (both in the case of budget support and aid to MICs). As a result, I gained first-hand insights not only regarding the ‘technical’ aspects of those policies but also the motivation and interests that were behind the policies.

In particular in the case of budget support, I benefited from the heated discussion among member states and between member states and the EC, as all interviewees were extremely open regarding their

position and their desire to influence and convince other member states and the EC of their respective approach. The limitation of the expert interview were particular visible for Chapter II and the analysis of the degree of Europeanisation in budget support. All representatives from member states insisted that the EU level did not play a role for their policies, and referred to either their own expertise or the national discourse. The quality of this information, however, can be biased due to the social desirability of the responses as desk officers first and foremost represent their own national ministries and institutions and aim to highlight their strength and independence in policy formulation. A triangulation of these interviews through other sources, such as policy documents, was helpful but also limited to the extent that these policy documents were also drafted to present the national policies, without explicitly admitting the EU's influence.

Expert interviews, however, are rarely a method in itself but mostly used as a source of information or evidence for other qualitative methods. As such, expert interviews are often combined with case studies (see Yin, 2009). In particular for Chapter I-III, and the analysis of the (non-)implementation of the Paris Declaration on Aid Effectiveness in the EU from a political economy perspective, expert interviews have been used as a qualitative method to inform my case studies. Chapter I on "Foreign aid and the domestic politics of European budget support" relied on a mixed-method approach, supplementing econometric regression with a small-n comparison of two country cases. The cases were selected to better understand the results of the econometric analysis and in particular the findings that hint at between and within country differences. While huge differences in budget support disbursements hint at between country differences, there were also "time invariant" factors (with coefficients in different directions) that hint at within country effects and the effect of the aid system. For Chapter I, the regression results fulfill the purpose of generalisability of findings (for the entire spectrum of EU member states), whereas the case studies aim to provide a deeper understanding of these findings.

Chapter II is different in that respect, as it relies solely on case studies and a qualitative approach to generate findings. Based on a confirmatory, diverse case selection technique that exemplifies diverse values of the independent variable, we aimed to represent the full variation of the population (EU member states) (see Lijphart, 1975; Seawright & Gerring, 2008). However, since our findings do not confirm our expectations and values of the dependent variable, they are also of limited generalisability. Put differently, there are some findings that are generalisable for the entire population of EU member states, such as the finding that government capacity and autonomy influence a country's general budget support policy. These variables, however, cannot explain the degree of Europeanisation and expected result on  $y$ , as there is low Europeanisation across all cases. So while the findings indicate a low degree of Europeanisation for all cases, we were not able to distill the characteristics of the independent variables leading to that result.

Chapter III uses the empirical case of the rise and demise of budget support as a crucial case for the application of collective action theory. In general, a crucial case “must closely fit a theory if one is to have confidence in the theory’s validity, or, conversely, must not fit equally well any rule contrary to that proposed” (Eckstein, 1975, p. 118). As pointed out by Gerring (2008), crucial cases also need to go beyond being idiosyncratic, and have a certain extent of external validity. Explaining the demise of budget support with collective action theory gives general insights into the non-implementation of the aid effectiveness agenda across the EU more generally. This is also achieved by highlighting the misfit of other theories to that phenomenon (in our case principal-agent theory).

## **1.4. EU development policy: Historic origins and recent developments**

### **1.4.1 FROM ROME TO MAASTRICHT AND FROM YAOUNDÉ TO COTONOU**

Under the Treaty of Rome (1957), the four founding Member States of the European Community agreed to establish a framework for cooperation with their (ex-) colonies in sub-Saharan Africa. Mainly instigated by France, which aimed at sustaining the trade arrangements it had with its former colonies, it was mainly an effort to ‘associate’ former colonies to the European market. At that time, the cooperation framework thus consisted of a free trade area and a small supranational aid programme (the European Development Fund (EDF)) (Carbone, 2011; Hoebink, 2004).

The structure of the EU’s relationship with the developing world was also set in place and consisted of a *dichotomy*: The EU as a bilateral donor, transferring funds to the developing world via the European Commission, and a specific kind of multilateral donor, with Member States’ own sovereign spending of development aid (Carbone, 2011; Farrell, 2010). In the following years and decades, the EU subsequently developed its relations with its former colonies and the wider developing world as well as its own institutional structure and functioning.

As time moved on, with most African countries striving for independence quicker than anticipated, Europe had to develop new approaches to cooperation and this culminated in the Yaoundé Conventions of 1963 and 1969. Both Conventions enabled the Associated African States and Madagascar (AASM) to consolidate the bilateral trade and aid benefits they received from the EC as colonies, while releasing them from the requirement to open markets towards one another (Grilli, 1994; Carbone, 2011). The United Kingdom’s accession to the EC in 1973 triggered an ‘enlargement’ of the Yaoundé convention, as selected Commonwealth members joined the AASM members and decided to jointly negotiate a new cooperation agreement with Europe. Following the conclusion of the first Lomé Convention with the EC in 1975, this group of 46 countries founded the Africa, Caribbean and Pacific Group of States (ACP) (Grilli, 1994; Hoebink, 2014). The Lomé Convention also symbolized the successive historical process from colonialism towards mutual and more equal cooperation between Europe and its (ex-)colonies (Ravenhill, 1985).



In the decades that followed, the Lomé Convention was revised and renewed four times, while the membership of both the ACP and the EU grew over time. However, the content of the Lomé Conventions did not substantially change during the 1980s and 1990s, with the EU largely prescribing the content of the cooperation agreements while granting some symbolical concessions to ACP countries (Grilli, 1993). What remained was the formalised and structured approach to cooperation and its financing through the EDF which retained its inter-governmental character and governance structure. Disillusionment, however, also grew on both sides. The EU struggled with slow aid disbursements and the continuous weighing up of how to react to political crises in ACP countries, while ACP countries (and the EC) were frustrated over the stagnation of their economies and the fact that they were unable to take advantage of the preferential trade regime with the EC (Holland, 2002; Carbone, 2011).

The expiry of the Lomé Convention in 2000 offered the EU and ACP countries an opportunity to rethink and restructure their relationship. In 2000, the Cotonou Partnership Agreement was signed, and constituted a 'step-change' in the EU's cooperation with the ACP countries. ACP countries were no longer entitled to a fixed aid envelope over 5 years, based on their needs; instead their performance was also taken into account in an attempt to guarantee better use of financial resources. In addition, the relationship between the EU and ACP countries became increasingly politicized. Not only were issues such as good governance, anti-corruption and illegal migration included in the Cotonou Agreement, the EU also increasingly intertwined development with its foreign and security policy under the Common Foreign and Security Policy (CFSP) (Carbone, 2011). The Cotonou Agreement also meant a gradual 'normalisation' of EU-ACP relations in the sense that the former non-reciprocal, preferential trade agreements were replaced by the principle of trade liberalization, paving the way for the negotiations of the Economic Partnership Agreements (EPAs) (Barbarinde & Faber, 2007).

In addition to the EU's cooperation with the group of ACP countries, it also gradually expanded its development policy to other parts of the developing world, stepped up its trade and development relations with Asia and Latin America and opened up extensive enlargement processes with Central and Eastern European countries (Orbie, 2012). A system for financial aid to selected countries in Asia and Latin-America was introduced in 1967 – yet remained small, both in size and profile. It was only when Spain and Portugal joined the EU in 1986 that a more formal dialogue and regional cooperation framework towards Latin America was established (Holland, 2002; Hoebink 2004a). Relations with Asia were only deepened at a later stage, following the establishment of the Asia-Europe Meeting in 1996, a rather late timing that was rather surprising given the economic importance of Asia to Europe (Hoebink, 2004a).

### *Maastricht and the three C's*

With regard to intra-EU structuring and functioning, the 1992 Treaty of Maastricht introduced, for the first time, a legal framework and a new hope for a closer coordinated and harmonized EU development

policy. While some expected a greater push towards communitization in the field of foreign aid with the creation of a supranational dimension under the Treaty of Rome, not much progress had been achieved in that respect mainly since Member States considered it a threat to their national sovereignty (Grilli, 1994; Carbone, 2011). The Treaty of Maastricht introduced three new principles, which became known as the 'Three C's': Coordination, Complementarity and Coherence. Article 180 stated that: "The Community and the Member States shall coordinate their policies on development cooperation and shall consult each other on their aid programmes, including in international organisations and during international conferences. They may undertake joint action. Member States shall contribute if necessary to the implementation of Community aid programmes" (Council of the European Communities/Commission of the European Communities, 1992, p. 72). It also granted the Commission the right to take initiatives to promote such coordination. With regards to complementarity, it was acknowledged that development remained a shared competence and that the development programmes of the European Commission should complement those of Member States, while the European Court of Justice ruled against a subordination of the Commission's aid programmes to those of Member States (Carbone, 2007). Coherence meant that development objectives<sup>5</sup> were to be taken into account when implementing other policies which were likely to affect developing countries (Art. 130V).

In practice, however, the implementation of these principles proved very challenging, and according to some the principles "have been more honoured by their breach than in their observance" (Orbie & Versluys, 2008, p. 72). With regard to coordination and complementarity, a number of pilot projects were set up and debates held in the Council. Member States' vested interests, however, undermined any real progress in that respect: larger Member States insisted on their national sovereignty and considered development policy key to maintaining historical and strategic relations with developing countries; other, mainly smaller, Member States were either less interested in development policy or feared that a move towards closer coordination and more unity in EU development policy would simply serve British and French interests. On the ground, this resistance towards coordination often resulted in competing objectives, a duplication of programmes, and an overburdening of the administrative capacities of recipient countries. In addition, the European Commission lacked the expertise and capacity to lead Member States as it was largely absorbed by ideological and territorial disputes between and within Directorate-Generals (DGs), very complex and fragmented programming procedures, and a lack of personnel resulting in large inefficiency and disbursement problems (Schmidt, 2005; Carbone, 2011). As

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<sup>5</sup> Article 130 U stated that: " 1. Community policy in the sphere of development co-operation [...] shall foster: the sustainable economic and social development of the developing countries and more particularly the most disadvantaged amongst them; the smooth and gradual integration of the developing countries into the world economy; the campaign against poverty in the developing countries. 2. Community Policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respect for human rights and fundamental freedoms."

a result, the effectiveness and efficiency of European aid on the ground was severely restrained, and the EU's international role severely hampered (Orbie & Versluys, 2008; Carbone, 2013b).

#### **1.4.2 THE REFORMS OF THE 2000'S AND THE 2005 PARIS DECLARATION ON AID EFFECTIVENESS – TOWARDS A MORE EFFECTIVE EU DEVELOPMENT POLICY?**

In 1999 a new Commission lead by Romano Prodi came into office with a clear mandate to modernize and streamline the Commission and its management structures (Santiso, 2002). As part of this process, the Commission issued a Communication 'On the European Community's Development Policy' and another 'On the Reform of the Management of External Assistance' intending to initiate the far-reaching reform of European development policy to make it more effective and efficient. This resulted in a number of political guidelines and institutional reforms. EuropeAid was founded to steer the implementation of EU aid in all developing countries; EU Delegations were tasked with the management of EU development funds on the ground; and Country Strategy Papers (CSPs) were introduced to put in place a strategic framework for EU cooperation with developing countries (Orbie, 2012). In sum, the EU professionalized the management of aid: "Almost 50 years after the Rome Treaty, the EU finally became a fully-fledged donor: its scope went beyond the former colonies, its instruments reached further than the indirect trade route, it established a separate implementation body, it rationalized its financial instruments and it elaborated comprehensive development strategies vis-à-vis the partner countries" (Orbie, 2012, p. 20). This far-reaching reform not only related to the EU's bilateral-donor role but also impacted on its capacity and ambition to enhance its federating role over Member States, stimulating a "soft integration process towards a *common* European development policy" (Orbie, 2012, p. 20). Bolstered by its own reforms and institutional strengthening, the EU launched a number of initiatives to improve the effectiveness of EU aid and EU donor coordination, complementarity and coherence in a number of areas.<sup>6</sup> Even the traditionally more sceptical Member States reacted positively to these initiatives, as the EU had strengthened its own profile as a donor and restored credibility in that respect (Carbone, 2013b).

Internationally, with the adoption of the 2000 Millennium Development Goals (MDGs), the EU was confronted with a new normative framework for development policy as the goals' focus on poverty reduction was also put at the heart of EU development policy. Interestingly, the EU was able to step up its international role and shape the international negotiations and processes that followed the advent of the MDGs. In particular, at the 2002 Monterrey Financing for Development Conference in 2002 and the 2005 Second High Level Forum on Aid Effectiveness in Paris, the EU successfully moved from being a mere 'norm-taker' to becoming a 'norm-maker' (Orbie, 2003). Monterrey was remarkable since the EU

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<sup>6</sup> These included for example Communications on 'Climate change in the context of development cooperation' [COM(2003) 85 final]; 'Untying: Enhancing the effectiveness of aid' COM(2002) 639 final; 'Programme of Action for the mainstreaming of gender equality in Community Development Co-operation' COM(2001) 295 final; 'Policy coherence for development: accelerating progress towards attaining the Millennium Development Goals' [COM/2005/0134 final].

managed to announce a common pledge by setting the 0.7% ODA (Official Development Assistance)/GNI (gross national income) goal and thus overcame the longstanding dynamic that Member States set their own national aid targets. This way, the EU was also successful in positively influencing other donors and the conference outcome (Orbie, 2003; Carbone, 2007, 2013a). The EU's 'actorness'<sup>7</sup> and ability to shape the 2005 Paris Declaration on Aid Effectiveness, based on the elaboration of a joint position before the High-level forum, has also been highlighted (Carbone, 2013a). What is more, the EU – at least on paper – became one of *the* frontrunners in implementing the Paris Declaration.

The Paris Declaration on Aid Effectiveness (together with its follow-up declarations: the Accra Agenda for Action, and the Busan Partnership for Effective Development Co-operation) represents the most comprehensive framework to date aimed at addressing the issue of aid (in) effectiveness at a global level. The reform agenda demanded that donors respect recipient countries' ownership of their own policies, that they align themselves behind these domestic development objectives, that they use recipient countries' own administrative systems for channelling aid, and that they harmonise their aid interventions (OECD, 2008). Moreover, the changes envisaged by the aid effectiveness agenda not only identified what should be done differently in the future, but also how donors should deliver their aid in order to put the principles into practice (see Mummert, 2013).

In 2006, nearly a year after the Paris Declaration was signed, the European Consensus on Development was launched. This was considered a landmark document in the history of EU development policy since it set out common objectives and principles for Member States and the Commission for the first time (Orbie, 2008; Carbone, 2011). The Paris principles took a very prominent role in the Consensus and it was declared that the European Union aimed to take a lead role in implementing these principles<sup>8</sup>. To this end, the EU stated that it would increase the use of General Budget Support (GBS), as this aid modality was considered by many to be the most consequential form of a programme-based approach geared at implementing the

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<sup>7</sup> In this context, 'actorness' has been defined as "the capacity to behave actively and deliberately in relation to other actors in the international system" (Carbone, 2013a, p. 342).

<sup>8</sup> "Our efforts at coordination and harmonisation must contribute to increasing aid effectiveness. To this end, and building on the progress made in recent years, the 'European Consensus on Development' provides, for the first time, a common vision that guides the action of the EU, both at its Member States and Community levels, in development co-operation" (European Parliament, European Council, & European Commission, 2005p. 1). "The EU will implement and monitor its commitments on Aid Effectiveness in all developing countries, including setting concrete targets for 2010. National ownership, donor coordination and harmonisation, starting at field level, alignment to recipient country systems and results orientation are core principles in this respect" (ibidem, p. 5). "[...] in facilitating coordination and harmonisation. The Commission will play an active role in implementation of the Paris Declaration on aid effectiveness and will be one of the driving forces to promote EU delivery of its commitments made in Paris on ownership, alignment, harmonisation results and mutual accountability. The Commission will continue to promote the 3Cs — coordination, complementarity and coherence as the EU contribution to the wider international agenda for aid effectiveness" (ibidem, p. 9).

principles of the Paris Declaration on more effective aid<sup>9</sup>. Specifically, it committed itself “to channel[ing] 50% of government-to-government assistance through country systems, including by increasing the percentage of [EU] assistance provided through budget support or sector-wide approaches” and that “where circumstances permit, the use of general or sectoral budget support should increase as a means to strengthen ownership, support partner’s national accountability and procedures, to finance national poverty reduction strategies (including operating costs of health and education budgets) and to promote sound and transparent management of public finances” (European Parliament, European Council, & European Commission, 2005, p. 3). In addition, the EU launched the ‘Code of Conduct on Complementarity and Division of Labour’ in 2007, highlighting that the EU should act as a driving force for complementarity and division of labour within the international harmonisation and alignment process.

By mid-2000, the EU had carved out three distinct roles as a development-policy actor: a donor (involving the planning and implementation of foreign aid); a federator (facilitating and coordinating joint European action in development); and a norm-maker (developing and promoting a distinctly European development policy vis-à-vis other actors) (Orbie, 2012). The existing dichotomy in EU development policy was expanded by the strengthening of the supranational elements and the attempt to promote joint initiatives and undertakings, with the EU in a coordinating role. In addition, the EU had jointly committed itself to implementing the most guiding international framework to make aid more effective, the Paris principles and to increase the use of GBS to that end.

This is what the first three chapters supporting this thesis focus on: they assess the extent to which the EU (collectively) has been able to live up to its own ambitions of effectively implementing the Paris principles on aid effectiveness, using budget support policy and reform as the empirical example (see Table 1). In this light, the EU’s roles as donor and federator are analysed; a key area dealt with is the role of Member States, their domestic motives, and the influence structure between Member States and the EU. While the first paper focuses on the Member States and the domestic drivers of budget support provision, the second paper looks at the influence of the EC on Member States from an Europeanisation perspective. The third paper, in turn, focuses on the extent to which these influencing factors hamper or foster the collective action of Member States and of the EC and Member States individually.

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<sup>9</sup> Koeberle and Stavreski (2006, p.7) describe GBS as an aid instrument with the following characteristics: (i) channelling of donor funds to a partner country using its own allocation, procurement and accounting systems; (ii) support for a recipient country’s own development programmes, typically focusing on growth, poverty reduction, fiscal adjustment and the strengthening of institutions, particularly the budgetary processes; (iii) policy content, performance assessment and an accountability framework that focus on policy measures and benchmarks related to overall budget and policy priorities, as set out in the country’s own poverty reduction strategy and medium-term expenditure framework; (iv) provision at regular intervals, ideally in alignment with the country’s annual budget cycle; and (v) agreement on general budget priorities and expenditures, so that in principle there is no need to earmark funds for specific items.

**Table 1: The empirical case of EU budget support policy – from its inception to its demise**

Budget support has been at the center of discussions on how to make European aid more effective and also better harmonized. Initially provided by the World Bank and other multilateral development banks at the end of the 1990s, budget support became popular among European donors soon after, as a direct response to the aid effectiveness agenda outlined above. Given its design, it was considered by many as the aid vehicle that would best enable the realization of the Paris Declaration on Aid Effectiveness. Budget support consists of direct transfers of financial resources to the recipient government's treasury, aims at aligning itself to the recipient country's policy priorities and uses the endogenous budget procedures of the recipient. The instrument also has a number of in-built characteristics to better harmonize aid interventions: a joint financing mechanism that comes along with joint political dialogues and performance assessments. Compared to other members of the OECD/DAC, such as for example Japan or the United States, the EU and its Member States explicitly supported the use and increase of GBS as a means to implementing the Paris principles in a number of policy documents and guidelines.

However, this perspective of the potential of budget support was not shared uniformly by European governments and aid bureaucracies. It soon became apparent that European donors had different degrees of risk averseness and different preferences regarding the provision of budget support. From the beginning, budget support has been highly controversial and perceived (particularly by the general public and parliamentarians) as a 'blank cheque' to a recipient government and a legitimization of the government in power (Hayman, 2011; Faust, Leiderer, & Schmitt, 2012). From a financial accountability perspective, it was perceived as containing high fiduciary risks, that is, the possibility that aid resources could be used for purposes other than the ones initially stated (Koeberle & Stavreski, 2006; Clist, Isopi, & Morrissey, 2012). As a consequence, some bilateral European donor governments (such as Germany or Sweden) have been very cautious and selective, highlighting the need to tie budget support to strict political conditionalities. Others (such as the UK, the Netherlands or France) have been strong supporters, emphasising the potential of budget support to make aid more effective in reducing poverty and refraining from making budget support a political instrument. The European Commission was among the most dedicated supporters among European donors, providing either general or sector budget support to most of its partner countries, officially stating that they considered budget support as 'the most effective instrument in development' (EC, 2008, p. 3).

These policy differences among Europeans resulted in different budget support disbursement and suspension strategies, particularly in times of political crisis in recipient countries. Around the year 2008, political problems started to mount in a number of GBS recipient countries (mainly in Africa), including corruption cases, election irregularities, human rights violations and restrictions on political freedom. European donors, however, failed to act collectively in these situations and thus sent

incoherent signals to the recipient governments. Usually, each European donor agency reserved its right to unilaterally interpret the situation. In the absence of a 'neutral' or harmonized arbitration authority this meant that some donors interpreted political events such as the discovery of large corruption cases as a cause for at least temporarily suspending disbursements, while others interpreted the same event as evidence of improved transparency and oversight and continued or even increased their payments (Faust et al., 2012). And, even when donors agreed to use GBS as a sanctioning device, they acted in an uncoordinated manner, with some reinstalling payments soon after, others changing aid modalities away from GBS, and some freezing their financial contributions for a longer period of time.

These political problems in recipient countries, however, did not simply trigger short- or long-term GBS suspensions by some European donors, they also led to more support for political conditionality attached to GBS. While several European donors were selective from the beginning with regard to governance criteria, others increasingly started to attach political conditionality to GBS. As a result, the original aims of GBS, to implement the Paris principles, to provide reliable funding for poverty reduction strategies, to emphasize country ownership and alignment and to improve donor harmonisation, were increasingly pushed into the background.

European donors not only started to attach stricter political conditionality to GBS, their overall support for GBS also faded increasingly. Towards the end of the 2000s, the political support for budget support faded in almost all European member countries and by now largely disappeared from the aid modality toolbox of Member States. In addition, the European Commission issued a reform of its budget support policy in 2011, introducing much stricter political criteria for its provision, leading to a significant decrease in the use of budget support. This general trend among European donors is all the more surprising given that the EC and various Member States have invested substantial efforts in producing empirical evidence for the effectiveness of GBS through a number of large scale joint evaluations at country level (see Faust et al., 2012; Dijkstra et al., 2012; Lawson, 2014). These evaluations provide a fairly favorable picture of the effectiveness of GBS as a financing instrument in support of poverty alleviation and development-friendly policies in recipient countries, but note the failure of European donors to harmonize their approaches to GBS and to act collectively (Lawson, 2014). In other words, the new skepticism among European donors vis-a-vis the provision of GBS would not seem to be justified on empirical grounds.

#### **1.4.3 THE 2011 AGENDA FOR CHANGE**

On 13 October 2011 the Commission, under new Commissioner for Development Andris Piebalgs, published a new Mission Statement on development policy with the title 'Increasing the Impact of EU

Development Policy: An Agenda for Change'. Recognising the need to adapt to a changing international and intra-European environment, the EU aimed at modernizing its development policy. The document focused on three key areas: (i) a stronger focus on good governance and human rights with stricter political conditionality; (ii) the introduction of differentiated development partnerships, implying that more advanced countries would no longer receive aid; and (iii) the attempt to boost joint work between the Commission and the development agencies of Member States. As part of the Agenda for Change, the EU launched a reform of its budget support policy 'The Future Approach to EU Budget Support to Third Countries', proposing to tie budget support more strictly to the political conditions in recipient countries (see Faust et al., 2012). Both the Agenda for Change and the reform of budget support policy came amidst a number of global and internal European events.

In 2007, the Lisbon Treaty was signed by the heads of state and government of the 27 EU Member States and entered into force in December 2009. Not only did the Lisbon Treaty change the institutional framework for the EU's external relations by creating the new post of High Representative for Foreign Affairs and Security Policy supported by the newly created European External Action Service (EEAS) but it also constituted a significant opportunity to improve the coherence of the EU's external policies and the coordination both between EU institutions and between the EU itself and Member States (Furness, 2010). Whilst being a reform of the EU's aid policy and not its wider external relations, the Agenda for Change thus also had to be in line with the EU's wider foreign policy priorities. These, in turn, were heavily influenced by two defining events: the 2009 global economic crisis and its repercussions on the EU, and the Arab Spring. The global economic crisis put a heavy burden on European economies and led to shrinking aid budgets and debates over how to best spend scarce resources. The question how to better allocate and implement these scarce resources was further fuelled by the economic development in a number of developing countries, most notably the BRICS (Brazil, Russia, India, China, South Africa) but also the so-called second-tier middle-income countries (MICs) such as Vietnam, Thailand, Indonesia, Peru or Colombia that seemed wealthy enough to fund their own development. The events following the Arab Spring in 2010 led to controversial discussions on how to better engage with non-democratic and repressive regimes, as the EU had come under fire for its seemingly unconditional financial and political support to authoritarian leaders.

#### **1.4.4 THE 2030 AGENDA, THE SUSTAINABLE DEVELOPMENT GOALS (SDGs) AND THE NEW 2017 EUROPEAN CONSENSUS FOR DEVELOPMENT – TOWARDS A GLOBAL OUTLOOK ON DEVELOPMENT?**

In September 2015, the United Nations adopted a new agenda for sustainable development "The 2030 Agenda". At its core are 17 sustainable development goals (SDGs), which replace the MDGs and linked steps to overcome poverty and to improve human well-being with environmental protection. They were also universal and binding on all countries rather than – as the MDGs – merely focusing on developing countries. Furthermore the SDGs require integrated policies and whole-of-government approaches and



thus a new form of international cooperation that combines and spans several internal and external policy areas (Scholz, 2017). The EU actively shaped the negotiations about the SDGs and is now bound to implement the agenda. As part of this implementation strategy, a new European Consensus for Development was launched in 2017 to provide a new SDG-compatible framework for EU Institutions' and Member States' development policy. This renewal of the 2005 Consensus had become inevitable given the change in global challenges (increasing inequality, instability and fragility, climate change and more differentiated partner countries) and the changing contractual framework at EU- and UN-level (Lisbon Treaty, Addis Ababa Action Agenda, SDGs, Paris climate Agreement and the EU's global strategy for foreign and security policy) (Mackie, 2017). In addition to the European Consensus for Development, the EU is also tasked with providing a strategic framework for supporting and managing the overlaps between different internal and external policy areas, with promoting sustainable development as a crosscutting theme of all EU policies and with reforming its development policy towards a global outlook on development (Scholte & Söderbaum, 2016; Kaul, 2016).

This is where the other two papers on which this thesis is based come into play: They make an assessment of the debate on the role of EU aid to MICs and of how the concept of political conditionality can be adapted to reflect the EU's external relations 'beyond aid'.

Overall, the challenges for EU development policy have shifted significantly since the mid-1990s. Questions of aid effectiveness have increasingly been superseded by questions of how to adapt EU development policy to a new global development agenda. The EU now faces the significant challenge of becoming a more effective global actor, promoting and implementing more unified, better integrated and harmonized EU approaches, both at the horizontal level between EU institutions as well as at the vertical level between Member States and EU institutions (Gregersen, Mackie, & Torres, 2016). It has also been tasked with developing a strategic vision for a more tumultuous emerging new world order and an increasingly multi-polar world (Howorth, 2010).

### **1.5 Filling the gap – the contribution to relevant literature**

The history of EU development policy and the empirical developments above described have been covered and analysed in the relevant literature from various different angles and to different extents. With a few exceptions (see, for instance, Grilli, 1994; Scott, 1995), research on EU development policy only picked up around the turn of the century but has increased steadily over the last years (Carbone & Orbie, 2016). It nevertheless remains a rather small area of research, with a number of specific angles that academic researchers typically apply when analysing both the EU as a development actor and the EU as a multi-level system of common institutions, collective norms and procedural rules. There are, for example, the overviews and standard works focusing mostly on the origins and history of the EU's development policy, either as specific book contributions (see, for example, Grilli, 1994; Arts & Dickson, 2010; Hoebing & Stokke, 2005; Mold, 2007; Grimm, Gänzle, & Makhan, 2012) or as part of a wider analysis of the EU's

global role and external relations (such as Carbone, 2011; Keukelaire & Delreux, 2008; Bretherton & Vogler, 2006; Orbie & Versluys, 2008; Marsh & Mackenstein, 2005). The EU's development policy towards specific regions, in particular towards the ACP (see, for instance, Carbone, 2013b; Clegg, 2008; Dearden, 2008; Holden, 2009; Hurt, 2010; Montoute & Virk, 2017; Keijzer & Negre, 2014; Keijzer, 2016) or Africa (for instance, Krause, 2003; Scheipers & Sicurelli, 2008; Hackenesch, 2011; Grimm & Hackenesch, 2017; Carbone, 2013a; Bountagkidis, Fragkos, & Frangos, 2015) also features relatively prominent in academic literature. The challenging coordination of the various actors and institutions in EU development policy has likewise been addressed in various works where a larger focus is given to EU coordination at the policy level in Brussels (Arts & Dickson, 2004; Gill & Maxwell, 2004; Hoebink, 2004a; Carbone, 2007, 2010; Mürle, 2007; Orbie, 2012) than to EU coordination in the field (see, for example, Delputte & Orbie, 2014; Delputte & Söderbaum, 2012; Carbone, 2016). In addition, a number of works focus on the promotion of democracy and good governance (such as Crawford, 2007; Crawford, 2013; Del Biondo, 2011; Olsen, 1998; Zimelis, 2011; Wetzel & Orbie, 2011; Börzel & Hackenesch, 2013). Comprehensive research on other topics has only just started, such as the EU's engagement in international development fora as in the OECD's Development Assistance Committee (DAC) (see, for instance, Verschaeve & Orbie, 2016; Verschaeve & Orbie, 2017); the World Bank (Delputte, Lannoo, Orbie, & Verschaeve, 2016) or the UN (Farrell, 2012, 2008).

#### *Better understanding the political drivers of EU development policy and the role of Member States*

On the other hand, there are a number of issues that have received very little academic interest so far despite their apparent importance for the understanding of the EU's development policy. For one, there is a void in the theoretical and empirical study of the influence structure and political economy of the EU's development-policy system, in particular the politics and drivers of policy and decision-making within Member States as well as the reciprocal influence between the European Commission and Member States. While development policy has to be considered in connection with the larger body of literature on external relations and the foreign policy of the EU (see Carbone, 2011), it is distinct – not least due to the way EU development policy is organized and structured: unlike the Common Foreign and Security Policy (CFSP), which is principally based on intergovernmental procedures and decision-making, EU development policy is, according to Article 4 of the Treaty of the Functioning of the European Union (TFEU), a shared competence. Distinct theoretical concepts or analytical frameworks on EU external relations are thus either difficult to transfer to EU development policy since they focus on the mechanisms and organization of the CFSP (see for example Smith, 2011 or Michael E. Smith, 2011) or they widely neglect development policy (such as analytical concepts on external governance of the EU or debates on the EU as a normative power). Overall, theoretical lenses are rarely applied to EU development policy, not least due to its complexity as a multi-level system (Delputte & Orbie, 2018).

It has been widely acknowledged that the functioning and coordination of the EU development-policy system is severely constrained by the over-complex system of Member States' individual policies, the supranational programme managed by the EU institutions, and the various national and supranational oversight institutions (such as National Parliaments and audit institutions, and their European equivalents). Less attention has so far been given to a *theoretical grounding of the drivers of policymaking in EU development policy; of how, why and when Member States and EU institutions influence each other; and of what hinders them functioning better together*. While a few works focus on integration in EU development policy (for example, Arts & Dickson, 2010; Carbone, 2007; Holland & Doidge, 2012), the role of Member States and the politics behind EU development policy in particular have received very little attention so far (see Carbone & Orbie, 2016). Specific theoretical concepts (such as Europeanisation or collective action) have only recently begun to be transferred to EU development policy (see, as examples, Carbone & Orbie, 2016; or Bodenstein, Faust, & Furness, 2017).

Several authors have hinted at the distinct influence of Member States' preferences and interests and their importance in shaping and driving EU development policy (see Carbone, 2007; Arts & Dickson, 2010; Bretherton & Vogler, 2006). It has been highlighted that the EU's 'actorness' largely depends on the degree of convergence between the preferences of the EU's Member States and the EU's institutions (Carbone, 2013a). This, however, also means that the policy space of the EU Commission becomes smaller when the preferences of Member States are well aligned. Schneider and Tobin (2013), for instance, show that a greater homogeneity in EU members' goals increase the likelihood that they can influence the Commission's aid allocation according to their own national interests. In this context, the so called 'like-mindedness' of the Nordic EU Member States (Denmark, Finland and Sweden) and their distinct model as generous and progressive donors stands out and is seen as having shaped and influenced EU development policy in this direction (Odén, 2011; Selbervik & Nygaard, 2006, Elgström & Delputte, 2016). The Nordic countries also seem to be part of a larger group of Member States (that is the UK, the Netherlands and Ireland – also known as 'Nordic Plus') that share similar ideas and preferences regarding development policy, in particular with regard to aid harmonisation and other issues of aid effectiveness (Olsen, 2013). Where the EU institutions are concerned, the supranational level (that is, the aid programme run by the EU Commission) has received more attention than the EU's federator role and its capability of unifying Member States positions and actions (Carbone, 2013a//b). So, despite the highlighting and analysis of cleavages and the group of 'like-minded' donors, and the analysis of the foreign aid spent by the EU institutions, little is known about the drivers of EU development policy and the deeper domestic (political) reasons behind the capability of the EU to act in a unified way. Put differently, while we know that preferences between both Member States themselves and Member States and the EU often diverge, there is little theoretical and empirical analysis as to why this is the case.

### *The aid effectiveness agenda as a case in point*

The aid effectiveness agenda is a case in point with which to research these mechanisms, not least since high hopes were pinned on the EU to become a frontrunner in establishing and implementing the Paris principles. It is also an interesting subject to study since, up until the Paris Declaration, the most recent literature was fairly positive in that the EU development policy had gained in strength and seemed capable of overcoming many of its shortcomings (see subsection 1.4). As one of the key supporters and drivers of the Paris Declaration on Aid Effectiveness, it was expected that the EU would make progress with regard to aid coordination and harmonisation, better alignment with partner-country priorities, and better acceptance of partner-country ownership.

At the latest around 2011, however, it became clear that these hopes had not materialized and that the implementation of the Paris principles had made only very meagre progress. A 2011 Monitoring Survey on the implementation of the Paris Declaration found that, of the 13 targets agreed to, only one had been met (namely, coordination of technical cooperation) (OECD, 2012). Remarkably, it also found that partner-country authorities had gone further in implementing their commitments under the Paris Declaration than donors. Several partner-country governments had improved their public financial management systems – a prerequisite for, and requirement of donors to channel more aid through these systems. Nevertheless, these improved systems were rarely used by donors, which seemed fairly risk-averse. In fact, one of the major findings of the 2011 Monitoring Survey was that political challenges at headquarters were largely responsible for the lack of progress in those areas where donors' efforts were most required (for instance, use of country systems; untying aid; donor co-ordination) (OECD, 2012). These political problems, in turn, were hardly focused on when the Paris Declaration was signed and to a large degree subsequently neglected by the aid effectiveness literature.

Aid effectiveness literature as such is a rich body of research, consisting mostly of empirical macro studies looking into the effects of development aid to increase economic growth, alleviate poverty, or promote social development (for an overview, see Doucouliagos & Paldam, 2009; or Hansen & Tarp, 2000). The vast majority of these studies assign the rather sobering results of foreign aid to the poor quality of governance systems in recipient countries. Less emphasis is placed on donors as part of the aid effectiveness equation, and even less on the political drivers of their actions. At the beginnings of the 2000s, a few prominent works such as "The institutional economics of foreign aid" (Martens, Mummert, Murrell, & Seabright, 2002) or "The samaritan's dilemma. The political economy of development aid" (Gibson, Andersson, Ostrom, & Shivakumar, 2005) started to shift the focus towards the institutional settings of donors and the incentives perceived by development practitioners relating to the effective management of aid programmes and disbursements. Among other things, it was found that the disappointing outcomes associated with aid not only stemmed from poor governance in developing countries but also from perverse incentives within aid institutions and the structure of foreign aid as such

(see also Brautigam & Knack, 2004). However not only does the European Union feature very seldom in the overall aid-effectiveness literature but the more political reasons and drivers of the failure of successfully implementing the Paris principles have so far not been empirically and theoretically analysed. Having said that, it is clear that the EU needs to play a major part in analysing these political drivers of aid, not least since 7 out of the 11 donors analysed in the 2011 Monitoring Survey report are European donors.

The first three papers on which this thesis rests aim to contribute to the literature on aid effectiveness by providing an analysis of the political economy of the EU and its Member States (as a multi-level system) that has led to the weak implementation of the Paris declaration. With a particular focus on Member States, and by applying theoretical concepts such as Europeanisation and collective action, the papers also contribute to the body of literature that aims to understand the political drivers and obstacles of decision-making in EU development policy. The case of EU budget support policy and reform (see Table 1) is used as an empirical example in order to get a better understanding of these mechanisms.

#### *From aid effectiveness to ‘beyond aid’ and global development*

*A second set of papers* contributes to different strands of research that tackle, from different perspectives, the issue of the transformation of development policy in light of the seismic shifts in the global development landscape.

For one, there is the debate on ‘beyond aid’ that had gained traction in recent years (Janus, Klingebiel, & Paulo, 2015). In essence, this refers to the need to transform development policy due to the changes in the international landscape. In this new landscape, development policy plays a diminished role; or, put differently: to remain relevant it needs to be reformed towards a global outlook on development as is widely argued (see Severino & Ray, 2009; Janus et al., 2016). ‘The end of ODA’ (Severino & Ray, 2009, 2010), ‘the creative destruction of the aid industry’ (Kharas & Rogerson, 2012), the shift ‘from aid to global development policy’ (Alonso, 2012), ‘Aid 2.0’ (Sumner & Mallett, 2012) or the ‘post-aid world’ (Mawdsley, Savage, & Kim, 2014) are examples of works in this direction. What these studies have in common is that they argue for a rethinking of foreign aid and a redesign of the aid system – highlighting that aid in the future will be less and less about filling gaps in poor countries’ budgets and more about supporting and co-financing the provision of global public goods, knowledge-sharing, and the transfer and promotion of development-policy coherence.

It is emphasised that the term ‘beyond aid’ can be used as an umbrella concept to capture this pressure to reform (see Janus et al., 2015). ‘Beyond aid’, in this view, encapsulates the various different aspects of the transformation in development aid that relate to the proliferation of development actors (for example, Kragelund, 2008); the diversification of development finance (for instance, Ratha, Mohapatra, & Plaza, 2008); the development coherence of various different donor policies (for example, Carbone, 2012; Barder, Clark, Lépiessier, Reynolds, & Roodman, 2013; Büllés & Kindornay, 2013); and the importance

of knowledge within development cooperation (for instance, Gatune, 2010; Zoellick, 2012). As a result, donors need to take strategic decisions on how to adapt to this ‘beyond aid’ world by opting for ‘specialisation’ or ‘integration’. Specialisation, in this context, refers to a continued primary focus on poverty reduction in a shrinking number of poor countries. It is transformative, as donors have to give up their more comprehensive role in cooperating with entire developing regions. It can also be considered a ‘niche’ approach where development policy reduces its range of action to focus only on a sub-group of developing (mostly poor and fragile) countries. ‘Integration’ refers to an expansion of instruments and to a substantial redefinition of goals, moving away from development cooperation and towards a broader system of global cooperation. While poverty reduction remains an important objective, global cooperation also aims at a wider set of objectives subsumed as global public goods challenges. Its country focus ranges from fragile and conflict-affected countries to middle- and even high-income countries by considering them as part of a universal agenda for the preservation of global commons. In this approach, development actors need to work much more closely together with other domestic and external policies to manage the interfaces inherent to global development challenges (Janus et al., 2015). In other words: development policy is not enough, although it can make relevant contributions to global problem-solving if well-orchestrated and ‘integrated’ in cross-sectoral or ‘whole-of government’ approaches.

So far, the literature available on EU development policy has not been explicitly linked to the conceptual debate on ‘beyond aid’ and the transformation of development but has mainly analysed ‘beyond aid’ issues from the perspective of Policy Coherence for Development (PCD). PCD as such is a European concept and relates to the necessity to take account of development objectives in all of the EU’s policies that are likely to affect developing countries. It has been researched comprehensively from different perspectives, mainly pointing out the tensions between development goals and other EU interests and policies such as agriculture, fisheries, trade, security, and so on (see, as examples, Koulaïmah-Gabriel, 1999; Carbone, 2008, 2012; Adelle & Jordan, 2014; Matthews, 2008; Koff & Maganda, 2016; Carbone & Keijzer, 2016; Gegout, 2016; Delputte et al., 2016). While the PCD literature takes account of the ‘coherence’ dimension of the ‘beyond aid’ debate, it is nevertheless traditional in the sense that it focuses on the extent to which the EU is capable and willing to follow the ‘do no harm to poverty reduction’ principle of PCD. How the EU’s concept of PCD would have to be adapted to reflect a transformation of development policy – and in particular a diversification of policy objectives towards the promotion of global sustainable development – is only starting to be analysed more substantially (see Mackie, Ronceray, & Spierings, 2017). In addition, other than the debate on PCD, there has so far been only very limited research looking specifically into the EU development system and the transformation pressure to adapt to the changes in the global development landscape.

Having said this, the EU literature can offer a specific angle that has not yet been at the heart of the ‘beyond aid’ debate. The analytical concept of ‘policy nexuses’ pinpoints the intersections and overlaps

of development policy with other internal and external policies of the EU. In general, the term ‘nexus’ stands for connections between different issue domains. Where policy is concerned, this means that different issue areas are interconnected and need to be tackled by more than one actor across at least two policy domains or issue areas. The concept originated in the sustainable-development community around the 1992 Rio Conference and referred mainly to connections between climate, food, energy and water (see Boas, Biermann, & Kanie, 2016). It has also been adapted to the EU development literature, where the interconnections between development policy and other policies of the EU have been highlighted, as in the development-security nexus (see Olsen, 2004; Youngs, 2008; Sicurelli, 2008; Bagoyoko & Gibert, 2009; Hout, 2010; Furness & Gänzle, 2016); the development-migration nexus (see for instance, Chou, 2006; Lavenex & Kunz, 2008; Crush, 2015; Keijzer, Furness, Hackenesch, & Koch, 2015); or the development-trade nexus (see, for example, Carbone & Orbie, 2014; Elgström, 2009; Elgström & Pilegaard, 2008; Young & Peterson, 2013). All these studies point to the difficulties at the strategic, political and institutional level when issues need to be managed in an integrated manner and objectives of the EU reconciled across different policy domains. These lessons, in turn, could be taken up by the literature focusing on the transformation of development policy ‘beyond aid’.

Looking at these different strands of literature holistically, a few common threats and observations emerge: first, there is a wide consensus that the development landscape has become much more differentiated with many countries climbing the ladder of (economic) development while those that have not seen any growth are mostly fragile and conflict-affected countries. These developments, in turn, pose a number of questions for EU development policy, such as how and where to focus on poverty reduction, and how to develop new concepts to work with the very diverse group of MICs. Second, there is also a large consensus in the various research strands that the overlaps between policy areas have become much larger and require integrated policy responses. For research on the EU, this means that the EU’s external relations need to be analysed in a more integrated manner, looking at different internal and external policy areas and the strategic coherence between them from a holistic perspective. Third, there is kind of a vacuum in linking the debate on ‘beyond aid’ issues to the literature on EU development policy. At the same time, concepts of the EU literature (such as the policy nexus) could also be used to analyse the question of how to transform the aid system.

The second set of papers of this thesis builds on these three observations and aims to contribute to filling those gaps in the literature from different perspectives. By using and analysing specific examples such as the debate on EU aid to MICs and the need to re-conceptualize political conditionality ‘beyond aid’, a link is being made between more general conceptual debates and the specific case of the EU.

## 1.6 Theoretical framework

As already outlined in the literature review, theorizing EU development policy, in general terms, is not very advanced and thin in many respects, in particular if compared to the extensive theoretical analysis

of the EU's foreign policy under the CFSP (see Bergmann & Niemann, 2015). This is not least due to the complexity of EU development policy as a shared competence and multi-level system (see Delputte & Orbie, 2018). A few authors have analysed EU development policy from a European Integration perspective (e.g. Arts & Dickson, 2004; Carbone, 2007; Holland & Doidge, 2012). Other theoretical frameworks typically applied to EU external relations, such as Europeanisation or collective action theory are only starting to be used to analyse EU development policy (see Carbone & Orbie, 2016; Bodensetin et al. 2017). In particular the role of member states has so far received only limited attention and their domestic motives for acting with and through the European level are rarely analysed from theoretical perspectives (see Carbone & Orbie, 2016). This PhD thesis aims to contribute to filling this gap by focusing in particular on the role and domestic drivers of member states in order to provide new insights into explaining and understanding the functioning of and the influence structures in EU development policy. By linking it to existing theories, this PhD thesis aims to contribute to further develop the theorizing of EU development policy.

For this purpose and for the analysis of the challenges *within* EU development policy, a political economy perspective is explicitly or implicitly applied to the (non-) implementation of the Paris Declaration on Aid Effectiveness across the EU. In general, there is no commonly used, widespread definition of political economy analysis, apart from the overall understanding that it refers to the "interaction between politics and economics" (Drazen, 2002, p. 5). In particular the "economic" and "political", however, tend to be defined differently (see Capuraso & Levine, 1992). Economists typically try to understand how markets work and use political economy analysis to understand why 'optimal outcomes' are not achieved by looking deeper into the political environment in which economic choices are taken (Drazen, 2002).

If one starts with the 'political' first, one is rather interested in a "state-centred" approach, focusing on the imperatives of "political rather than economic affairs" (Capuraso & Levine 1992, p.5). In this vein, economic calculus is applied to politics, with the aim to understand political decisions from a cost-benefit (and often rational-choice) perspective (Capuraso & Levine 1992). Such cost-benefit decisions, in turn, are often understood to be influenced by vested interests of the domestic political scene and various actors such as elites, lobbies, rent-seeking groups, or voters at large who all have specific motivations for a specific political or policy decision. In analysing those interests, one can explain why inefficient policies persist and why technically ideal outcomes are not achieved (see Stigler, 1971; Becker, 1983).

Whether the focus is on the economy and the malfunctioning of the market or on politics and the economic logics of it, a key feature of political economy analysis is the attempt to explain 'non-ideal' outcomes. These 'non-ideal' outcomes refer to situations where there is large agreement (in policy and academic circles) what a good policy fit or ideal technical outcome would be, but there are certain domestic interests and political impediments that hinder the achievement of that outcome: "Political economy thus begins with the observation that actual policies are often quite different from "optimal"



policies, the latter defined as subject to technical and informational, but not political constraints. Political constraints refer to the constraints due to conflict of interests and the need to make collective choices in the face of these conflicts” (see Drazen, 2002, p. 7).

A political economy lense is also often applied to understand such ‘non-ideal outcomes’ in foreign aid. In general terms, a political economy perspective on foreign aid seeks to explain donor behaviour by focusing on their motivations and incentives and the interests of various domestic groups that drive their decision-making. As such, it treats foreign aid as a policy action of donors that can be explained by political and economic goals and interests. These, in turn, are products of different domestic institutions, interest groups, power distribution, and the dynamics of competitive interests and ‘veto players’ (see Hopkins, 2000; De Mesquita, 2006). Within a political-economy analysis of foreign aid, different emphases can be highlighted. A first focuses on the economic interests of powerful groups within donors, stressing that executive and legislative branches make economic choices and aid allocations with a view to their implications for their power. A second understanding explains donor decisions as an effort to maximize the benefits of donor states to improve their situation within the international system. A third approach looks more closely at the domestic structure of donors and sees aid as the outcome of bargaining among different actors – a kind of political market made up of governments, political parties, donor aid bureaucracies, implementing agencies, civil society actors, the media, and the general public (Hopkins, 2000). Interestingly, however, donors themselves tend to focus on prioritising political economy analysis applied to developing countries as an attempt to maximise the impact and effectiveness of their interventions. As Hout (2015) points out, the implications and required steps of these political economy analysis are rarely fully followed by donors, largely because of their own interests and conflicts- which calls for a better understanding of their own incentives and motives, rather than focusing solely on analysing developing country contexts.

This is also the case for EU development policy, both from a policy and academic perspective. From a policy perspective, the EU has applied a political-economy lense when analysing the interaction between political and economic structures in developing countries (see Unsworth & Williams, 2011) but this focus has rarely been turned around to look inwards and analyse the EU’s own structures. From an academic perspective, it has been recognized that different Member States’ preferences and motivations are behind the EU’s weak implementation of its international commitments and own policy guidelines (see Carbone, 2013a//b), but a distinct political economy analysis has rarely been applied. Applying an economic logic to political decision-making within the EU’s own development-policy making system thus helps to better understand the domestic drivers of these different preferences and motivations which can contribute to better understand and explain the ‘non-ideal outcomes’ in EU development policy and the weak implementation of international and EU internal agreements in EU development policy. Such analysis

must not only look at the motivations and interests of Member States, it also has to include the EU institutions and the influence structure and policy-making between EU institutions and Member States.

Within the overarching frame of political economy analysis, different theories are used in this thesis to explain and analyse the different research questions of the three papers on the (non-) implementation of the aid effectiveness agenda. For one, the domestic politics of Member States are analysed by combining research on party politics with research on public opinion in foreign aid (see, for instance, Lumsdaine, 1993; Knack & Paxton, 2011; Bauhr, Charron, & Nasiritousi, 2013; Tingley, 2010) and by taking the role of ‘veto players’ in the aid system into account (Easterly, 2007). The second paper uses the theoretical framework of Europeanisation that has widely been used to study other EU policies and adapts it to the case of budget support. Europeanisation in general is understood as a governance approach that analyses and explains the process of policy formulation and implementation in the European Union. As such, it has two main features: first, it focuses on the impact of the EU’s political system on the decision-making and policy-implementation processes at the European and the domestic level, treating the EU as the independent variable. Second, it moves away from a state-centric perspective and includes the role of non-state actors and the entire ‘political market’ in policy formulation and implementation in the analysis (Bergmann & Niemann, 2015). The third paper combines two theoretical frameworks, namely principal-agent and collective action. Principal-agent theory is typically applied to analyse the donor-recipient relationship. It characterizes this relationship as an asymmetric setting in which the principal delegates a task to the agent over whose actions it has only limited control. Agency problems in this type of setting typically occur when there are (i) diverging interests and preferences between those who commission the tasks (principals) and those who should perform the tasks (agents); and (ii) when there is asymmetric information between the two parties (Laffont & Martimort, 2002; Pollack, 1997). The article makes the point that a collective-action lense needs to be added in order to understand the (political) difficulties in adhering to the aid-effectiveness principles on the donor side. Collective action is a theory of political science and economics that focuses on concentrated benefits versus diffuse costs. Its main argument is that minor interests will be overrepresented and diffuse majority interests, due to a ‘free-rider’ problem that is stronger when a group becomes larger (see Olsen, 1965). In general, collective-action problems arise within the context of public goods provision, when various actors benefit collectively from goods or services provided, whereas the costs of providing these goods accrue to individual actors. This creates the incentive for individual actors to ‘free-ride’ on the others’ contributions, which ultimately leads to underprovision of the good from a collective-welfare point of view (Mas-Colell, Whinston, & Green, 1995).

By combining all these different theoretical lenses, a more holistic picture regarding the political economy of EU development policy emerges: decisions and influence structures are very much driven by the domestic political and economic interests of Member States, which are shaped by both state and non-state actors. To understand the weak implementation of agreements in the EU (such as the Paris

Declaration on Aid Effectiveness) the analysis needs to shift away from Brussels and towards the ‘market place’ of Member States, the different domestic institutions, interest groups, power distribution and the dynamics of competitive interests and ‘veto players’ that shape development policy in Member States and determine the preferences of Member States and the policy space of the Commission (see also Chapter 7, Conclusions).

The second set of papers and the challenges of development policy to move towards a global outlook on development do not follow an overarching theoretical framework but instead uses, adapts and refers to general concepts (such as development, ‘beyond aid’ or GPGs) transferring and applying them to EU development policy. As such, they contribute to the development of a theory of global public policy that aims to better understand and explain the slow adaptation of international cooperation from a traditional towards a global understanding of development (Kaul, 2016). The need for a theory of global public policy stems from the observation that (against the backdrop of the 2030 Agenda and the SDGs) international cooperation is facing two unfinished agendas: the first is the reform of development cooperation and aid, while the second relates to the provision of GPGs, which both require institutional, political and policy adjustments. As such, key concepts such as ‘development’, ‘Global Public Goods’ and ‘International Cooperation’ need to be further adapted. Where development is concerned, this means a shift towards understanding development not only as a national but a universal agenda that covers “development in and of states; development in and of GPGs, including the global natural commons; and linkages and feedbacks among and between national and global fields [...] all these elements and forces may explain global development as comprising the health of the planetary system as a whole” (Kaul, 2016, p. 142). In addition, it is argued that the complexity and multi-dimensional nature of today’s global challenges require a clearer understanding by policymakers and academics of what is distinct and urgent about these challenges. In contrast to ‘normal’ public goods, GPGs are characterized by a publicness in consumption which cover at least three dimensions: spatial (worldwide span), impact (affecting countries and areas beyond national jurisdiction) and temporal (long-term effects). The underprovision of GPGs also requires a fresh look at international cooperation to be undertaken. After all, international cooperation suffers from the fact that states tend to focus on their particular national interests, which may or may not overlap with what is required for GPG provision. In this context, the incentives for states to cooperate need to be better understood as they can range from ‘free-riding’ issues to power politics and high domestic costs for cooperation (Kaul, 2016).

The paper on differentiation and the question of how to adapt EU development policy to MICs focuses on both challenges: the reform of development cooperation ‘beyond aid’; and the need to provide GPGs. It also engages in a discussion on what ‘development’ means and how the economic development of many former poor countries has altered our understanding of the ‘developing world’. It also highlights the challenges for EU development policy in moving from a traditional understanding of development towards

contributing to the provision of GPGs. The paper on political conditionality engages more with the increasing importance of other policy fields in the relationship with the 'developing world'. As such, it analyses how a specific concept (political conditionality) needs to be expanded to be better integrated into cross-sectoral or 'whole-of-government' approaches.

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# CHAPTER I

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## EUROPEAN BUDGET SUPPORT AND THE DOMESTIC POLITICS OF FOREIGN AID

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### 1. INTRODUCTION

Shared competencies exist in policy fields where both, the EU and its Member States, are entitled to adopt legally binding acts. In the EU's external policies, shared competencies are often perceived as leading to continuous struggles of maintaining and respecting national policy autonomy while at the same time striving for a better unified and harmonised external appearance of the EU as a whole. This is also true for EU development policy, for which the level of internal coordination and external harmonisation between 28 bilateral policies plus the aid programme of the European Commission is often considered insufficient (e.g., Aldasoro, Nunnenkamp, & Thiele, 2010; Delputte & Orbie, 2014; Carbone, 2008, 2010). Achieving a better unified external appearance, in turn, often comes along with collective action problems because the achievement of harmonisation tends to penetrate into the area of domestic politics within member countries (Smith, 2000).

Against this background, this paper investigates the influence of domestic factors on European donor countries' use of budget support: the most prominent and debated instrument of European foreign aid of the last decade. In principle, budget support consists of direct transfers of financial resources to the recipient government's treasury. The intervention logic of budget support foresees a combination of financial flows, performance assessment and policy dialogue, and in times of political crisis political dialogue with the recipient government. In general, pooling resources instead of relying on individually managed projects, holding joint policy dialogues with recipient governments and jointly agreeing on key reform objectives were also expected to provide an adequate framework for a well-harmonised appearance of European donors (de Renzio, 2005). Budget support has thus not only been propagated as a more effective means to achieve developmental goals but has also been closely associated with improved harmonisation and coordination among European donors.

Yet, several case studies (e.g., Faust et al., 2012; Molenaers, 2012; Molenaers, Gagiano, Smets, & Dellepiane, 2014) have shown that these expectations remained unfulfilled and that great heterogeneity in budget support policies and European member state behaviour remained. In many cases, different European donors attached different objectives to the instrument, had different positions in the policy dialogue with partner countries and responded differently to non-fulfilment of policy and political conditionality. Thus, severe harmonisation problems remained in the implementation process of the instrument (Faust et al., 2012; Molenaers, 2012; Molenaers et al., 2014)

Adding to this evidence on policy heterogeneity and the resulting harmonisation problems, we argue that this policy heterogeneity is not only influenced by individual preferences of different European implementing agencies on the ground. More fundamentally, we assume that behavior on the ground is determined by a donor government's overall stance towards budget support and provide evidence how domestic political factors in European donor countries have influenced these policy preferences. Thus, we directly focus on the domestic determinants of using a particular foreign aid instrument; an issue that so far has not been studied in the context of European external policies. By employing a mixed methods approach, we show how government ideology, economic performance and the structure of a donor country's aid system have influenced the amount of budget support provided by European bilateral donors. For this purpose we use a mixed methods approach. We perform an econometric analysis using a sample of the 15 European budget support providing bilateral donors - out of which 13 were EU members - in the 2002-2012 period. This econometric analysis is then supplemented with a small-n comparison of the two largest European donor countries, Germany and the United Kingdom.

Overall, our analysis is therefore embedded in the liberal school of foreign policy analysis (e.g., Moravcsik, 1997) and closely linked to the debate about the drivers of and barriers to a better coordinated European foreign policy (e.g., Smith, 2004; Wong & Hill, 2011). Related to recent work on preference heterogeneity in the EU (e.g., Schneider, 2013), our analysis suggests that policy convergence has been undermined by political and bureaucratic considerations of national governments. It also adds to current debates on the linkage between the EU's internal cohesiveness and external effectiveness (Conceição-Heldt & Meunier, 2014) as it demonstrates that in the case of budget support, the lack of internal cohesiveness has severely undermined the EU's external effectiveness on the ground.

The article is structured as follows: Section 2 starts by sketching the implementation logic and referring to evidence that shows the limits of European donor harmonisation in the implementation process of budget support (2.1). Hereafter, we analyse the instrument of budget support from a political economy perspective and deduce our hypotheses regarding the impact of domestic politics on the provision of budget support (2.2). In Section 3, we present our econometric analysis (3.1) and our two case studies (3.2) before summing up our results (4).

## **2. ANALYTICAL FRAMEWORK**

### **2.1 Policy heterogeneity and failed coordination of budget support**

The rise of budget support in the early 2000s has to be understood against the background of the mounting criticism of traditional project aid and donor fragmentation. The subsequent reform efforts culminated in the 2005 Paris Declaration and the 2008 Accra Agenda for Action. This reform agenda demanded that donors respect recipient countries' own policy priorities for poverty alleviation, align behind their domestic development objectives and make stronger use of recipient countries' own

administrative systems for channelling aid and harmonising their aid interventions (OECD, 2008). Budget support has been considered most apt to implement these reform principles.

Seen from a European perspective, the instrument of budget support also had the potential of making a substantial contribution to improved harmonisation of European development policies. Due to its in-built characteristics, budget support promotes harmonisation by pooling donor resources and avoids parallel structures by channelling funds directly into a recipient government's budget (de Renzio, Booth, Rogerson, & Curran, 2005). Yet, the instrument's objectives consist not only of providing predictable funding for the implementation of poverty reduction policies but also aims at strengthening core government capabilities through non-financial contributions, namely conditionality, policy dialogue and targeted capacity building. To be jointly effective, financial and non-financial contributions not only need to be properly aligned to government programmes and priorities but also have to be carefully coordinated among donors. While budget support provides for the harmonisation of donor procedures and alignment to government priorities in principle, aligning behind a joint financing mechanism alone is not enough to make budget support work, particularly since European donors have established very different approaches towards the instrument and towards the use of political conditionality in particular (Faust et al., 2012; Hayman, 2011).

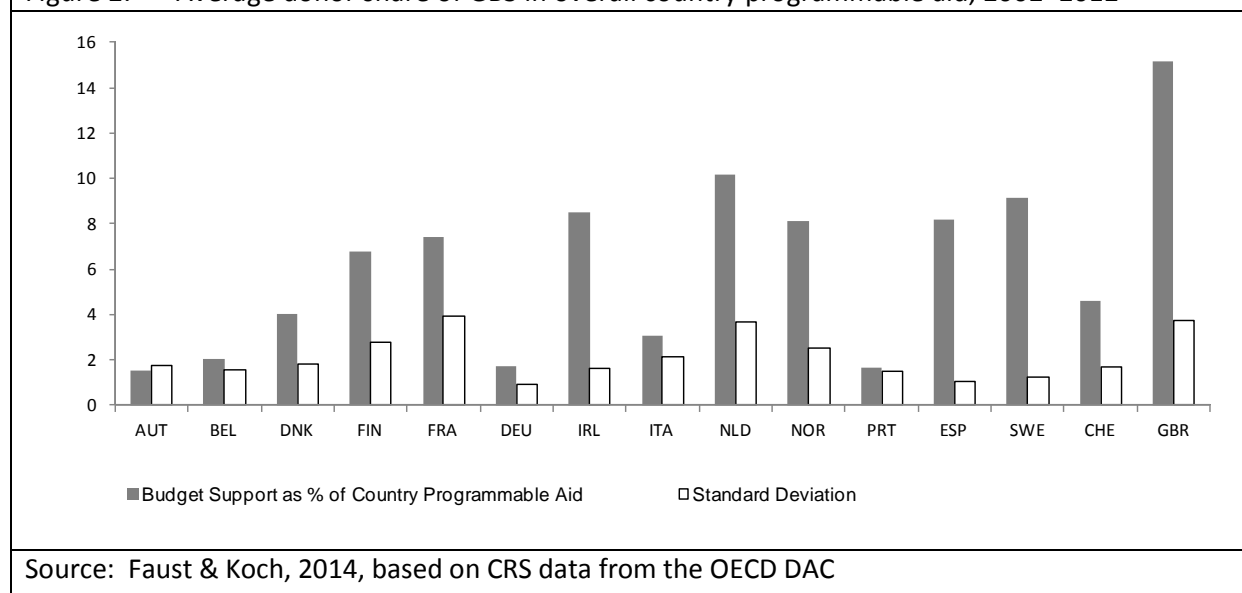
Existing case study evidence suggests that in particular with regards to political conditionality, European donors are far from having reached a consensus on how to use budget support in times of political crisis. For one, there is disagreement among donors whether or not budget support should be directly linked to political conditionality. Those European donors who favour the financing objective of budget support over more far reaching political governance goals in general also abstain from using budget support in situations of political crisis. For instance, a 2009 corruption scandal in Zambia led some European donors to temporarily suspend their budget support disbursements, while others continued or even increased their disbursements. But even if Member States agree on the use of political conditionality, they reserve the right to act unilaterally not coordinating their responses and actions with other Member States. These harmonisation problems among Europeans donors have led to incoherent incentive schemes, macroeconomic instability, and administrative challenges.

A key insight from these case studies is that policy heterogeneity on the ground has been heavily influenced by donor's risk attitudes at headquarter level. Budget support was perceived to come along with high fiduciary risks, given that it is provided directly into the recipient's budget (Koeberle & Stavrevski, 2006; Clist et al., 2012). Compared with project aid, budget support is also characterised by higher political risk for donor governments, given that the provision of financial resources into the budget for developmental purposes is perceived as an endorsement of the recipient country's political regime. Thus, in case of corruption scandals, human rights abuses or rigged elections, donor governments face the risk of being held accountable for having supported these regimes with direct budgetary support

(Barkan, Kayunga, Njuguna, & Titsworth, 2005; Dijkstra et al., 2012). Compared to project aid, the potential success of a budget support intervention is also much more difficult to communicate to domestic constituencies within donor countries.

Against this background, we argue that such risk attitudes and the resulting behavior of European donors are not only influenced by individual preferences of different European implementing agencies on the ground. More fundamentally, we assume that the approach of a given European donor at country level is determined by the overall stance of its government towards budget support. More risk averse European donors not only disburse less budget support in general, but also put more emphasis on the political governance function of budget support and more rigidly apply sanctions in case of non fulfilment of political and policy conditionalities. Less risk averse donors, in turn, not only disburse more of their aid as budget support but also put more emphasis on the instrument's financing objective and less on political governance objectives.

Figure 2: Average donor share of GBS in overall country programmable aid, 2002–2012



Source: Faust & Koch, 2014, based on CRS data from the OECD DAC

We assume that also at the aggregate level these differences in policy preferences and risk attitudes should have influenced the share of budget support provided by European donors. According to OECD data, European bilateral donors disbursed an annual average of 1.64 billion USD in budget support between 2002 and 2015. Despite of this considerable amount in absolute terms, Figure 2 clearly depicts that (i) budget support never became the dominant European aid instrument as its supporters had originally foreseen and (ii) that the amounts of budget support as a percentage of total aid substantially differed between European countries and also within those countries over time. As we hypothesize in the next section, this heterogeneity in the overall use of the instrument was driven by different risk attitudes and incentives from existing aid structures that resulted from government ideology, the economic context and the aid implementing structures within European donors.

### 2.1.2 HYPOTHESES

**Government ideology:** While the relation between government ideology and the provision of foreign aid is still disputed (e.g., Tingley, 2010), we expect that more right-wing governments are less supportive of budget support than left-wing governments because the constituencies of right-wing governments tend to be disproportionately sensitive to the risks attached to the use of budget support. This argument is sustained by research on public opinion of European citizens towards foreign aid. Not only are citizens with more rightist political orientations less likely to support foreign aid in general (Lumsdaine, 1993, pp. 144, 153; Knack & Paxton, 2011). They are also more sceptical about the waste of foreign aid due to corruption in developing countries (Bauhr et al., 2013) and therefore more concerned about the fiduciary risks of aid provision. In addition, citizens with a more right-wing political orientation are also more likely to support interventionist forms of democracy promotion (Faust & Garcia, 2014) and to condition foreign aid flows to democracy and good governance (Bodenstein & Faust, 2017). Therefore, right-wing governments should be more likely to adopt aid policies that are visible and easy to communicate to their comparatively critical core constituencies. In addition, conservative governments also need to respond more strongly to concerns that aid does not strengthen authoritarian or corrupt structures in developing countries. Moreover, right-wing political parties tend to have stronger nationalist positions and are more sceptical regarding multilateral institutions (Addison, McGillivray, & Odedokun, 2004) making budget support with its in-built harmonisation logic less attractive to them. Thus, we formulate our first hypothesis as follows:

H1: More right wing (left wing) European governments provide comparatively less (more) budget support.

**Economic context:** For similar reasons, we expect a positive relation between the overall economic performance – measured by economic growth – and the use of budget support. Deteriorating growth rates should go along with reduced provision of budget support as in times of economic hardship donor governments are particularly urged to demonstrate tangible results of their foreign aid (see e.g., Dang, Knack, & Rogers, 2009), making them particularly sensitive to the risk of aid disappearing in the pockets of corrupt elites or being used for sustaining repressive authoritarian regimes. For this purpose, again, traditional projects better serve this purpose than budget support because they correspond to a donor's desire for visible aid delivery (see Martens, 2005). Generally, providing budgetary aid to other countries in times of austerity and severe budget constraints at home is likely to face public scepticism and discontent. Accordingly, in times of economic crisis one would expect donor governments to become more reluctant to spend budget support compared to other aid modalities.

H2: European donor countries with lower (higher) economic growth rates have provided comparatively less (more) budget support.

Structure of the donor country's aid system: We expect European donor countries to be more risk averse and to provide less budget support if their aid system is characterised by implementing aid agencies that rely on modes of delivery unfavourable to the intervention logic of budget support. The provision of budget support as originally envisioned would have seriously affected the traditional way of delivering aid through clearly identifiable, earmarked financial and technical projects. Firstly, it would have required different core competencies from aid bureaucracies. While sector-specific technical expertise is still needed to elaborate policy conditionality and provide tailor made technical assistance, the role of managing policy and political dialogues about the macro-framework for successful and sustainable development increases. Secondly, budget support diminishes the manoeuvring space of implementing agencies by forcing them to harmonise their aid interventions among each other. Thirdly, aligning aid according to the preferences and through the administrative structures of the partner country would have further narrowed the autonomy of agencies based on project-based aid delivery (see e.g., Nuscheler, 2008). From that perspective, the rise of budget support has posed a threat to bureaucratic interests of aid agencies that have relied on a business-model related to the provision of (small-scale) projects. Given that aid agencies in general have been found to adapt only slowly due to strong internal interests (Easterly, 2007), we expect the institutional set up of a donor's aid system, in particular the existence of implementing agencies, to have an influence on the provision of budget support.

H3: European donor countries with (without) project oriented implementing agencies provide comparatively less (more) budget support.

## **2.3 Empirical Inquiry**

### **2.3.1 ECONOMETRIC ANALYSIS**

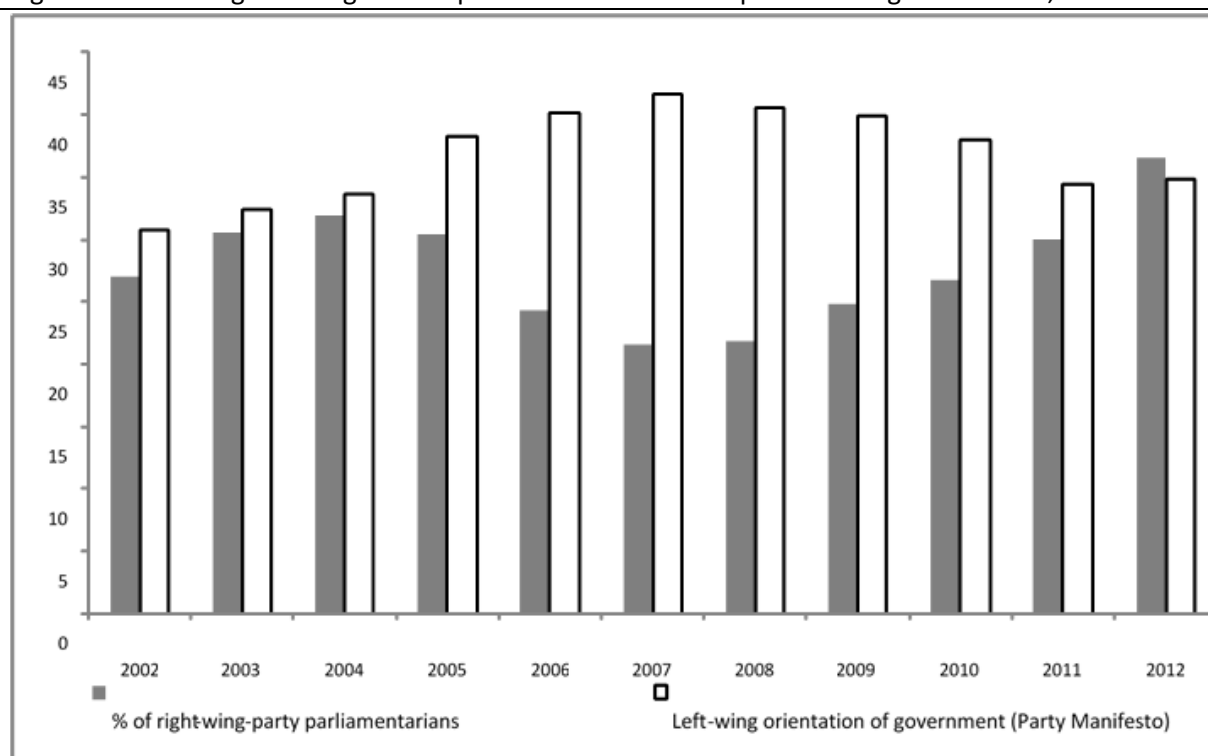
To test our hypotheses, we examine the impact of domestic factors in 15 European donor countries that have provided budget support in the period 2002-2012. We measure the provision of budget support using the logarithmic value of the annual budget support disbursement (in constant 2012 USD). Alternatively, we used the proportion of budget support disbursements against the total amount of country programmable aid.

The ideological position of the European governments is measured with two different variables. Based on the World Bank data set on political institutions (Beck, Clarke, Groff, Keefer, & Walsh, 2001), we firstly calculate the share of parliamentarians who belong to a right-wing government party as a percentage of the overall number of parliamentarians. Given the huge amount of coalition governments in Europe and the fact that all European governments are based on parliamentary or semi-parliamentary systems, it is meaningful to use this measure instead of simply taking the party affiliation of the chief executive into account. Secondly, we also built a more nuanced variable of a government's ideological position by using data from the Party Manifesto project (Volkens et al., 2012; Budge, 2000). From these data, we construct a variable, where higher values indicate a more leftist position of government and then take the logarithm

of the variable (Government-Left) in order to normalise its distribution. As can be observed in Figure 3, the average values of both variables depict a similar trend in the 2002-2012 period.

To capture the impact of donor countries' economic performance, we include the (log) GDP per capita values. To characterize a country's aid system we build a variable that describes the basic organisational characteristic of European foreign aid providers based on a 2009 OECD report. Similar to previous studies (Fuchs, Dreher, & Nunnenkamp, 2014), we used the report's information to construct a dummy variable, taking the value of 1 if the country has a state-owned implementing agency outside the ministry responsible for development cooperation. We also built a more nuanced variable that distinguishes four types of aid systems on a 1-4 scale: 4 if more than one implementing agency exists outside the ministry responsible for development cooperation (e.g. Germany, Norway); 3 if one implementing agency exists outside the respective ministry (e.g. Austria, Belgium), 2 if an implementing agency is incorporated into the ministry (e.g. Denmark, Ireland) and 1 being a country with no state owned implementing agency (e.g. Finland, the United Kingdom).

Figure 3: Average ideological composition across 15 European donor governments, 2002–2012



Source: Faust & Koch, 2014, based on data from Party Manifesto

As a control variable we include the log of the overall amount of country programmable aid as one could expect that countries that spend more on foreign aid will also provide higher sums of budget support. In contrast to overall aid flows, country programmable aid captures the flows of aid that go to the partner countries and over which recipient countries have a significant say, thus excluding debt relief, humanitarian aid and administrative costs. In addition, we also control for a political system's "checks and



balances” approximated by the number of veto-players (Tsebelis, 2002), which is measured by the variable “Checks” from the World Bank Data Set on Political Institutions (Beck et al., 2001).

To test our first two hypotheses about the impact of government and ideology and the economic context, we use a balanced panel with 165 observations ( $n=15$ ,  $t=11$ ) and perform the standard OLS procedure with panel corrected standard errors (Beck & Katz, 1995, 1996). We prefer the Prais Winsten Transformation over the use of the lagged dependent variable. The reason for this is because “the inclusion of a lagged dependent variable and/or period dummies tends not only to absorb large parts of the trend in the dependent variable, but likely biases estimates” if the explanatory variables can explain a major part of the existing trend of the dependent variable (Plümper, Tröger, & Manow, 2005, p. 349); a problem which is of particular relevance if the impact of government ideology on resource allocation is to be tested (Plümper & Tröger, 2009). Still, we include a dummy variable for the 2007-2012 period to control for a potential trend effect. We also include country dummies to avoid omitted variable bias and to identify the importance of contextual, time invariant factors at the country level.

The models revealed in table 1 provide strong support for our hypotheses. In line with our first hypothesis, a change towards a more conservative government composition has had a negative and exponential impact on the total amount of budget support disbursements. Model 1 suggests that a one-unit increase of the variable has lead on average to a 0.9 % decrease in budget support disbursement while an increase by 50 units has on average provoked a 56% decrease in budget support. In other words, a change in government from a situation with no right wing parliamentarians in government to a situation where right wing parliamentarians in government represent 50% of overall parliamentarians has been associated with an average reduction of budget support by 56%.

We also find support for our second hypothesis regarding the impact of the macroeconomic context on the provision of budget support. Against the fact that GDP per capita growth rates have roughly ranged between -8% and 3% in the period under observation, the effect of the variable again seems plausible: a one percentage decline of GDP per capita provoked a decline of GBS disbursements by approximately 5%. Not very surprisingly, the CPA variable has a positive sign and is also statistically significant, meaning that an increase in country programmable aid has been associated with an increase in budget support disbursements.

In Model 2, the dependent variable is the percentage of budget support disbursements against overall CPA. The ideological position of the government is again highly significant and has the expected sign. An increase in one unit of the government composition towards the right has led to an average decrease of approximately 0.025 of the share of budget support disbursements. An increase by 50 units – (here 50%) – would have meant a decrease by 1.25%, which is substantial considering the fact that the average share of budget support in Europe was only around 5%. As in model 1, the effect of the domestic economic

performance proxied by GDP per capita is highly statistically significant. In contrast to Model 1, the variable measuring the overall amount of CPA lost its significance, meaning that the amount of foreign aid has had no impact on the percentage of budget support it provided.

Model 3 tests, whether our identified effects were specific to budget support provision and not to the overall provision of foreign aid. Using CPA disbursements (log) as the dependent variable, we find that aid has not been affected in a similar way by our variables of interest compared to budget support. The impact of the ideological variables was no longer robust, as the Party Manifesto-related variable was far from being statistically significant and even changed its sign. Additionally, the GDP per capita change within a country – while being statistically significant – had a smaller effect on overall CPA than on budget support.

Finally, the significance of many of the unit fixed effects in Models 1–3 reveals the existence of time-invariant contextual factors at the country level affecting the provision of budget support. For instance, the two non-EU donors, Norway and Switzerland, reveal disproportionally low budget support disbursements. Moreover, the strongly diverging country coefficients of Germany and the United Kingdom suggest that the two major European bilateral donors differed substantially in their country context.

To test our third hypothesis, we turn to the question of whether such contextual factors are related to our third hypothesis about the negative impact of implementing agencies on budget support provision. To answer this question, Models 4 and 5 in table 2 again use the absolute amounts of budget support disbursements (log values) and the proportion of budget support disbursements as a percentage of overall CPA. However, as our variables on the existence of aid agencies did not vary over the observation period, we had to abstain from using country dummies. While we recognise that leaving out unit effects and substituting them for a selected number of time-invariant variables can potentially cause an omitted variable bias problem, the result still provides substantial support to our third hypothesis.

<b>Table 2: Domestic drivers of budget support disbursements</b>					
	Model 1 BS (absolute)	Model 2 BS (% CPA)	Model 3 CPA (absolute)	Model 4 BS (% CPA)	Model 5 BS (% CPA)
	FE	FE	FE	Agency 1/4	Agency 0/1
<i>RightWingGovParl</i>	-.0092*** (.003)	-.025** (.01)	-.02 (.14)	-0.03** (0.01)	-0.03** (0.01)
<i>GDP per capita (ln)</i>	4.95** (2.56)	15.55** (6.27)	1.20** (.59)	17.48*** (4.29)	18.77*** (4.39)
<i>CPA (ln)</i>	.57** (.27)	-.35 (.49)		.74* (.42)	.47 (.38)
<i>Checks</i>	.17 (.14)	-.18 (.36)	.02 (.03)	-.004 (.354)	-.077 (.35)
<i>2007–2012</i>	.10 (.24)	.05 (.54)	.00 (.06)	-.138 (.538)	.17 (.55)
Agency ¼				1.46*** (.45)	
Agency 0/1					-3.13*** (1.01)
Non EU Country				-2.94** (1.37)	-3.50*** (1.27)
Number of colonies (ln)				.911* (.48)	1.27*** (.50)

<b>Continued table 2: Domestic drivers of budget support disbursements</b>					
Austria	-2.61*** (.70)	-7.7*** (1.5)	-2.29*** (.22)		
Belgium	-1.97*** (.62)	-6.41** (1.29)	-1.01*** (.09)		
Denmark	-1.11* (.57)	-3.60*** (.84)	-.07 (.07)		
Finland	-.60 (.48)	-1.52 (1.14)	-1.41*** (.08)		
France	1.20** (.53)	2.32 (2.22)	1.26*** (.13)		
Germany	-1.27** (.62)	-5.27*** (1.04)	1.13*** (.09)		
Ireland	-1.43** (.55)	-2.29 (1.51)	-1.73*** (.14)		
Italy	-.49 (.75)	-2.58 (2.03)	-.71*** (.17)		
Netherlands	-.35 (.30)	.58 (1.74)	.12 (.14)		
Norway	-1.88** (.91)	-5.85** (2.39)	-.35 (.23)		
Portugal	-.04 (1.21)	-1.03 (3.06)	-1.14*** (.31)		
Spain	-1.48** (.63)	-4.28*** (1.38)	.14 (.28)		
Switzerland	-1.30** (.54)	-6.38*** (1.68)	-.69*** (.14)		
United Kingdom	1.17*** (.37)	6.45*** (1.73)	.88*** (.11)		
Constant	-51.53* (26.55)	-149.73* (64.90)	-4.4 (6.12)		
Observations	165	165	165	165	165
R2	.65***	.56***	.95***	.27***	.32***
Wald Chi2	2194***	423***	37149***	47.62***	53.7***

Government Left	.34** (.15)	.67*** (.23)	-.005 (.016)	.63** (.27)	.71*** (.25)
OLS with panel corrected standard errors and Prais Winsten Transformation Standard errors in parentheses, * $p < 0.10$ , ** $p < 0.05$ , *** $p < 0.01$ Source: Faust & Koch, 2014					

As Models 4 and 5 show, both proxy variables measuring the relevance of implementing agencies across European donors have the expected negative sign and are highly significant. Accordingly, aid systems characterised by implementing agencies tended to provide less budget support. Models 6 to 9 add two further time-invariant control variables that might have influenced the use of budget support, namely the number of former colonies of donor countries (in log values) and a dummy variable that identifies the two non-EU member countries in our sample. Even with those additional time invariant factors, our hypotheses find substantial empirical support. Government ideology, the economic context as well as our two agency variables remain statistically significant. Moreover, European donors with more former colonies have provided more budget support, while the two non-EU members provided disproportionately less than EU Member States.

## 2.3.2 COMPARING GERMANY AND THE UNITED KINGDOM

### 2.3.2.1 CASE SELECTION

In addition to our econometric analysis, we provide case study evidence of Germany and the United Kingdom to better trace the impact of government ideology on the provision of budget support and to better understand the impact of the institutional set-up of a donor country's foreign aid system. These two countries are particularly appropriate for a between-country-comparison and a within-country-comparison.

Regarding the between-country comparison, there is a huge difference in the amount of budget support disbursements between the two countries over the entire period. As can be seen from Table 2, the average percentage of UK budget support was around 15% and peaked at a maximum of 20%, while in the case of Germany, budget disbursements were far below and never exceeded 5% of total CPA. Regression models 1 and 2 suggest that time invariant factors such as structural differences in aid systems drive these differences as the country dummies for Germany and the UK are both highly significant, but with opposing signs of the coefficients. Besides "time invariant" differences between the two countries, there is also within-country variance regarding the disbursements of budget support over the investigation period, which allows us to investigate the effect of changing government compositions within both countries.

### 2.3.2.2 COMPARING THE AID SYSTEMS IN GERMANY AND THE UNITED KINGDOM

While Germany and the UK each have an independent Ministry of Development Cooperation, their aid systems nevertheless reveal some significant differences. In the UK, the Department for International Development (DFID) drafted a very progressive budget support policy in 2004, stating that budget support would become the department's preferred aid modality (DFID, 2004). In doing so, DFID faced comparably little resistance from interest groups within the UK or other departments. As the British aid system does not have public implementing agencies, the lobby for project-driven aid was comparatively weak, even more so since the 2002 International Development Act reduced the role of the private sector and formally abolished tied aid (Barder, 2005). The structure and approach of the UK's NGOs are also heavily influenced by DFID, which changed its funding structure for NGOs in the early 2000s. New funding criteria required a stronger focus on advocacy and rights-based approaches, away from the traditional service-delivery role of NGOs, thus revealing a stronger focus on government-to-government aid, such as budget support (Wallace, 2003). Since then, the advocacy and campaign-oriented NGOs based in the UK became strong supporters of the international aid effectiveness agenda with its emphasis on budget support at least partly because this did not undermine their own business model. Seen from a disbursement perspective, the absence of large implementing agencies and project implementing NGOs also made budget support a highly attractive instrument for disbursing DFIDs increasing aid budget. While the percentage of British ODA to GDP was below 0.3% before 2000, it increased to almost 0.7% in 2013. In absolute terms, bilateral ODA increased from USD 2.8 to 8.7 billion (constant 2012 prices) during the 1998-2012 period, thus increasing the demand for aid instruments that could disburse large amounts of money without implementing agents.

The German aid system provides a strong contrast to the case of the UK. Despite Germany's long history of having an independent ministry for development cooperation (BMZ), interest groups within the aid system play a strong role in shaping German development policy. One peculiarity are the country's strong public implementing agencies for technical and financial development assistance. Until 2011, Germany had three different organisations for technical cooperation, among them the world's largest bilateral provider of technical assistance, the Gesellschaft für Technische Zusammenarbeit (GTZ). Germany's aid system is moreover characterised by a system of project implementing NGOs, including the influential political foundations and NGOs linked to the churches. Among those implementing agencies and NGOs, only the financial cooperation agency KfW Development Bank became more supportive of budget support, not least because the provision of budget support was technically channelled through the KfW, which strengthened the organisation's profile vis-à-vis partner country governments and technical cooperation. The opposite was true for GTZ, which saw its interests and profile threatened by potentially increasing amounts of budget support and strongly lobbied against this aid instrument from the beginning (Nuscheler, 2008). Budget support also ran counter to the interests of most German NGOs, which relied on a small project-based aid delivery model and were often heavily subsidised by official ODA funds (Dreher, Nunnenkamp, Thiel, & Thiele, 2012). Overall, BMZ was therefore confronted with a rather strong

opposition against budget support. At the same time, the German ministry did not face similar disbursement pressure as DFID because of a lower ODA increase and the possibility to use the country's implementing agencies to channel its ODA resources.

Overall, the between-country comparison of Germany and the UK therefore strongly supports our hypothesis and explains our econometric findings that suggest a substantial impact of a donor country's aid system on its provision of budget support.

### **2.3.2.3 PARTY POLITICS AND BUDGET SUPPORT PROVISION IN GERMANY AND THE UK**

In addition to these time invariant differences in the institutional set up of their aid systems, there have been changes within both countries over the period of investigation that have influenced budget support provision. Of particular importance are party politics and government ideology respectively. In line with our quantitative findings, conservative government coalitions were more reluctant to spend foreign aid via budget support.

In the UK, the former labour government has been one of the most outspoken supporters of budget support. When DFID drafted its budget support policy in 2004, stating that budget support would become the department's preferred aid modality, this policy faced little political resistance from the labour party. Budget support was also in line with Labour's new direction for development policy, which supported a stronger focus on poverty reduction and programme-based approaches. Similar to other European countries, many parliamentarians nevertheless pointed to the risks of the instrument and asked DFID to assure that budget support would not be misused for unintended purposes. DFID, however, remained firm and put substantial effort in convincing (labour) parliamentarians of the benefits of the instrument (Warrener, 2004). In line with our theoretical expectation, the electoral defeat of labour in 2010 provoked a major turn of DFID's budget support policy. Already in its Green Paper "One World Conservatism", published before the elections, the Tories distanced themselves from the Labour Party's approach to budget support by stating that "we will not be as willing as Labour have been to give the benefit of the doubt to governments where we are not completely clear about the probity of the audit and accountability systems" (Conservatives, 2009, p. 17). Subsequently, the new Tory government announced that it would halve budget support operations by 2015.

In Germany, a left-wing coalition consisting of the social democratic and the green party governed the country between 1998 and 2005. The coalition started to engage in the provision of budget support in the early 2000s, even if less outspoken than DFID because of the country's institutional set up outlined above. From late 2005 until 2009, Germany was governed by a coalition of social democrats (SPD) and the conservative Christian Democratic Party (CDU/CSU). Even though the Development Ministry remained in the hands of the social democrats, the majority of conservatives in the coalition provoked a gradual change in the country's budget support policy. The growing scepticism in the Finance Ministry, the Budget

Committee and the Committee for development cooperation - all dominated by a conservative majority - led to a stricter use of political conditionality. Commissioned by the budget committee in 2007, a report by the Auditor General highlighted the high fiduciary risks and recommended a strict and careful use along with a case-by-case assessment of every budget support provision.

Debates in Parliament also revealed that the Liberals (FDP) were lobbying heavily against budget support. With the emergence of a more conservative government of Christian Democrats and Liberals in 2009, budget support lost governmental support (Hermle & Hauschild, 2012). The ministry of development cooperation announced that no new budget support operation would be established and in several cases budget support was reprogrammed to other aid modalities. In sum, party and ideological composition of the German government had a strong impact the country's budget support policy throughout the three legislative periods under scrutiny.

### **3. CONCLUSION**

This paper has aimed at analysing the domestic politics behind the heterogeneity of budget support provision in European countries. From an aid effectiveness perspective, budget support provided a number of in-built characteristics to implement less fragmented and better harmonized aid interventions. Accordingly, the instruments' intervention logic has had the potential to contribute to a more coherent and harmonised European development policy. However, these expected benefits of budget support never fully materialised, at least partly because donors only reluctantly engaged in its provision. Despite its potential of making aid more effective, budget support was associated with high reputational risks for donor governments and thus has been a contested aid modality.

However, the political risks associated with the use of budget support have been handled differently by European donors, which has caused heterogeneity in the provision of budget support and caused substantial harmonisation problems on the ground. In this paper we have argued that governments' preferences for using budget support were to a large extent driven by domestic factors that had little to do with the task of strengthening a unified European appearance. Thus, differences in budget support provisions among European donors were not randomly distributed among European donor governments, but heavily influenced by government ideology, the domestic economic context as well as the institutional set up of national aid systems. In view of the presented evidence, it seems highly questionable whether progress in making European foreign aid better coordinated and harmonised can be made without overcoming the problem of diverging domestic political contexts. It also seems highly questionable whether Europeans will be able to harmonise their development policies in a decentralised manner. In order to increase Europe's collective action capacity towards the developing world, serious progress towards more binding coordination mechanisms is essential. In the case of budget support, or what remains of it, delegating more policy and coordination competences to the European Commission to manage a truly European approach to the instrument needs to be the way forward.



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## ANNEXES

<b>Table A1: Variable definitions and descriptive statistics</b>						
<b>Variable name</b>	<b>Variable definition</b>	<b>n</b>	<b>Mean</b>	<b>Standard deviation</b>	<b>Min.</b>	<b>Max.</b>
<i>Budget support disbursement (ln)</i>	Amount of Budget Support (ln) disbursed by a single donor in the given year according to data from the Creditor Reporting System of the OECD /DAC	165	3.52	1.75	0	6.50
<i>RightWingGovParl</i>	Amount of government parliamentarians that belong to a right-wing political party according to the data from the Database of Political Institutions	165	.27	.22	0	.67
<i>Government-Left (ln)</i>	Ideological position of a government on a left-right scale according to data from the Party Manifesto project	165	3.44	.77	-.123	4.27
<i>GDP per capita (ln)</i>	Gross domestic product <i>per capita</i> in purchasing power parity (ln). Data obtained from the World Development Indicators	165	10.34	.174	9.95	10.85
<i>Country programmable aid (CPA) (ln)</i>	Country programmable aid (ln) disbursed by a single donor in the given year according to data from the Creditor Reporting System of the OECD /DAC	165	6.83	1.04	4.43	8.59
<i>Checks</i>	Number of veto-players in a political system according to the data from the Database of Political Institutions	165	4.20	1.07	2	7
<i>Agency</i>	Existence of a state-owned implementing agency outside the ministry responsible for foreign aid	165	.53	.5	01	1
<i>Agency 4/1</i>	Ranking of state-owned implementing agencies, differentiating between agencies within and outside the ministry responsible for foreign aid	165	2.47	1.03	1	4
<i>Agency 0/1</i>	Existence of a state-owned implementing agency	165	.47	.50	0	1
<i>Number of colonies</i>	Number of colonies a donor country had in the past	165	.76	11.80	39	0

<b>Table A2: Agency variables and number of staff working at headquarters and as expatriates in developing countries (2007)</b>		
	Agency 4to1	Agency 0 / 1
Austria	3	1
Belgium	3	1
Denmark	2	0
Finland	1	0
France	3	1
Germany	4	1
Ireland	2	0
Italy	1	0
Netherlands	2	0
Norway	4	1
Portugal	2	0
Spain	3	1
Sweden	4	1
Switzerland	2	0
United Kingdom	1	0

<b>Table A3: Robustness check: domestic factors and GBS commitments</b>				
	Model 6	Model 7	Model 8	Model 9
	BS (absolute ln)	BS (% CPA)	BS (% CPA)	BS (% CPA)
	FE Model	FE Model	Agency 1/0	Agency ¼
<i>RightWingGovParl</i>	-.015*** .006	-.06** 0.03	-.064** 0.025	-.065** 0.026
<i>GDP per capita (ln)</i>	-1.39 4.15	-.08 21.89	20.07*** 6.06	19.11*** 6.27
<i>Country programmable aid (CPA) (ln)</i>	1.44*** .38	1.89 1.52	1.35 1.14	1.62** 1.23
<i>Checks</i>	-.20 .22	-1.49 1.08	-1.30 .71*	-1.25 .73
<i>2007–2012 period</i>	-.23 .24	-1.62 1.23	-2.57* 1.35	-2.35* 1.25
<i>Agency 1/4</i>				-1.81** .09
<i>Agency 0/1</i>			-4.14*** 1.62	
Non EU Country			-4.80** 2.39	-4.00* 2.35
Number of colonies (ln)			.12 .09	.09 .08
Austria	1.50 1.49	-1.09 6.09		
Belgium	-.03 .91	-5.86 4.39		
Denmark	.60 1.05	-1.87 5.08		
Finland	1.05 1.04	1.79 5.45		
France	.70 1.13	-1.34 6.22		



Germany	-.91 1.01	-7.85* 4.74		
Ireland	1.65 1.33	1.31 6.00		
Italy	-.30 1.27	-5.76 5.73		
Netherlands	1.25 .90	6.34 5.02		
Norway	1.49 1.71	-.54 9.13		
Portugal	-.57 2.01	-7.10 10.94		
Spain	-2.01 1.26	-10.03* 6.07		
Switzerland	1.01 .96	-3.76 5.27		
United Kingdom	.69 .81	4.47 4.28		
Constant	8.94 42.77	5.79 27.77		
Observations	184	184	184	184
R2	.52	.33	.19	.17
Government Left	.31** .13	.92* .59	1.25* .69	1.15* .63
<p>OLS with panel corrected standard errors and Prais Winsten Transformation</p> <p>Standard errors in parentheses, * p &lt; 0.10, ** p &lt; 0.05, *** p &lt; 0.01</p> <p>Source: Faust&amp; Koch, 2014</p>				

## CHAPTER II

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### THE EUROPEANISATION OF BUDGET SUPPORT: DO GOVERNMENT CAPACITY AND AUTONOMY MATTER?

European Politics and Society, 17:1, 90-104

Svea Koch and Nadia Molenaers

#### 1. INTRODUCTION

In general, the literature on Europeanisation maintains that the Member States of the EU adapt to European norms differently. According to some scholars, the level of capacities – understood as the capacities and effectiveness of administrations and their autonomy – is a key country-specific variable that explains the variance in outcomes (see Schimmelfennig & Sedelmeier, 2006; Börzel et al., 2010). This paper parts from the idea that Member States' capacities are also likely to play a key role in the Europeanisation of development policy. To start with, the 28 EU Member States differ substantially with regard to the bureaucratic capacities and the administrative structures in place to implement their foreign aid programmes (see e.g., Hoebink & Stokke, 2005; Lundsgaarde, 2013). In addition, there are vested political and institutional interests at stake, not least because development budgets are a key funding source for public implementing agencies and non-governmental organisations (NGOs). We focus on budget support, as we expect those factors to play a particularly relevant role in the potential Europeanisation of this specific aid modality. In particular, we aim at finding answers to two research questions: Has Europeanisation taken place in the case of budget support? Do the levels of government capacity and autonomy matter for the degree of Europeanisation?

GBS – that is, the direct transfer of aid resources to the recipient's budget – has been one of the most popular and most controversial aid modalities over the last decade. Its popularity is due to the fact that it has been put forward as the most promising aid modality to make aid more effective and to target state weaknesses that inhibits developmental progress. GBS also allows donors to negotiate with the recipient government about muchneeded reforms while minimising administrative burdens and transaction costs. GBS was first provided by the World Bank in the 1990s and gained importance among other (regional and multilateral) development banks and bilateral donors at the turn of the Millennium. It was provided against the background of the international aid-effectiveness debates, which culminated in the 2005 Paris Declaration and the 2008 Accra Agenda for Action (Koeberle, Stavreski, & Walliser, 2006; Knoll, 2008). Within the EU, the European Commission (EC) became one of the strongest supporters of GBS, which makes an analysis of the EC's impact on Member States particularly relevant and interesting.

From the beginning, GBS has also been highly controversial and perceived (particularly by the general public and parliamentarians) to be a 'blank cheque' to a recipient government and a legitimisation of the government in power (Hayman, 2011; Faust et al., 2012). From a financial accountability perspective, it

was perceived as containing high fiduciary risks, that is, the possibility that aid resources could be used for purposes other than the ones initially stated (Koeberle & Stavreski, 2006; Clist et al., 2012). The controversial nature of GBS makes it an ideal item to acquire a deeper understanding of the drivers of European development policy and of the dynamics of policy formulation between the EU and Member States. From the beginning, European donors stood divided: attitudes varied in terms of support for the modality, ranging from strong (e.g. the UK and the Netherlands) and moderate (e.g. Germany) to reluctant (e.g. Austria, Belgium and Luxembourg). In recent years, however, support for the aid modality has declined among all European bilateral donors (even among those who were initially supportive of the instrument) – a factor largely driven by domestic political considerations (Faust & Koch, 2014). Given recent policy shifts in the Member States and the EC reform of GBS in 2011, it is particularly interesting to explore the question of who has influenced whom and if Europeanisation tendencies have been a factor.

In order to study the extent to which Europeanisation has taken place at the level of European BS policies, we look at two defining ‘turning points’: the inception of the EC’s GBS policy at the beginning of the 2000s, and the EC’s reform of GBS in 2011. For both turning points, we focus on three Member States to explore the possible impact of the EU: Germany, the UK and Belgium. Methodologically, we draw on various sources of primary and secondary data and analyse the existing policy documents of the EU and the selected Member States. This policy analysis is complemented by semi-structured interviews of (public and private sector) representatives of the EU and the three Member States. In addition, the authors of this paper were able to attend a number of GBS workshops at the EU level, organised by the EC, with the aim of discussing the EU’s GBS reform of 2011. These workshops were attended by both budget support experts and representatives from Member States. These insights are supplemented by field research in several GBS-receiving countries, with a focus on the interaction and coordination between the EU and Member States.<sup>10</sup>

The paper is structured as follows: we start with a conceptual part that clarifies our understanding of Europeanisation and introduces capacity as the main independent variable. This is followed by an empirical part, which studies the turning points and the interaction between the EC and the three Member States. We end with a reflection on our theoretical expectations and concluding ideas regarding the study of Europeanisation in development policy.

## **2. ANALYTICAL FRAMEWORK: EUROPEANISATION AND BUDGET SUPPORT. EUROPEANISATION AS A PROCESS**

The bulk of the literature on Europeanisation conceptualises and understands Europeanisation as being the impact of the EU on its Member States’ domestic spheres (cf. Börzel & Risse, 2006, p. 485) and the

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<sup>10</sup> Countries where field research took place include: Vietnam, Senegal, Uganda, Tanzania, Rwanda, Zambia and DRC.

extent to which domestic changes in Member States have been induced by the EU (see, e.g., Ladrech, 1994; Buller & Gamble, 2002). This main focus on vertical Europeanisation and downloading (EU→MS) and thus on unidirectional change and impact is complemented by an understanding of Europeanisation as a process. If understood as a process, Europeanisation captures the complexity of policy adaptation in the EU as a two-way process, “in which Member States both shape European policy outcomes and adapt to them” (Börzel, 2002, p. 194). This is in line with Radaelli (2004, p. 4), who argues that “Europeanisation deals with how domestic change is processed, and the patterns of adaptation can be more complex than simple reactions to ‘Brussels’”. Following this logic, EU Member States can have a distinct interest in uploading their own domestic policies to the EU level and promoting policies at the Brussels level that suit their national interests and approaches (Héritier, 1996), mainly to minimise their adaptation costs by reducing the misfit between European and domestic arrangements (Börzel, 2002) (MS→EU→MS). A third potential direction of Europeanisation relates to the policy diffusion among Member States (MS→MS), also called ‘horizontal’ Europeanisation. Horizontal Europeanisation takes the policy diffusion between Member States into consideration and treats EU institutions as contextual factors or normative frames (Radaelli, 2004).

The above also implies that the EU can have a differentiated impact on Member States, and that Europeanisation cannot be equated with the convergence or harmonisation of policies (Radaelli, 2004). In theory, multiple Europeanisation scenarios may produce multiple (and thus uncertain) outcomes. For the purposes of this paper, we are primarily interested in downloading dynamics but acknowledge that Europeanisation is a process in which outcomes and influence are neither simple nor unidirectional. Reconstructing the process is thus imperative for identifying the dynamics or the direction of the influencing process and its respective outcome.

#### *Why would government capacity and autonomy matter?*

The level of a country’s capacities (defined as government capacity and autonomy) is often cited as a key country-specific variable that determines variance among Member States in complying with EU law (Börzel, 2002; Schimmelfennig & Sedelmeier, 2006; Börzel et al., 2010). Government autonomy refers to the number and interests of veto players (both can change over time) in the political system of a member state (see e.g., Tsebelis, 2002).

Government capacity concerns the financial resources and the bureaucratic structures (as well as their quality) that a government can make use of (Börzel et al., 2010). Even though development policy in the EU relies mainly on soft-law and non-legal requirements, we could nevertheless expect the capacities of Member States to play a key role with regard to the extent that they adopt and follow certain European norms and policies, or not. The *acquis* requires all EU Member States to set their own development policy

in place. However, the capacities of Member States vary significantly – not only between old and new Member States but also among smaller and larger Member States.

We stipulate that with regard to government capacity, a donor needs to have a certain capacity to be able to manage GBS. In order to make a meaningful financial contribution to the budgets of partner countries, size and aid volumes matter, as does the presence of certain administrative structures to manage GBS flows (e.g. the existence of a development bank, the presence of macroeconomic and public finance management expertise, etc.). In addition, we expect that government autonomy in the form of veto players matters greatly in terms of the extent to which European donors embarked on GBS (as practiced by the EU) or not. Budget support is likely to trigger significant resistance from certain institutions and political groups due to its political connotations and because it touches upon well-established structures in aid bureaucracies. In particular, organisations focused on technical cooperation and corporatist NGOs see their business models (which heavily rely on project aid and service delivery) as being threatened by BS and are thus likely to resist EU influence on their positions about GBS (Faust & Koch, 2014). Based on these considerations, we formulate three general expectations:

1. The greater a country's government capacity, the more able (likely) it is to respond to Europeanisation of BS.
2. The smaller a government's autonomy, the less able (likely) it is to respond to Europeanisation of BS.
3. When capacity and autonomy are high (low), Europeanisation is likely (unlikely).

To be able to test these expectations and assess the impact of the EU with regard to GBS policy-making, we focus on the timing and sequencing of policy formulation and the policy design (Radaelli, 2004). For our empirical analysis, we consider the extent to which EU budget support policy-making has preceded domestic policy-making and policy reform. Next, we look at the substance of GBS policies and their impact on the EU (by analysing the extent to which these policies make references to the EU or not).

### 3. HAS EUROPEANISATION TAKEN PLACE IN THE CASE OF BUDGET SUPPORT?

In our empirical analysis, we aim to assess the different possible types of Europeanisation by analysing the policies of the EC and three Member States: the UK, Belgium and Germany.

<b>Table 3: Scores of selected cases on government capacity and autonomy and predicted effect on Europeanisation</b>			
	Germany	UK	Belgium
Government capacity	high	high	Low

Government autonomy	low	high	Low
Predicted effect on Europeanisation	unclear	likely	Unlikely

Source: Koch & Molenaers

Our case selection is based on variations of our independent variables, which are government capacity and government autonomy (Table 3). Regarding government capacity, the UK and Germany are the two largest bilateral donors in the EU (in terms of absolute volumes, with Germany disbursing USD 14.1 billion in official development assistance (ODA) in 2013 and the UK USD 17.9 billion),<sup>11</sup> whereas Belgium is a rather small donor (having delivered USD 2.3 billion in ODA in 2013).<sup>12</sup> These differences in financial volumes also closely correlate with the capacities and expertise of respective bureaucracies. In the case of Germany, its dedicated ministry (Federal Ministry for Economic Cooperation and Development (BMZ)), experienced implementing organisations, flexibility in implementation and sound technical expertise are noted as key strengths (OECD/DAC, 2010a). Likewise, the UK is praised for its international leadership on global development issues, an effective institutional system with a clear mandate and a wellpositioned department (Department for International Development (DFID)) that manages development programmes effectively and efficiently (OECD/DAC, 2014). Belgian Development Cooperation (Directorate-General for Development – DGD), on the other hand, has fewer administrative structures, a strong focus on sectors and little macroeconomic expertise (OECD/DAC, 2010b). The DGD is also considered a rather weak player (Molenaers, Nijs, & Huyse, 2014a; Molenaers, Jacobs, & Dellepiane, 2015b).

The three Member States also differ greatly in terms of government autonomy. Whereas the UK (DFID) and Germany (BMZ) have separate development ministries/departments, the DGD is a Directorate-General within the Ministry of Foreign Affairs, Foreign Trade and Development Cooperation and subordinate to the Minister of Foreign Affairs. In terms of autonomy, the Belgian DGD – when compared to the UK and Germany – has little autonomy when it comes to aid decisions. However, autonomy in the case of GBS is not only influenced by the institutional set-up but also by the existence and importance of veto players. Both Belgium and Germany have fragmented aid systems (OECD/DAC, 2010a, 2010b) and have to take into account the interests of separate public implementing agencies. The Belgian Technical Cooperation (BTC), the German Kreditanstalt für Wiederaufbau for financial cooperation and the Deutsche Gesellschaft für Internationale Zusammenarbeit for technical cooperation are implementing agencies with substantial political leverage (OECD/DAC, 2010a, 2010b). In both Belgium and Germany, this severely limits the autonomy to develop policies that work against these agencies' interests. The UK,

<sup>11</sup> [www.oecd.org/dac/unitedkingdom.htm](http://www.oecd.org/dac/unitedkingdom.htm) and <http://www.oecd.org/dac/germany.htm>.

<sup>12</sup> [www.oecd.org/dac/belgium.htm](http://www.oecd.org/dac/belgium.htm).

on the other hand, has no such public aid-implementing agency, as DFID is well-positioned to identify priorities and manage development programmes autonomously (Barder, 2005; OECD/DAC, 2014).

A government's autonomy is also influenced by the NGO sector. In the case of budget support, veto players are, in particular, those NGOs that focus on project-implementation and service delivery (and thus see their business models threatened by GBS). Germany, Belgium and the UK all have very strong NGO scenes, with different foci to their work. Whereas Germany (see Nuscheler, 2008; Dreher et al., 2012) and Belgium (Molenaers et al., 2014a; Molenaers, Jacobs, & Dellepiane, 2014b; Molenaers et al., 2015b) have strong corporatist NGO sectors that are largely focused on the implementation of projects with a strong resistance to GBS, the UK hosts a large number of international NGOs that are engaged in advocacy work and campaigning, with some powerful players being in favour of GBS (e.g., Oxfam GB, 2007).

The question is if and how these different scores on capacity and autonomy relate to the likelihood of Europeanisation of GBS. Given the UK's high levels of capacity and autonomy, we would expect the UK to be the most likely to Europeanise. Belgium, on the other hand, is situated at the other extreme, where its low levels of capacity and autonomy make it an unlikely candidate for Europeanisation. Germany presents a puzzling picture, as its capacity and autonomy scores vary greatly. It is unclear how this might affect its likelihood to Europeanise, but it might shed some light on the differential impacts that capacity and autonomy can have on Europeanisation. We now turn to the empirical part of the paper to verify our predicted effects on Europeanisation.

### **3.1 First turning point: the rise of GBS and the EC's first GBS policy**

Empirically, we identify two distinct periods of budget support in the EU. The first period is characterised by the introduction of GBS into European development policy at the beginnings of the 2000s. The second relates to the period of budget support reforms from the end of the 2000s onward. Following our conceptual framework, we focus explicitly on the temporal dimension of Europeanisation, and thus on the extent to which EU norms and policies preceded domestic change. Within our two periods, we thus focus on two key 'turning points': the adoption of the EC's first budget support policy in 2002 and the EC's budget support reform in 2011.

#### *The dynamics of policy formulation*

The EC issued its first official guidelines in March 2002 (EC, 2002). This focus on budget support was part of a reform programme for EC aid that started in 2000 (see EC, 2000). As part of this reform, the EC emphasised the need to use partner countries' own administrative capacities for channelling aid, which would also ease the significant disbursement pressure on the EC that came as a result of an increasing aid budget that was beyond its capacity to manage (Schmidt, 2006). In the following years, the EC profiled itself as a budget support donor, with commitments having more than doubled between 2000 and 2004. In 2008, then Development Commissioner Louis Michel issued a policy document as an attempt to explain

the advantages and the EC's use of GBS to the wider (sceptical) public: "I am convinced that, where circumstances permit, GBS is the most effective instrument of development" (EC, 2008, p. 1).

What is important to note, however, is that the EC did not undertake clear steps to guide the GBS policies of EU Member States. The 2002 guidelines were rather an internal (technical) document of how to best manage GBS in the EC. In the following years, the EC was also quite adamant in following the 'best practices' approach, as stipulated by the World Bank and the OECD/DAC (2005a) (Organisation for Economic Co-operation and Development / Development Assistance Committee), which emphasised the idea that, in terms of objectives, GBS primarily promotes poverty reduction efforts and macroeconomic performance (EC, 2002, 2008) and should not be used to push for political governance reforms (Koeberle & Stavreski, 2005; OECD/DAC, 2005a).

The EC translated these international guidelines in its GBS eligibility criteria: (i) a stability oriented macroeconomic policy, (ii) the existence of a poverty reduction strategy and (iii) a credible and relevant programme to improve public financial management (EC, 2008). These criteria do not rely on clear thresholds but on a dynamic approach, meaning that the EC assessed the reform trajectory of the recipient rather than its actual performance. This resulted in a not very selective use of GBS, with the EC granting GBS to a much larger number of countries than any EU member state (Hauck, Hasse, & Koppensteiner, 2004). Let us now turn to the three Member States and the extent to which the EC has impacted their budget support policies.

Germany was a relative latecomer, issuing its first official GBS policy only in 2008 (BMZ, 2008). In addition, its approach differed substantially from the EC's. BMZ made it clear that it was only a modest supporter of the instrument, stating explicitly that it aimed to only use it selectively in 'good performing' countries. In contrast to the EC, Germany applies threshold criteria in all three eligibility areas (fiduciary, macroeconomic, and governance and democracy). During its peak in 2008/09, Germany provided GBS only to eight developing countries (Hermle & Hauschild, 2012). Moreover, it underlined the political objectives of GBS much more explicitly than the EC, stating that good governance, democracy and respect for human rights are not only preconditions but outspoken objectives of GBS (BMZ, 2008). In addition to these differences in policy design, there are hardly any references to the EU throughout Germany's GBS policy document. It is stated that BMZ aims to cooperate with other multilateral development banks and the EC when providing GBS. In addition, the policy document states that Germany does not aim to set up its own variable tranches but would generally be willing to utilise the EC's variable tranches (BMZ, 2008). The idea that the EC directly impacted Germany's policy design and practice of GBS, however, seems unlikely, not only on grounds of the clear differences in policy, but also due to the lack of references to the EU level. The policy document, however, does make explicit reference to the Paris principles and the aid-effectiveness agenda (and thus to international principles).



As with the EC, DFID has been an active promoter of GBS since the 2000s. DFID's policy was set out in the UK government's White Paper issued in December 2000 (DFID, 2000). In this document, it is stated that the 'UK Government will work with other donors to channel more of our support through developing country budgetary systems' (DFID, 2000, p. 98). In the following GBS policy of 2004, it is considered "the instrument most likely to support improvements in the accountability and capability of the state" (DFID, 2004, p. 11). As one of the frontrunners of the aid-effectiveness agenda, DFID was among the most progressive European bilateral donors to promote a "somewhat radical move away from funding development projects in poor countries towards the direct financing of national development and poverty reduction programmes" (Porteous, 2005, p. 283). According to its 2004 policy, DFID considers three criteria before granting GBS: (i) the country's planned budget priorities, (ii) the status of administrative, technical and financial systems and (iii) the specific costs/benefits of GBS against other types of aid. Similar to the EC, the UK applies these criteria in a dynamic way, emphasising poverty reduction as being the overall objective of its policy without making clear reference to political governance. Despite these similarities, however, the UK does not make any reference to the EU in its 2004 policy document.

Belgium did not issue a policy on budget support, but developed a vademecum in 2008 (Belgian Technical Cooperation, 2008), aimed at establishing clear guidelines for the aid administration (much as the EC did in 2002) on how and when to provide budget support. In the introduction, there is no reference to EC GBS but a clear reference to the Paris Declaration and the European Consensus on Development. The vademecum states that "as a rule, Belgium should engage in budget support at a sector level" (Belgian Technical Cooperation, 2008, p. 7).

Belgium had, however, one GBS operation in Mozambique channelled through the EC from 2004 to 2013. Interestingly, Belgium also heavily relies on the criteria of 'other donors' when providing sector budget support. One of the minimum requirements when considering sector budget support is that there has to be a multi-donor approach: the EU or the World Bank and at least one other bilateral donor should be providing budget support before Belgium can consider it. Belgium's domestic policy choices thus seem to be more influenced by the EU than in the case of Germany and the UK, though it does not lead to a similar EU approach.

Taking all these aspects together, an interesting picture emerges. If we limit our analysis strictly to GBS, we see the following: Belgium does not provide GBS, yet refers and delegates limited amounts to the EU; the UK has a similar policy to the EU but no reference is made to the EU; and Germany has a very different approach to budget support from the EU and makes very little reference to the EU. Overall, we thus find very limited evidence for Europeanisation in this first time period, in which vertical, horizontal and uploading/downloading all seem to be non-existent. We do find a very limited use of delegation to the EU level in the case of Belgium, which could be interpreted as certain degree of Europeanisation. What is interesting, however, is the exact content of this form of Europeanisation: Belgium did not europeanise

the way that it shaped its policy design and content in accordance with the EU; it decided instead not to have its own GBS policy and to channel its (very limited) flows through the EU.

*Digging deeper into the issues of government capacities and autonomy*

According to our analysis, Belgium is the only country in our sample that Europeanised to a certain degree in the first period of investigation. How does government capacity and autonomy matter for this result?

In Belgium, there was extreme political instability from 2007 to 2011. Amid this crisis, and under the political leadership of Charles Michel (Liberal Party), the aid administration came under strong pressure to reform and had to develop a strategy to translate international pressures and agreements (such as the Paris Declaration 2005 and the Accra Agenda for Action 2008) (OECD/DAC, 2010). GBS was quickly discarded as an option because the law on international cooperation clearly stipulated that Belgian development aid must be deployed at the sectoral level. In addition, the vademecum also refers to ‘weak capacity’ and the size of Belgium as a donor as well as its important project and sectoral expertise as important considerations for limiting its engagement to sector budget support. Veto players also had a crucial role. The combination of vested interests of BTC, the NGO sector and the legal procedural framework monitored by the Inspector of Finance severely limited DGD in developing a policy for GBS. The veto players – with their project/sector profiles – and the legal framework, which is particularly fit for project and sector interventions, a priori limited the possibilities to move into GBS. All in all, just one GBS flow was disbursed, in Mozambique, through the EU, totalling EUR 12.18 million in 2010–11.

Even though, theoretically, the German government would have had the capacity to follow the EC and to pursue a progressive GBS policy, it never became a supporter of the instrument, mainly due to low level of government autonomy and the influence of veto players. GBS ran counter to the interests of most German NGOs, which rely on a small project-based aid-delivery model and are often heavily supported by public ODA funds (Dreher et al., 2012). Overall, BMZ was confronted with rather strong opposition to a substantial increase in GBS by most state-owned implementing agencies (in particular, the Deutsche Gesellschaft für Internationale Zusammenarbeit) and by NGOs embedded in a neo-corporatist structure. In addition, domestic party politics seems to have played a role, too. When Germany’s GBS policy was launched in 2008, Germany was governed by a coalition of the Social Democrats (SPD) and Conservative parties (CDU/CSU). The Coalition Treaty provided for the use of GBS in well-governed developing countries; the Development Minister, Heidemarie Wieczorek-Zeul, also planned to increase its use. There was, however, strong scepticism in both the Finance Ministry and the Budget Committee, where representatives of the right-wing coalition parties had a majority. They used their influence to demand that every GBS operation be subjected to the approval of the Budget Committee, which clearly put a strain on the Social Democrats’ idea to expand the use of GBS (Faust & Koch, 2014).

Theoretically, the UK would have been the one best placed to Europeanise, with its high levels of capacity and autonomy. But even if the UK comes closest to the EC's policy, the move towards GBS was not in response to the EC but largely driven by the ruling Labor Party's plan of a new direction for development policy, stemming from the mounting criticism over the ineffectiveness of project-based approaches (Warrener, 2004). Already in its first White Paper in 1997, DFID stressed the need for development policy to put a greater focus on the strengthening of government capacities through direct support of the budget (DFID, 1997). In addition, DFID faced comparably little resistance from interest groups within the UK or other departments. Reasons for this were the relative level of government autonomy enjoyed by DFID over its policies and budget as well as the lack of resistance to this policy shift. As the British aid system does not have public implementing agencies, the lobby for project-driven aid delivery was comparatively weak, even more so since the 2002 International Development Act reduced the role of the private sector and formally abolished tied aid (Barder, 2005).

Looking at our independent variables, we find that capacities matter greatly for the ability to design a general GBS policy and for a government's general stance towards GBS. Capacities and autonomy, however, do not seem to be able to fully explain Europeanisation or the lack thereof. A high level of capacity (related to size and bureaucratic effectiveness) is not a sufficient condition for Europeanisation, rather the opposite. If we interpret delegation as Europeanisation, then low levels of capacity (in the case of Belgium) lead to this result rather than high levels. Autonomy seems to be the driving force for GBS in general; both countries with low levels of autonomy have either moderate or non-existent budget support policies. But it cannot sufficiently explain the degree of Europeanisation, since high levels of autonomy (in the case of the UK) have not led to a higher degree of Europeanisation than low levels of autonomy.

### **3.2 Second turning point: the EC's BS policy reform in 2011**

#### *Dynamics of policy formulation*

On 13 October 2011, the EC published a revised GBS policy as part of a larger package of communications outlining a new direction for EU development policy (EC, 2011b). Even though the EC had revised its GBS guidelines in 2008, the reform in 2011 was of a more fundamental nature. In 2008, the main focus was more on technical improvements, whereas the reform in 2011 was preceded by a public consultation (Green Paper) process – launched by then Commissioner for Development Andris Piebalgs at the end of 2010 – to revise the EC's overall development policy, and the EC's GBS policy in particular.

The EC's new GBS policy constitutes a major change, in particular with regard to the eligibility criteria and objectives. Throughout the Communication, there is a very strong emphasis on the need to link GBS more strongly to political issues. More concretely, the EC declared to provide, in particular, GBS much more selectively, putting more emphasis on the political leadership of the country. To reflect this change, GBS was renamed 'Good Governance and Development Contracts' (EC, 2011a, p. 4) and will only be granted

to countries with a good track record in democracy and human rights. In addition, the EC added transparency of the budget as a fourth eligibility criterion. Compared to the 2002 and 2008 guidelines, the 2011 reform was not only meant to provide guidelines for the EC's internal policies but also included attempts to foster a more European approach to GBS. Several mechanisms to improve the coordination of European approaches were made, ranging from information-sharing and exchange to the proposal of joint European frameworks for GBS (as Belgium had done from 2007 to 2013).

How did this reform impact the domestic spheres of EU Member States? The answer is rather straightforward: the EC had to adapt to pressure from Member States, whereas Member States at the same time were shielding their own policies from EC influence (interviews with EU experts; DGD permanent representation at EU).

Towards the end of the 2000s, tensions between the EC's and Member States' uses of GBS started to become visible and documented. Whereas some bilateral European donors tied GBS to issues of political governance from the beginning (e.g. Germany), others started to change their policies gradually in the last years towards a more reductionist and political approach (e.g. the UK) when political problems started to mount in a number of recipient countries (mainly in Africa). GBS became prone to short- or longer-term aid suspensions as a political signal to the recipient country but also to donors' domestic constituencies (Molenaers, Cepinskas, & Jacobs, 2010; Hayman, 2011; Dijkstra et al., 2012; Molenaers, 2012). In addition, several Member States not only focused on their own GBS policy reform but started to also question the EC's policy, which they considered as being too lax and too insensitive to political issues. Over time, the EC's rather apolitical approach became increasingly difficult to sustain. The critique of the EC was even more powerful, as those Member States that were initially closest to the EC's policy (such as the UK and the Netherlands) also changed their original approaches and became not only less supportive of the instrument but also emphasised the political dimension of GBS more strongly. These overall developments among European donors is also reflected in our three selected cases: Germany successively reduced its already limited GBS operations; the UK not only emphasised its intent to halve operations in the future, but also announced it would work more through sectoral budget support; Belgium ended its delegated GBS operations through the EU and, according to some interviewees, DGD lost its appetite for sector budget support as well (interview DGD, 2014).

Against the background of these domestic changes – and fuelled by the events of the Arab Spring in which the EC was attacked for having provided GBS to the most autocratic governments in that region – some EU Member States (in particular Germany, the UK, the Netherlands and the Nordic donors) increased the pressure on the EC to change its policy. During the Green Paper process, those Member States made it clear that they wished to see a more politically sensitive use of GBS by the EC. In the UK's contribution to the Green Paper process, for instance, it is argued that “the EC needs to provide greater transparency”

when it decides to grant GBS to a country, and to “subscribe to the underlying principles of human rights, democracy and rule of law when providing GBS”.

In sum, the new EC budget support policy was heavily pushed by a number of Member States who uploaded their own preferences and practices to the EC level. These Member States also succeeded to dominate the European-wide debate on how to reform the EC’s policy. A number of other Member States (e.g. Belgium and Portugal) advocated for a continuation of the EC’s emphasis on poverty reduction and macroeconomic policies and urged to refrain from making GBS a political instrument. Their lobby, however, was not strong enough against those who insisted on far-reaching reforms and on attaching political conditions.

*Digging deeper into the issues of government capacities and autonomy*

In Germany, a new, centre-right coalition came to power in 2010 and radically changed the existing approach to budget support (Hermle & Hauschild, 2012). The now Liberal (FDP)-led Development Ministry announced that no new GBS operation would be established in that legislative period, and that his party considered the very idea of budget support as being the wrong approach in development policy (Faust & Koch, 2014). The same veto players that were responsible for Germany’s critical stance in the first time period were now responsible for halting GBS altogether and for lobbying in Brussels to drastically reform the EU’s policy as well.

For the UK, the major turn in DFID’s approach took place under the centre-right government, which came to power in 2010. Already in its Green Paper ‘One World Conservatism,’ published ahead of the elections, the Tories distanced themselves from the Labour Party’s approach to GBS by stating that “we will not be as willing as Labour have been to give the benefit of the doubt to governments where we are not completely clear about the probity of the audit and accountability systems” (Conservatives, 2009, p. 17). Subsequently, in 2011, the Coalition government announced that it would halve budget support operations by 2015 and that, in the future, sector budget support would be preferred over GBS. Under the new government, DFID also started to question the EC’s approach to GBS and lobbied for reform, greater transparency and political sensitivity.

In Belgium, under the leadership of Michel (2011) and Chastel (2011) (both Liberal Party), and later Maignette (2011–13) and Labille (both Socialist Party), the aid administration underwent some reforms, but the vademecum remained unchanged. In 2013 a fierce debate broke out in the media. One MP (Green Party) published a very critical piece in one of the national newspapers accusing the Belgian government of being too lax with even sector budget support, in that too many corrupt countries were granted this modality. Political support, nationally and internationally, was clearly fading, which probably explains the clear decline in the provision of sector budget support. Belgium also ended its delegated GBS funding through the EC in 2013. Interestingly, Belgium did not lobby for a reform of EC policy but rather for a

continuation of the emphasis on poverty reduction and macroeconomic stability as GBS's most important objectives (interview DGD, 2014). This is in line with our interpretation that Belgium promotes policies at – and through – the EU level that compensate for its own domestic limitations.

Summarising our results, we find that a number of EU Member States were very successful at 'uploading' their preferences to the EU level in this second time period, leading to a change in EC policy. Interestingly, their government capacity allowed them to successfully upload their preferences to the EU level, whereas EU Member States with less government capacity failed to do so. We also find policy diffusion and likely a certain degree of horizontal Europeanisation among EU Member States. The exact mechanisms and direction of influence of this potential horizontal Europeanisation, however, would have to be further assessed empirically.

#### **4. CONCLUSION**

Looking at the three potential forms of Europeanisation introduced in this paper, we can conclude that we do not find any evidence of downloading from the EU to Member States in any of the two time periods. What we do find is very limited delegation to the EU level (in the case of Belgium) in the first period, which could be interpreted as a particular form of Europeanisation. Contrary to what we expected, neither high levels of capacity nor autonomy led to Europeanisation; rather the opposite was true, if we interpret delegation as a form of Europeanisation. In the second period, we mainly find that uploading has taken place, and that this, in part, has been made possible by political shifts in Member States: shifts in political preferences of incumbent governments and veto players gaining ground, leading to a decline in support for the modality in general across the European continent (a potential form of horizontal Europeanisation). The EU itself was not undergoing such preference changes, but nonetheless it shifted its GBS policy solely due to the pressure from Member States.

Turning back to our expectations, we find that government capacity and autonomy can explain the general stance of a government towards GBS but not the degree of Europeanisation. With regard to the latter, levels of capacity matter for uploading but not so much for downloading. Weak capacities and low levels of autonomy can, interestingly, lead to delegation (which might be considered a form of Europeanisation). Veto players matter because they affect the design of GBS policies and the general support for the aid modality. In other words, the cases show that policy formulation around GBS is mainly influenced by domestic politics in Member States, and not by influence from the EU level.

All in all, none of our expectations were confirmed. What can we learn from this? Government capacity and autonomy of Member States seem to be important characteristics for their own policy formulation, but cannot sufficiently explain their interaction with the EU level. Since development is a shared competence and intertwined with Member States' interests and historical legacies, EU Member States' policies are heavily driven by domestic interests. Member States are also the most important contributors

to the EU aid envelope, which turns them into donors and thus principals. What is particularly relevant in the case of development policy is the fact that the EC not only has a mandate to legislate and to coordinate Member States but also acts as a development actor in its own right (in contrast to many domestic policy areas). This implies that the EU's capacity and autonomy vis-à-vis the Member States matters as much for Europeanisation as the Member States' levels of capacity and autonomy. If, subsequently, policy preferences are not aligned between the EU and Member States, the latter can – if well-organised enough in strong alliances – restrict the policy space, and thus the autonomy of the EU to formulate policies. This implies that the capacities of Member States matter, not just in terms of certain levels of technical expertise regarding the policy domain, but, even more importantly, in terms of building political alliances around certain policy preferences.

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## CHAPTER III

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### THE RISE AND DEMISE OF EUROPEAN BUDGET SUPPORT: POLITICAL ECONOMY OF COLLECTIVE EUROPEAN UNION DONOR ACTION

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#### 1. INTRODUCTION

Poor aid performance tends to be explained in terms of principal-agent problems between donors and recipients of aid, whose preferences over how to use aid resources and achieve development objectives typically diverge. The Paris Declaration on Aid Effectiveness (2005) had the objective to overcome this problem of preference heterogeneity between donors and recipients as well as among donors by means of new aid delivery principles, in particular the principles of ‘ownership’, ‘alignment’ and ‘harmonisation’.

This article argues that in doing so, the Paris agenda attempted to provide what can be considered ‘a technical fix’ to the problem of preference heterogeneity. By formulating principles at an outcome level, however, the Paris Declaration ignored the deeper-rooted political processes that lead to diverging preferences and interests among donors, which in turn undermine collective donor action in the interest of effective aid. The article uses the example of General Budget Support (GBS) to illustrate this for the case of European donors.

GBS was considered by many the aid vehicle that would best enable the realization of the Paris Declaration on Aid Effectiveness. With its emphasis on respecting recipient ownership, alignment and harmonisation, it was expected to overcome the typical principal-agent problems relating to preference alignment, information asymmetry and ‘agency slippage’. How? First, GBS transfers aid resources directly to the recipient government’s budget and is thus spent the same way as resources from domestic revenue, but without creating parallel systems in the way traditional project aid does. As a joint financing mechanism, GBS was expected to improve donor harmonisation by pooling resources, holding joint policy dialogues with recipient governments and jointly agreeing on key reform objectives (de Renzio et al., 2005; Cordella & Dell’Ariccia, 2007).

European donors including the European Commission (EC) soon became front-runners in the Paris-based aid effectiveness agenda and – unlike other OECD/DAC donors such as Japan or the United States – the use of GBS. The 2005 European Consensus on Development declared that the European Union (EU) aimed to take a lead role in implementing the Paris principles, and for this purpose intended to increase the percentage of financial assistance provided as GBS (see European Parliament et al., 2005, p. 3). Given its own nature as a regional integration project it seemed only logical that the EU should be capable of driving the harmonisation agenda and implementing GBS jointly. Recognising this role, the EU highlighted in its 2007 ‘Code of Conduct on Complementarity and Division of Labour’ that the EU should act as a driving

force for complementarity and division of labour within the international harmonisation and alignment process.

The experience with GBS over the last decade, however, clearly shows that the EU and its Member States did not live up to their own stated ambitions. In the past years, support for GBS has diminished significantly among European Member States. Some Member States – for example the United Kingdom (UK), Germany and Sweden – reduced their GBS operations, while others such as the Netherlands (formerly a dedicated supporter and provider of GBS) fully abandoned the modality and ended the provision of GBS in all partner countries. In addition, EU Member States not only reformed their own domestic GBS policies but also actively lobbied the EC to reform its budget support policy and to provide GBS more selectively with a stronger focus on political governance criteria (Koch & Molenaers, 2015). By 2015, only a few developing countries remained recipients of European GBS, and overall amounts provided as budget support have decreased significantly. This trend in Europe to withdraw from budget support comes despite evidence produced in several evaluations that showed that budget support worked fairly well and produced envisaged development results such as higher public spending in social sectors, increased discretionary expenditure, allocative efficiency in national budgets and reform of public financial management systems (Faust et al., 2012; Lawson, 2014).

How can we explain this rise and fall of GBS in Europe? A first, perhaps intuitive, explanation would consider a possible deterioration of the governance situation in receiving countries. It could be argued that particularly in a number of African countries a series of events such as corruption scandals, electoral fraud and conflicts have made the provision of GBS difficult to sustain for European donors. Though partly true, in this article, we mainly dig into to the dynamics on the European donor side, arguing that a lack of collective action within the EU led to a demise of GBS in Europe.

The article first shows how the Paris Declaration principles were formulated in a way to address principal-agent and collective action problems as primarily technical challenges, but failed to incorporate a political perspective on collective donor action for effective aid. We then turn to the evolution of GBS in Europe, and in a fourth part apply a collective action framework to the demise of GBS in Europe. Our conclusions centre on how to best approach principal-agent and collective action problems of aid effectiveness by taking the opposite direction of the Paris Declaration; that is, by focusing on the political constraints underlying the collective action problems among donors first, instead of on the (technical) outcome of harmonized and aligned aid. This implies that political economy analysis undertaken in the analysis of aid effectiveness (and of GBS in particular) needs to take (European) donors into its focus as much as the political and administrative constraints on the recipient side.

## **2. THE PARIS AGENDA: TECHNICAL FIXES FOR POLITICAL PROBLEMS?**

### **2.1 Background: Principal-agent and collective action problems in the aid relation**

Whether aid is effective in achieving its objectives of promoting economic and social development and reducing poverty in developing countries has been a long-contested question. Despite the controversy on the empirical evidence for the effectiveness of aid (for an overview, see for instance Mekasha & Tarp 2013), it is commonly understood that whether aid is effective in promoting its goals hinges primarily on how aid is used and thus strongly depends on the actions of the various actors in the complex aid relation between donors and recipients of aid. While the empirical discussion continues, the debate on aid effectiveness has in the meantime moved on to frame the question of aid effectiveness not merely as an empirical, but rather as a (theoretical) political economy problem.

In this vein, government-to-government aid is commonly framed as a principal– agent relation between a recipient government as the agent; and multiple donors as the (collective) principal. From this perspective, the (in)effectiveness of development aid hinges on inefficiencies in two political economy dimensions of the aid relation: the principal-agent relation between donors and recipients; and the collective action dimension among donors.

In general, principal-agent relations are characterized by a setting in which a principal delegates a task to an agent over whose actions she has only limited control. Agency problems in this type of setting typically occur when there are (i) diverging interests and preferences between those who commission the tasks (principals) and those who should perform the tasks (agents) and (ii) when there is asymmetric information between the two parties (Laffont & Martimort, 2002; Pollack, 1997).

In the debate on the effectiveness of international aid, the relationship between donors and recipients of development assistance represents a classical principal-agent setting, in which aid donors as principals need to ensure alignment of the agent's interests with their own as their ideas and preferences about how to achieve socioeconomic development (and how to apply aid resources to this end) may overlap but typically do not fully coincide. Donors (as principals) are generally (but not exclusively) considered to be committed to public good objectives such as poverty reduction and economic development, while relying on (self-interested) recipient governments as agents to achieve these objectives (Azam & Laffont, 2003, p. 26; Booth, 2012, pp. 9–10; Bodenstein & Furness, 2009).

The 'traditional' way for donors to deal with the agency problem of development aid has been to link their aid provision to political and technical conditions and to implement ring-fenced projects (Booth, Christiansen, & de Renzio, 2006, p. 196). However, as donors (and recipients) had to learn over the decades, applying externally imposed ex-ante conditions as an attempt to overcome the misalignment of donor and recipient preferences is generally ineffective and compliance is low (Mosley, Harrigan, & Toye, 1991; Killick, Gunatilaka, & Marr, 1998; Dollar & Svensson, 2000).

Spending the majority of development aid through ring-fenced projects has no good track record either. Here donors not only maintain responsibility over planning and project design, they also have to invest in costly observation of the agent (Chauvet, Collier, & Fuster, 2007). Such micro-management of the agent tends to produce high transaction costs, however, as it absorbs large parts of the recipient government's administrative capacity (Acharya et al., 2006; Roodman, 2006). In addition, empirical analysis of aid interventions has shown that the proliferation and fragmentation of aid projects and institutions not only led to inflation of transaction costs of aid, but also failed to set a coherent incentive system for recipient governments. At the same time, tens of thousands of projects undertaken over the past decades appear to have largely failed to produce developmental results at a macroeconomic level (Mosley, 1986; Doucouliagos & Paldam, 2009).

Accordingly, various strands in the principal-agent literature applied to development policy and institutions focuses not only on getting the incentive structure between principal and agent right, but also on the capability of the principal – or a group of principals, a 'collective principal' (Nielson & Tierney, 2003, p. 244) – to send coherent and consistent messages to the agent (see for example Martens et al., 2002; Howes, 2014). This brings in the second political economy dimension of aid effectiveness, namely the problem of collective action among donors, as donor preferences and concepts over how to achieve socioeconomic development, and also on how to provide aid, typically differ as well. In practice, the heterogeneity of preferences among donors – if not about ultimate developmental goals, then at least about policies and procedures regarding how to achieve these goals – has led to the emergence of the multi-faceted and highly fragmented international aid system that we observe today, in which each bi- or multilateral donor operates its own, often very distinct, development cooperation system. The resulting plethora of strategic perspectives, institutional set-ups and aid instruments makes it difficult for donors to act as one collective principal vis-a-vis aid recipients.

Whittington and Calhoun (1988, p. 295) analysed donor-side incentives to coordinate their aid more than 25 years ago and found that the incentive structure of individual donors may render the coordination problem "much more intractable than is commonly realized". Yet, it is only relatively recently that this political economy perspective on the aid system has begun to receive wider attention, for instance in such works as Ostrom, Gibson, Shivakumar, & Andersson (2001), de Renzio et al. (2005) or the seminal 'The Samaritan's Dilemma' by Gibson et al. (2005), which highlight the role of collective action problems for donor coordination and demonstrate that past approaches to the agency challenge of aid did little to remedy the collective action problem among donors.

Given that both policy conditionality and project aid did not solve the principal-agent problems in the donor–recipient relationship, nor the collective action problems manifested in the highly fragmented and uncoordinated aid system in place towards the end of the twentieth century, donors and developing countries entered into discussions on how best to improve the effectiveness of aid, culminating in the

2005 'Paris Declaration on Aid Effectiveness', signed by over 100 countries, including all European Member States. A key focus of this aid effectiveness agenda has been to strengthen developing country ownership over their policies and to reduce donor domination in setting priorities and prescribing policy reforms ('putting the partner in the driver's seat') (see Mummert, 2013).

## **2.2 The Paris principles: taking the 'political' out of the political economy of aid effectiveness**

The Paris Declaration on Aid Effectiveness (together with its follow-up declarations the Accra Agenda for Action and the Busan Partnership for Effective Development Co-operation) represents the most comprehensive framework to date aimed at addressing the issue of aid (in)effectiveness at a global level.

This contribution notwithstanding, the declaration has also drawn substantial criticism, mainly for being a too 'technical' document, which formulated rather generic principles at the level of intended outcomes such as 'alignment' and 'harmonisation', while limiting the prescribed actions to implement these principles to mostly procedural commitments. In the following we argue that this technical focus of the Paris Declaration extends to the way it intended to tackle the political economy challenges to aid effectiveness not by solving, but rather by ignoring, them. This, we posit, is what mainly stood in the way of the Paris Declaration's own efficacy in promoting its objective of more effective aid.

Put simply, one (albeit implicit) guiding idea of the Paris agenda (expressed by the principles of ownership and alignment) was to do away with the problem of diverging preferences between donors and recipients as well as among donors themselves by simply eliminating donor preferences altogether from the aid relation. This was to be done by moving recipients' preferences centre stage and committing donors to align their aid to these preferences and the resulting priorities. If implemented, the principles of ownership and alignment would thus remove both: the need for donors to incentivize recipients to align their actions to the donors' preferences by means of conditionality or similar measures; and the need to maintain a fragmented aid system in which donors implement their individual ringfenced development cooperation to address their individual preferences and priorities.

This approach of the Paris Declaration to simultaneously tackle the principal– agent as well as the collective action dimension of aid effectiveness by discounting donors' vested interests in operating non-aligned and uncoordinated aid systems, was in essence an attempt to take the 'political' out of the political economy of aid. As a result, the political economy challenge of collective donor action for effective aid could thereby also be reduced to the 'technical' principle of harmonisation, which meant merely that the donors' varying formal processes and bureaucratic procedures needed to be brought in line in order to reduce the high transaction costs that originated from the large number of donor missions and reporting requirements in the past, and thus ensure a more efficient provision of aid. This approach is reflected in the procedural formulation of various of the Paris Declaration's commitments under the principle of



harmonisation, such as the commitment by donors to “work together to reduce the number of separate, and duplicative, missions to partner countries”, or to “implement, where feasible, common arrangements at country level for planning, funding (for example joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows” (OECD/DAC, 2005b, p. 6).

As we shall argue in the remainder of this article, this technical approach to donor harmonisation and coordination was, however, based on (implicit) assumptions regarding the (cap)ability of donors to act collectively that ignored important (domestic) political determinants of donors’ inability to harmonize and coordinate. Because of this, rather than eliminating the collective action problem from the aid relation as intended, we argue that this approach of the Paris agenda only served to increase the disincentives for donors to adhere to their own commitments towards harmonisation and alignment, and thus to implement the principles of the Paris agenda for more effective aid.

### **2.3 The Paris agenda’s failure to address the politics of collective donor action**

As argued above, the Paris Declaration and its principles were strongly inspired by the need to align interests and incentives in the agency relation between donors and recipients of international aid. Its procedural approach towards agency and collective action problems of aid effectiveness, however, failed to take into account some of the more political starting conditions as well as various implications of implementing this agenda, in particular with regard to the requirement for donors to harmonize, coordinate and act collectively. In fact, the half-hearted implementation of the agenda demonstrates that underlying political drivers of collective action problems on each side of the donor–recipient relationship should be considered equally important factors in explaining the (in)effectiveness of aid as principal-agent problems (Booth, 2012, p. 10).

In general, collective action problems arise in the context of public goods provision, when various actors benefit collectively from provided goods or services, whereas the costs of providing these goods accrue to individual actors. This creates the incentive for individual actors to ‘free-ride’ on the others’ contributions, which ultimately leads to underprovision of the good from a collective welfare point of view (Mas-Colell et al., 1995, p. 362).

As another of its ‘technical’ fixes to address both agency and collective action problems in the aid relation simultaneously, the Paris Declaration commits donors to the increased use of so-called programme-based approaches (PBAs) (OECD/ DAC, 2011b). In contrast to isolated aid projects, joint programme-based approaches aim at producing systemic effects at national level in the recipient country, such as improved public services, better performing institutions, better public financial management and higher spending in social sectors. These systemic effects, in turn, are expected to contribute to countrywide development outcomes, such as poverty reduction or macroeconomic stability and growth, which are often intangible

and become visible only in the medium to long run. However, as opposed to results achieved by individual aid projects that are clearly attributable to a single donor's input and that can be claimed as 'private' success by that donor, such nationwide development outcomes pose an important attribution problem (Lawson & Booth, 2004). Partly as a consequence of this, they mostly represent public goods, creating the incentive for individual donors to free-ride on the achievements, without incurring the financial cost of contributing large sums. Importantly, the greater the number of uncoordinated donors in a country or sector, the more diffuse becomes the responsibility for the success or failure of producing that public good (Bigsten, 2006).

The incentive to free-ride does not only exist with regard to ultimate development outcomes, but also to more direct and intermediate outputs of joint donor approaches. With stand-alone projects, most analytical work or negotiation efforts with recipients are commonly tailored to the specific project and produce very little added value for other donors that may be active, in the same sector. In the case of joint approaches, however, an important part of the collective action problem consists in the fact that most inputs provided by individual donors to a collective operation also represent club or public goods for others. For instance, any investment in analytical capacity or capacity for conducting the political and policy dialogue with the partner government directly benefits all other donors engaged in a coordinated approach. These investments help for example in terms of gaining a better understanding of budget allocations, political bottlenecks or challenges at sector level. And even donors not engaged in joint operations benefit through higher budget allocations or better policies in those sectors where they are active with stand-alone projects. In addition, the collective financial inputs themselves from donors function as a public good for individual donors as well, as they provide these donors with leverage to promote their individual political or sector agendas well beyond what their individual contributions could exert. This possibility of benefiting at no cost from the inputs of other donors creates additional incentives for others to at least partly free-ride on these inputs and limit their contributions to what is necessary to 'buy a seat at the table'. This allows them to punch well above their weight in terms of political and policy dialogue to promote political (for example good governance) or sector policy objectives.

To make matters worse, not only do the benefits of collaborative aid efforts have a public good element (whereas the costs are mostly private and accrue individually to each donor), additionally, the cost an individual donor incurs when contributing to Paris-style aid is not limited to the provided financial and technical inputs. This is because the often 'invisible' or more long-term development results can bear important political costs for the individual donor vis-a-vis their domestic constituencies.

Taken together, this public goods character of Paris-style aid, and the resulting incentives for donors to free-ride on each other's contributions, means that the principal-agent focus on aid effectiveness does not serve to tackle the political economy challenges that arise in implementing the Paris agenda.

The case of European budget support is a particularly illustrative example of this failure of the Paris agenda to take the politics behind problems of collective donor action sufficiently into account.

### **3. EMPIRICAL CASE: THE RISE AND FALL OF BUDGET SUPPORT IN EUROPE**

GBS is considered by many to be the most consequential form of a programme-based approach geared at implementing the principles of the Paris Declaration on more effective aid. Initially provided by the World Bank and other multilateral development banks at the end of the 1990s, budget support became popular among European donors soon after, as a direct response to the aid effectiveness agenda outlined above. In the 2005 'European Consensus on Development' that sets out the main guiding principles for EU development policy, it is stated that: "The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery ... ", that the EU undertakes "to channel 50% of government-to-government assistance through country systems, including by increasing the percentage of our assistance provided through budget support or sector-wide approaches" and that "where circumstances permit, the use of general or sectoral budget support should increase as a means to strengthen ownership, support partner's national accountability and procedures, to finance national poverty reduction strategies (including operating costs of health and education budgets) and to promote sound and transparent management of public finances" (European Parliament et al., 2005, p. 3). Compared to other members of the OECD/DAC, such as for example Japan or the United States, the EU and its Member States explicitly supported the use and increase of GBS as a means to implement the Paris principles.

Concrete implementation and support for the use of GBS policies, however, differed across Europe with some Member States becoming strong, others mild supporters and others (mostly smaller and new Member States) not providing GBS at all. In particular, the larger Member States and the EC put GBS policies in place at the beginnings of the 2000s and started to disburse increasing amounts of aid through GBS. The EC, for instance, was among the most dedicated supporters among European donors, providing either general or sector budget support in most of its partner countries, officially stating that they consider budget support as "the most effective instrument in development" (EC, 2008, p. 3). The then Development Commissioner, Louis Michel, issued a policy document on budget support in which he declared that: "If in future, as the volume of aid increases, we all continue to fund our own micro projects, each with our own requirements, staking our own little claims, we can say goodbye to any aid efficiency agenda. Budget support and more of it is the only answer. For this reason I have decided to increase the proportion of budget support from 20% of our funding to 50%" (EC, 2008, p. 4).

The UK's Department for International Development (DFID) was also an outspoken promoter of budget support. Already in its 2000 White Paper titled 'Eliminating World Poverty: Making globalization work for the poor' DFID stated that the "UK Government will work with other donors to channel more of our support through developing country budgetary systems ..." (DFID, 2000, p. 98). In the following budget support policy of 2004 budget support is considered "the instrument most likely to support improvements

in the accountability and capability of the state” (DFID, 2004, p. 11). As one of the front-runners of the aid effectiveness agenda, DFID was also among the most progressive European bilateral donors to promote a “somewhat radical move away from funding development projects in poor countries towards the direct financing of national development and poverty reduction programmes” (Porteous, 2005, p. 283).

Joining DFID and the EC in their support for budget support were also the Netherlands and France. The Netherlands started to grant GBS already in 1998 and scheduled its first policy in the second half of 2002. Generally supportive of the use of budget support, then Development Minister Agnes van Ardenne also linked its use to specific requirements such as the PRSP process, effective policy dialogue on good governance and poverty reduction and measurable results (see Dijkstra et al., 2012). As an indicator of this support, Dutch budget support increased from 59 million euros in 2000 to over 160 million euros in 2007 (Dijkstra et al., 2012). France also declared its support for the aid effectiveness agenda and stated that it would increase the use of budget support as a consequence (CICID, 2007). Other supporters for GBS included Sweden, Denmark, Finland and Germany even though these countries handled its provision more selectively and included stricter governance criteria and thresholds than other European Member States and the European Commission (see Narea & Christensen, 2004; DANIDA, 2009; Ministry for Foreign Affairs of Finland, 2005; BMZ, 2008).

Between 2006 and 2010, during the heyday of GBS in Europe, European Member States and the EC spent roughly 15.5 billion euros as GBS. However, despite this considerable overall total, the percentage of GBS of overall country programmable aid of European donors in the same period remained low. Even the most progressive European donors, such as the UK, reached a maximum of no more than 17.8% of overall country programmable aid in the same period.

Around the year 2008, political problems started to mount in a number of GBS recipient countries (mainly in Africa), including corruption cases, election irregularities, human rights violations and restrictions on political freedom. European donors, however, failed to act collectively in these situations and thus sent incoherent signals to the recipient governments. Usually, each European donor agency reserved its right to unilaterally interpret the situation. In the absence of a ‘neutral’ or harmonised arbitration authority this meant that some donors interpreted political events such as the discovery of large corruption cases as a cause for at least temporarily suspending disbursements, while others interpreted the same event as evidence for improved transparency and oversight and continued or even increased their payments (Faust et al., 2012). And even if donors agreed to use GBS as a sanctioning device, they acted in an uncoordinated manner, with some reinstalling payments soon after, others changing aid modalities away from GBS and some freezing their financial contributions for a longer period of time. The main reason for this failure of collective action can largely be attributed to domestic politics in donor countries, and the fact that decisions were not taken (collectively) at local level, but heavily steered from European headquarters in

reaction to media articles, pressure from national parliaments or their own political constituencies (Faust & Koch, 2014; Koch & Molenaers, 2015).

These political problems in recipient countries, however, did not simply trigger short- or long-term GBS suspensions by some European donors, they also led to more support for political conditionality attached to GBS. While several European donors were selective from the beginning with regard to governance criteria (for example Germany and Sweden), others (for example the Netherlands and the UK) increasingly started to attach political conditionality to GBS. As a result, the original aims of GBS, to implement the Paris principles, to provide reliable funding for poverty reduction strategies, to emphasize country ownership and alignment and to improve donor harmonisation, were increasingly pushed into the background.

European donors not only started to attach stricter political conditionality to GBS, their overall support for GBS also faded towards the end of the 2000s. In the UK, for instance, a newly elected Conservative government came to power in 2010 and distanced itself from the previous GBS policy: “we will not be as willing as Labour have been to give the benefit of the doubt to governments where we are not completely clear about the probity of the audit and accountability systems” (Conservatives, 2009, p. 17). Subsequently, in 2011, the new Conservative government announced that it would halve GBS operations by 2014–15 and that, in the future, sector budget support would be preferred over GBS. In Germany, the new liberal Development Minister Niebel (2009–13) publicly declared that his party considered the very idea of budget support to be flawed and the wrong approach in development policy and that no new budget support operation would be established in that legislative period. The same stance has since been taken by Niebel’s successor Gerd Mueller who recently stated that he does not intend to provide German aid as budget support, since he considers GBS to be difficult to control by donors. In the Netherlands, GBS came increasingly under pressure from parliament, the auditors’ office and the independent evaluation office, leading to a more restrictive and political use of GBS from 2007 onwards. In 2010, a new government was elected and, also as a result of fiscal austerity, significantly reformed the Dutch approach to development policy in general, and to GBS in particular. This has led to a steep decline in GBS, with incoming ministers ending GBS operations in almost every country (Dijkstra et al., 2012). By 2014 the Netherlands had virtually stopped all GBS operations.

As a consequence of this general trend among European donors, the financial volume provided as GBS by European bilateral donors and the EC fell to 4.2 billion euros between 2011 and 2013, with the EC (2.2 billion) and France (1.1 billion) providing the largest chunk of it. Several European Member States, however, not only changed their own domestic budget support policies but also actively lobbied the EC to give more weight to political governance concerns when providing GBS. Also, against the background of the Arab Spring which had seen the EC come under fire for having provided GBS to authoritarian and repressive regimes, then Commissioner for Development Andris Piebalgs initiated a reform of the EC’s

budget support policy at the end of 2010. In this process, several Member States demanded that the EC attach stricter political conditionality to GBS (see Koch & Molenaers, 2015). As a result of this pressure GBS has been reduced drastically by the EC. With the new aid programming period starting in 2013/14 only a dozen GBS recipients remained in the EC's portfolio, with large amounts of aid now provided as sector budget support (interviews, EC).

This general trend among European donors is all the more surprising given that the EC and various Member States have invested substantial efforts in producing empirical evidence for the effectiveness of GBS through a number of large scale joint evaluations at country level (see Faust et al., 2012; Dijkstra et al., 2012; Lawson, 2014). These evaluations provide a fairly favourable picture of the effectiveness of GBS as a financing instrument in support of poverty alleviation and development-friendly policies in recipient countries, but note the failure of European donors to harmonize their approaches to GBS and to act collectively (Lawson, 2014). In other words, the new scepticism among European donors vis-a-vis the provision of GBS would not seem to be justified on empirical grounds.

#### **4. EXPLAINING THE DEMISE OF EUROPEAN GBS FROM A COLLECTIVE ACTION PERSPECTIVE**

Set against the background of the described shortcomings of traditional projectbased aid and the resulting aid effectiveness debate, the widespread withdrawal of European Member States from joint budget support programmes poses a politicoeconomic puzzle: why should European bilateral donors give up an instrument that has the potential to reduce burdensome transaction costs, address some of the most persistent principal-agent impediments to results-oriented and incentive-compatible donor–recipient aid relations, and that is being shown in a growing number of country evaluations to be an effective instrument to finance national development and poverty reduction strategies?

Applying a collective action perspective instead of a principal-agent lens to the Paris principles, and particularly to the cost–benefit calculations that influence donor decisions to cooperate or defect in a collective donor exercise helps to explain this puzzle. As already outlined, the Paris agenda and GBS as its paradigmatic aid instrument failed to take account of the cost–benefit structures for collective action and, in particular, the domestic political costs of implementing the new principles. Joint donor approaches such as GBS clearly constitute a public good from an altruistic donor perspective. In contrast, the direct cost of providing financial and non-financial inputs (such as analytical capacity, technical assistance or policy dialogue) to GBS programmes accrue to the individual contributing donor. Moreover, since GBS implies that the individual donor has very little direct control over the use of the resources provided, there are also potentially high indirect political costs for the individual donor, for example in the form of perceived fiduciary risks in terms of misappropriation of resources (Hayman, 2011; Molenaers, 2010, 2012). Besides fiduciary risks, there are also the political risks associated with providing GBS to governments which may (at times) resort to undemocratic behaviour and/or violate human rights. The risk for the donor is that GBS provision (unlike projects) is considered to be an overarching endorsement of a recipient country's

regime and its policy choices. These political costs are arguably higher with GBS than with other forms of government-to-government aid, as project aid tends to be perceived as an intervention targeting certain groups of beneficiaries, and hence is supposedly less ‘political’ (Leiderer, 2012).

All the above makes GBS, and thus also the individual donor administration, an ‘easy’ target for criticism (justified or not), particularly by the political opposition in the donor country, implying a potentially substantial political cost for the donor government when providing GBS. These costs for individual European donors, however, were not foreseen or acknowledged in the Paris principles and the EU’s own statements on aid effectiveness.

Importantly, these costs of providing GBS were not shared equally among Europeans. The specific ‘political cost structure’ for each provider of budget support can vary substantially depending on the domestic political situation, the weight and strength of political opposition and veto-players (see Faust & Koch, 2012; Koch & Molenaers, 2015). It would thus seem reasonable to expect that whether a donor agency that – altruistic motives of aid provision notwithstanding – relies on its domestic legitimacy for funding and its very existence, decides to give GBS or not, ultimately depends on whether the political credit it can claim for development results achieved through GBS outweighs the political costs of doing so.

The public goods characteristics of outputs and development outcomes achieved with the support of GBS, combined with ‘private’ financial as well as political costs for any individual European donor deciding to contribute to a joint GBS programme, create strong incentives for individual donors to free-ride on other donors’ efforts (Kemp, 1984, p. 6; Olson, 1971). Unfortunately, to date neither the international aid effectiveness agenda nor independent initiatives among European donors have established any specific normative guidance of how to effectively counteract these counter-productive collective-action-related incentive structures. As a result, each donor agency faced with the decision whether to provide GBS has to balance the potential rewards from budget support in terms of more effective, but not individually attributable aid with the incentive to free-ride and the individual domestic political cost for donors.

The potential rewards of GBS for European donors, on the other hand, seem to have gradually lost importance while incentives to ‘leave the club’ and to free-ride have grown. First, the aid effectiveness agenda and its strong focus on ownership, alignment and harmonisation has been increasingly supplanted by a strong focus on results and ‘value for money’ and thus on measurable and easy to quantify outputs and outcomes that can be directly linked to individual donor activities (see Klingebiel & Janus, 2014). While these ‘results’ (x number of children vaccinated, enrolment increased by x per cent) seem to be easier to communicate to the general public in European Member States, they tend to neglect the key principles of the Paris agenda, in particular efforts to better harmonize donor interventions. Leaving concerns for more effective aid largely aside, these direct and attributable development outcomes seem

to provide higher ‘private’ benefits for European donors than development outcomes provided through GBS that aim at systemic effects with public goods characteristics.

And also the domestic political costs have changed in most European Member States over the last decade. In many Member States, governments have changed from left-leaning to conservative (right-wing) governments around the end of the first decade of the twenty-first century. This shift has also altered the political cost structure for GBS. Faust and Koch (2014) show that the provision of budget support among European Member States is heavily influenced by government ideology, with right-wing governments being more sceptical of the aid modality. This finding can be explained by the fact that conservative governments are more risk averse and prefer to have control over their aid activities because their constituencies are more sceptical about aid in general and are disproportionately concerned about aid being wasted by corrupt recipients (Faust & Koch, 2014). Since GBS is perceived as an endorsement of a given regime, conservative governments consider GBS as a direct support for ‘corrupt regimes’. While GBS might thus be the most consequential aid modality to implement the Paris principles, it causes significant domestic costs for European development ministries and bureaucracies. In the current political climate across Europe, these costs seem to have gradually outweighed the benefits of GBS. Put differently, incentives to free-ride and to focus on forms of foreign aid that are low-risk, easy to attribute and good to sell to domestic constituencies seem bigger than incentives to stick to the Paris principles and concerns to make aid more effective. Across Europe, we now have a situation where the EC remains as more or less the only provider of GBS (albeit with significantly reduced amounts). This widespread withdrawal of Member States from GBS could be misinterpreted as a successful case of collective action – in the end there seems to be a trend towards convergence of European bilateral donors in terms of the collective removal of GBS from their aid modality portfolio. Effective collective action for aid effectiveness (and public good provision), however, is not to be confused with collective action motivated by political survival.

## 5. CONCLUSION

Providing foreign aid poses a number of challenges for European donors. As we have shown in this article, most scholars have considered these challenges within the principal-agent framework. In doing so a number of solutions have been proposed, with many of them taken up in the Paris Declaration. We argued that the problems of collective action, in particular among European donors, in the aid chain have been underemphasized. Even though European donors in particular could be expected to subscribe to a deep harmonisation agenda of their aid programmes, as they are already part of a regional integration project and have publicly declared their support for the Paris principles and increased harmonisation of European aid interventions, they have failed to act collectively. Most often these collective action dilemmas form an impediment to implementing the proposed solutions of the Paris agenda. We have looked at the rise and demise of budget support in Europe as a case in point. Initially welcomed by European donors in



particular, GBS was given star billing among aid modalities (at least in discourse), but after a while – despite positive evidence in terms of impact – it was largely abandoned.

In this article we have analysed both the expected advantages of GBS as a solution to many of the principal-agent problems, while also digging deeper into the collective action requirements incorporated into the proposed solutions. The cost– benefit structure that European donors are confronted with when engaging in GBS in a multi-stakeholder setting have been particularly underanalysed, yet provide the missing link to a real understanding of why donors seem to be unable do the right thing in terms of aid effectiveness (at least in the current political climate across Europe). We have shown that the public good benefits of the GBS-modality cannot outweigh the privatized political costs and risks of GBS.

Future negotiations on the international aid effectiveness architecture and on the future of EU development policy will have to address the crucial challenge of translating political commitment into behavioural change much more explicitly and effectively than has been the case in the past. This entails both the formulation of standards and norms and the establishment of mechanisms on both sides of the aid relation to make incentives with regard to principles and commitments compatible at a political, institutional and individual level (de Renzio et al., 2005: pp. 8, 17). In order to achieve this, European donors will first and foremost have to devise mechanisms that ensure their own compliance with international and European commitments both at headquarters and at national level. In order to better understand the compliance of European donors with the standards they have set for themselves, it is crucial to get a better understanding of their own political economy and the political and institutional structures in which they operate.

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## CHAPTER IV

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### FROM POVERTY REDUCTION TO MUTUAL INTERESTS? THE DEBATE ON DIFFERENTIATION IN EU DEVELOPMENT POLICY

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#### 1. INTRODUCTION

The need for greater differentiation between partner countries and the extent to which middle-income countries (MICs) should continue to receive foreign aid has become one of the most controversial debates among development researchers (Alonso, 2007; Sumner, 2010, 2011; Kanbur & Sumner, 2011; Glennie, 2011) and in the current process of modernising European Union (EU) development policy.<sup>13</sup> The first controversy refers to the changing geography of poverty and the implications for aid allocations. Does the current concentration of poverty in MICs (Sumner, 2010, 2012a) require continued donor engagement in this group of countries and a shift in understanding poverty increasingly as a national distribution problem? Or is poverty in MICs transitory and are the bulk of poor people likely to live in low-income, fragile countries in the future (Kharas & Rogerson, 2012)? The second controversy refers to the extent to which global poverty reduction should be the key guiding principle for continued engagement with – and aid to – MICs (Sumner & Mallet, 2012). Tackling global challenges such as climate change, food insecurity, financial instability, communicable diseases, migration, conflict and insecurity ultimately depends on the development paths of MICs and their commitments and co-operation in global governance processes. Such a global development agenda, however, requires a new rationale of aid beyond poverty reduction (Severino & Ray, 2009) and continued cooperation with influential non-OECD (Organisation for Economic Co-operation and Development) countries.

So far, research has mainly focused on analysing the changing distribution of wealth (for example, Spence, 2011; OECD, 2010; Rodrik, 2011), the changing distribution of global poverty (Sumner, 2010, 2012a; Kharas & Rogerson, 2012; Loewe & Rippin, 2012), the increasingly global rationale of development policy (for example, Severino & Ray, 2009; van Lieshout et al., 2010; Birdsall & Leo, 2011) or the question of aid to MICs on a conceptual basis (for example, Alonso, 2007; Kanbur, 2010; Fenton, 2008; Sumner, 2011; Kanbur & Sumner, 2011). However, these discussions have not yet been combined and analysed from the specific perspective of EU development policy.<sup>14</sup>

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<sup>13</sup> According to the European Commission's Communication and the Council Conclusions of 14 May 2012, the EU plans to withdraw its bilateral development-co-operation programmes from 19 developing countries that have either reached upper-middle-income status or account for 1% of global GDP. On a more conceptual basis, the EU aims to better calibrate and target partner engagements and to include strategically oriented policy objectives alongside a strict poverty-reduction remit. In other words, the argument for differentiation is that development co-operation with more advanced countries should shift the focus from poverty reduction to global challenges and mutual interests (Gavas et al., 2011).

<sup>14</sup> For the purposes of this article, the term 'EU development policy' is used rather than solely referring to the European Commission. The degree of independence of a supranational actor such as the European Commission is limited, due to the



The aim of this article is therefore to synthesise the trends of the changing development landscape and to identify the implications of these for the strategic reorientation of EU development co-operation with MICs. With regard to the implications for the EU, the article comes to two main conclusions. (i) The EU's overarching objective of global poverty reduction requires moving beyond national income as a key guiding criterion to classifying countries and designing poverty-efficient aid allocations. It also requires the EU and its Member States to better co-ordinate their distribution of aid and the cross-country division of labour in order to ensure that countries with higher per capita incomes – but significant internal development challenges – continue to receive support in their fight against poverty and social inequality. (ii) The growing range of global challenges require EU development policy to diversify its objectives beyond poverty reduction and to seek continued engagement with MICs and emerging economies. Addressing global challenges, however, will also increase substantially the co-ordination challenges among European donor agencies and other European external policies.

The article is organised as follows. Section 2 discusses the past debate on aid to MICs at the EU level and the EU's current approach. Section 3 analyses two evolving challenges that need to be considered in the strategic reorganisation of development co-operation with MICs: (i) the question of what to prioritise – poor countries or poor people – and (ii) the global rationale for development policy and the interlinkages between national and global development challenges. Section 4 concludes by outlining the implications of both challenges for EU development policy.

## **2. THE DEBATE ON DIFFERENTIATION IN THE EU CONTEXT SO FAR**

The question of how best to adapt development policy to the specific needs of countries with advanced development and higher levels of average income is not entirely new.<sup>15</sup> Thus far, the reactions and strategies of European donors have fallen into two main categories based on different rationales for providing aid. First, a narrow definition of development policy, which prioritises poverty reduction as the overarching objective for development programmes and aid allocation to the poorest countries. The United Kingdom's Department for International Development (DFID) and its 90/10 rule (90% of aid resources for low-income countries (LICs) and 10% for MICs) is a prominent example of this approach. Since MICs were expected to have lower levels of poverty and greater access to international capital

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influence on decision-making of the Member States (Tallberg, 2002; Furness, 2010). However, the focus of this article does not include the bilateral aid programmes of Member States but refers to aid that is spent through Community institutions in Brussels.

<sup>15</sup> In 2003, for example, the UK Department for International Development (DFID) and the Spanish Agency for International Co-operation commissioned a study with the objective of outlining the rationale for aid to MICs (Eyben et al., 2004). In 2005, DFID published a special strategy for its engagement in MICs titled 'Achieving the Millennium Development Goals: the middle-income countries' (DFID, 2005). The UN held a series of international conferences on development cooperation with middle-income countries between 2007 and 2009 and published a number of reports and resolutions exclusively dedicated to the question of how to undertake this (UN, 2007; 2009). In 2007, the World Bank issued a special evaluation of its role in MICs (World Bank IEG, 2007). In 2008 Oxfam commissioned a study with the aim to rethink the role of MICs in the development process, as it became clear that income-status graduation cannot be considered as an endpoint to development (Fenton, 2008).

markets due to their better-developed institutions (Dollar & Pritchett, 1998; Dollar & Levin, 2004a), these donors markedly reduced – or even withdrew – their aid to MICs.<sup>16</sup>

Other European donors have emphasised the need to conceptualise development policy beyond the narrow poverty-reduction remit towards a global outlook on development (Messner, 2001; Faust & Messner, 2006). Such a broad definition of development policy aims to contribute towards solving regional and global challenges in co-operation with non-OECD countries. For some EU donors, this has led to a diversification of the objectives of development policy: Germany and Sweden, for example, have increasingly shifted their strategies from ‘traditional’ development policy and a focus on poverty reduction towards global structural policy or policy for global development.<sup>17</sup>

The latter shift of principles and objectives has also led to a different approach towards MICs and emerging economies. Germany’s ‘anchor country concept’ (BMZ, 2004)<sup>18</sup> developed at the beginning of the 2000s, highlighted the external capacities of anchor countries to create regional and global spillover effects as well as their central importance in global governance processes. Rather than withdrawing from these countries, it was considered important to continue development co-operation, but in a manner that recognised the countries’ increased self-confidence and their economic and political roles in regional and global terms (Altenburg & Stamm, 2005).

The EU can be considered a latecomer in these debates and has only recently started to address the issue of differentiation in its modernisation process. The EU’s current approach can thus best be described as a mismatch between policy objectives and partner-country portfolios. Poverty reduction is the EU’s central development policy objective, according to its guiding policy documents.<sup>19</sup> However, unlike those EU donors for whom a clear focus on poverty reduction has been accompanied by a strong concentration of aid to the poorest countries, the EU has only recently announced its intention to adapt its partner-country portfolio and aid allocations. For the time being, the EU’s partner-country portfolio includes 145

<sup>16</sup> DFID’s 2011 bilateral aid review has led to a further concentration of aid in 27 partner countries and to a decision to end the bilateral relationship with 16 countries, 12 of which are MICs; see: <http://www.dfid.gov.uk/Media-Room/News-Stories/2011/The-future-of-UK-aid/>. This process has been accompanied by a controversial debate about the continuation of UK aid to India (House of Commons, 2011) and by a discussion about new partnerships with emerging economies; see: [http://www.chathamhouse.org.uk/files/18611\\_150211mitchell.pdf](http://www.chathamhouse.org.uk/files/18611_150211mitchell.pdf). In the Netherlands, a revision of Dutch development co-operation has led to a reduction in the number of partner countries from 33 to 15, only 4 of which are MICs. Upper-middle-income countries, for example, were excluded from the partner-country selection from the beginning.

<sup>17</sup> In Germany, the term ‘global structural policy’ was introduced in the coalition treaty under the chancellorship of Gerhard Schroeder in 1998. The objective of global structural policy was to take development policy out of its niche of project aid and interventions at the local level and to aim at working towards structural changes at the national and global levels. In 2003, Sweden announced a Bill to introduce its ‘policy for global development’, which required not only the Development Ministry but all Swedish ministries to take due account of sustainable global development in all their policies and actions.

<sup>18</sup> According to the updated definition of Leininger et al. (2009, p. 3), “anchor countries are developing countries which, due to their economic weight in regional terms and due to their international role, have the potential to create far-reaching spillover effects and the state capacity to pro-actively influence regional and global processes”.

<sup>19</sup> The European Consensus on Development clearly states that the eradication of poverty is the primary and overarching objective of EU development co-operation, benchmarked against the Millennium Development Goals (MDGs). On a legal basis, this is also enshrined in the Lisbon Treaty (Art. 208), which has narrowed the focus and objective of EU development policy by making poverty reduction the central goal.

countries.<sup>20</sup> In 2009, the European Commission allocated more of its aid budget (54%) to MICs than the Development Assistance Committee (DAC) average (41%); the biggest contrast related to spending in upper-middle-income countries (European Commission 19%, DAC average 9%).<sup>21</sup> This above-average funding for MICs is one of the most frequent criticisms of EU development policy and is considered to be a lack of focus on poverty by some (Booth & Herbert, 2011; Orbie & Versluys, 2009; Dollar & Levin, 2004b). The 2007 DAC Peer Review of the European Community echoed this criticism and stated that “the Community has been under pressure from some Member States to increasingly concentrate on LDCs and other low-income countries, partly as a way to retain the poverty focus of its assistance” (OECD/DAC, 2007, p. 40). One key challenge for the EU is therefore to concentrate its aid funds in better accordance with its overall objective of poverty reduction, but to do so based on a thorough understanding of the changing patterns of poverty.

A second challenge for the EU relates to addressing the mismatch between partner-country portfolio and policy objectives and to reconceptualising development co-operation with countries with higher levels of development. The EU’s global presence and narrow focus on poverty reduction have proved to be too limited an approach. Looking at country programming, one can see that in most emerging economies and countries with higher levels of development, the EU is currently in a transition phase. While maintaining the traditional focus on poverty reduction, most Country Strategy Papers of emerging economies increasingly include a more strategic orientation towards areas of mutual interest. In India, for instance, the EU follows a ‘two-pronged approach’. While still committed to fighting poverty, its objectives have become more strategic, moving away from the aid rhetoric that had no objective beyond poverty reduction (Coulon, 2008). Traditional development assistance is thus increasingly moving towards trade, economic and cultural co-operation, and areas of mutual interest such as energy, transport and the environment (Coulon, 2008). Moreover, the 2009 Communication of the Commission ‘The European Union and Latin America: Global Players in Partnership’ highlights the need to increasingly integrate activities of mutual interest alongside activities aimed at poverty reduction, in particular in emerging economies and MICs in the region: “The merits of significantly diversifying the instruments and targets of EC co-operation should be explored. While concentrating financial resources on the poorest countries, the EU should look for new forms of cooperation with countries with higher levels of development. For all countries, this may entail putting more emphasis on co-operation in areas such as climate change (mitigation and adaptation), higher education, multilingualism research, science and technology,

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<sup>20</sup> There are 124 countries that receive overseas development assistance (ODA) from the Development Co-operation Instrument (DCI) and the European Development Fund (EDF). Apart from the DCI and the EDF, the European Neighbourhood and Partnership Instrument (ENPI) covers Europe’s 16 closest neighbours in Eastern Europe, the Mediterranean and the Caucasus, while the Instrument for Pre-Accession (IPA) covers both candidate and potential candidate countries in the Western Balkans, Turkey and Iceland. The funds within both instruments are to a large extent ODA-eligible. However, the rationale for ‘aid’ to these countries is based on the EU’s own strategic interests rather than pure developmental outcomes. The ENPI and the IPA can be considered as ‘the most strategically refined aid instruments that are most precisely attuned to EU interests’ (Holden, 2009, p. 183).

<sup>21</sup> See: <http://www.oecd.org/dac/stats/donorcharts.html>

including energy efficiency and renewable energy, to complement joint efforts” (European Commission, 2009, p. 9).

Up to now, an envisaged or gradual shift in individual partner countries has not been accompanied by a strategy for global development and a coherent strategy on how to work with more advanced countries to this end. Moreover, discussions thus far have not included a clear strategy on how to shape a gradual transition from a focus on poverty reduction to areas of mutual interest, or on how to potentially combine both strategic objectives.

How the EU positions itself in this strategic reorientation and in addressing both challenges – concentrating EU aid funds where they are likely to have the greatest impact on poverty reduction, and reconceptualising development cooperation with emerging economies and countries with higher levels of development – depends to a large extent on its reading of the current transformations of the development landscape. This article argues that there are two main issues that need to be addressed: first, the need to reconceptualise dominant approaches to poverty reduction that focus mainly on a country’s average income, and second, the fact that the objectives of poverty reduction and addressing global challenges cannot be considered separately.

### **3. TWO EVOLVING CHALLENGES**

#### **3.1 Poor Countries or Poor People?**

So far, the dominant thinking in the aid literature has considered aid to MICs as being aid that is poorly targeted at poverty reduction. Accordingly, assessing the poverty focus of donors’ aid programmes against their spending in poor countries was advocated (Dollar & Pritchett, 1998; Collier & Dollar, 2002; Dollar & Levin, 2004a). This is echoed in the aid-allocation literature, which reflects the view that aid should primarily be allocated to poor countries with sound political institutions (Svensson, 1999; Burnside & Dollar, 2004; Knack, Rogers, & Eubank, 2010).

Until recently, there has been considerably less debate on whether donors should focus on average per-capita income or on the absolute numbers of poor people in assessing the neediness of a country, as both categories were considered to be overlapping in empirical terms: “Aid is widely believed to have greater development impact where it is needed most – that is, where there are large numbers of poor people” (Knack et al., 2010, p. 6). However, against the backdrop of changing patterns of poverty, a particular challenge emerged on how best to assess the neediness of a developing country, as the overlaps between the two categories have become smaller. Both categories – average per-capita income and total number of poor people – are now increasingly used as two distinct categories (Barder, 2009; Kanbur & Sumner, 2011).

This evolving trade-off is largely spurred by shifts in the global distribution of poverty. The majority of poor people have so far been located in low-income, fragile countries with stagnating growth, termed the

‘Bottom Billion’ countries (Collier, 2007). More recent estimates, however, show that 70.9% of the world’s incomepoor, or a ‘new Bottom Billion’, do not live in poor, low-income countries, but in countries that have generated significant economic growth and crossed the MIC threshold (Sumner, 2012a).<sup>22</sup> While these findings need to be treated with some caution (since they are closely related to the transition of five populous countries to MIC status)<sup>23</sup>, they are nonetheless relevant, in particular since they point towards an important trend in the changing nature of poverty. One of the key differences between the ‘old’ and the ‘new’ Bottom Billion relates to the emphasis given to inequality and income disparities within countries. The original Bottom Billion was calculated by counting the total populations of 58 countries, and not just the countries’ poor populations (Collier, 2007). Sumner (2010, 2012a, 2012b), on the other hand, puts the emphasis on poor people in non-poor countries, and thus on distributional challenges within – rather than between – countries.

A key question in these discussions is therefore whether or not the current shift in the distribution of global poverty describes a situation that only results from the transition of five populous countries to MIC status. In other words, is the continuation of poverty and rising inequality in countries that have generated fast economic growth a trend that characterises a significant change in the poverty problem that is likely to continue in the mid term, if not over the long term?

Any estimation of whether or not the majority of poor people will continue to live in MICs is complex.<sup>24</sup> However, there are two important factors to consider. First of all, we are likely to enter an era where more and more countries cross the middle-income-country threshold. In 1988, there were only 77 MICs, whereas this number increased to 104 in 2009. In contrast, whereas the number of LICs increased significantly during the 1990s – from 48 in 1988 to 63 in 2000 – the latest World Bank classification data indicate that this number fell to 36 in 2012. Recent projections indicate that this trend is likely to continue. Calculating the World Bank’s future client base, Moss and Leo (2011) estimate that the International Development Association (IDA) will probably lose half of its client countries by 2025 because countries will become too wealthy to qualify. Second, this further increase in the number of MICs will also have an impact on the global distribution of poverty. Using the IMF’s World Economic Outlook growth projections, Sumner (2012c) estimates that half – if not two-thirds – of the global poor will continue to be located in MICs in the next 20 years to come.

This scenario also seems likely if one considers the extent to which countries have reduced poverty as they have reached MIC status. In general, leaving distributional issues aside, countries should have made

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<sup>22</sup> The calculations of Sumner refer to absolute poverty and the US\$1.25 poverty line using data from the World Bank’s Povcal Net.

<sup>23</sup> China (graduated in 1999), Indonesia (2003), India (2007), Nigeria (2008) and Pakistan (2008) (Kanbur and Sumner, 2011).

<sup>24</sup> According to Kanbur & Sumner (2011, p. 6), these factors include “growth projections for individual countries; assumptions on exchange rate evolution; assumptions on international inflation and other aspects of the Atlas methodology for classifying countries as LICs or MICs; the evolution of income distribution within each country; any re-evaluation of public-private partnerships in each country (and influence on \$1.25 poverty) and population growth in individual countries”.

remarkable progress in reducing poverty by the time they reach MIC status (Kanbur & Sumner, 2011). Overall, findings suggest that the incidence of extreme income poverty in MICs is generally lower than in LICs.<sup>25</sup> This general positive correlation is also confirmed if multi-dimensional poverty is considered. According to Alkire (2011), there is an encouraging disconnect between higher average-income levels per capita and the multi-dimensional poverty index (MPI).<sup>26</sup>

However, what these aggregate figures mask is the fact that there are tremendous differences across countries and that the group of MICs and the progress made are actually significantly more disparate than these overall findings indicate. The argument that all MICs achieve broader human development can easily be rejected by the fact that 12 lower-middle-income countries (LMICs) are still considered least-developed countries.<sup>27</sup> This incongruent development progress is also reflected in the varying poverty rates of MICs. As emphasised by a recent United Nations report, the incidence of poverty in MICs ranges from 2% to more than 60% of a country's population (UNDP, UNFPA, & UNOFS, 2011, p. 3). Some countries, for example Botswana, have seen substantial income increases but poverty-reduction rates that are falling only slowly. Others such as Ghana have translated comparatively modest economic growth into a significant decline in poverty (Fosu, 2011). There are countries that continue to have higher levels of poverty than LICs, despite achieving MIC status. Zambia, for example, (which has only very recently been granted LMIC status) has a higher extreme-poverty per-capita ratio (64.3%) than a poor LIC such as Mali (51.4%).<sup>28</sup> And there are extreme examples such as Equatorial Guinea, a high-income country where about 75% of the population continues to live below the national poverty line (AfDB, 2012). Even India, which has had impressive annual growth rates of gross domestic product (GDP), has not matched its good economic performance with equally high rates of poverty reduction (Fosu, 2011) and continues to account for more of the world's extreme income-poor (450 million) than the entire African continent (377 million).<sup>29</sup>

The relationship between growth and poverty reduction is thus more complex. Although there is overall agreement that growth is a necessary precondition for poverty reduction (Lopez, 2010), the assumption that the incomes of the poor increase one-for-one if a country generates economic growth (Dollar & Kraay, 2002) is difficult to sustain against the backdrop of persistent poverty in MICs. In fact, there seems to be little correlation between a country's progress towards reducing poverty and its economic growth (Lopez & Page, 2003; Fosu, 2009, 2011). This does not invalidate the viewpoint that poor countries need

<sup>25</sup> According to Sumner (2011), the average incidence of income poverty in low-income countries for 2002–7 is almost twice as high (52.4%) as in lower-middle-income countries (27.1%) and 10 times higher than in upper-middle-income countries (5.2%).

<sup>26</sup> The MPI is a new international measure that goes beyond measuring income poverty by taking into account the multi-dimensionality of poverty. It identifies overlapping deprivations that members of a household experience based on three dimensions: health, education and standard of living. A household is considered as multi-dimensionally poor if it is deprived of an equivalent of 30% of the weighted indicators (Alkire & Santos, 2010).

<sup>27</sup> See: <http://www.unctad.org/Templates/Page.asp?intItemID=3641&lang=1>.

<sup>28</sup> Data processed from the Demographic Health Survey (2007).

<sup>29</sup> According to the Demographic Health Survey (2005).

sustained growth in order to reduce poverty. However, it reaffirms the assumption that distributional issues are as significant in characterising the poverty problem as the total lack of resources. National progress and national aggregates such as average income per capita can be misleading, as entire regions and social groups have been de-linked from the positive developments in the same country.

Among scholars, two general lines of argumentation seem to have evolved as a response to these changes in the poverty landscape. The first reflects adherence to Collier's work on the Bottom Billion (2007) and calls on donors to concentrate aid to support poverty reduction in the poorest countries. In contrast, others argue that in order to maximise global poverty reduction, donors need to focus on poor people instead of poor countries and therefore continue to support MICs in their poverty reduction efforts (Eyben, Lister, Dickinson, Olivie, & Tejada, 2004; Alonso, 2007; Kanbur, 2010; Kanbur & Sumner, 2011).

Both categories (poor people and poor countries), however, have specific shortcomings. Focusing on income as the key determinant for the needs of a country and for selective aid allocations overlooks the fact that national aggregates – and in particular national per capita income – have become insufficient criteria for assessing the poverty levels and development challenges of a country. The advantage of average per capita income is that it allows, to a certain extent, for the accounting of the financial and redistribution capacities of a given country. Prioritising the total number of poor people allows for capturing the poverty problem of a country, but fails to include the country's own poverty-reduction capacity – in particular the financial and domestic redistribution capacities. Furthermore, it discriminates against smaller developing countries, where the incidence of poverty may be high, but the absolute number of poor people is low compared with populous countries such as India, China and Indonesia.

The argument made in this article is thus to move from a focus on either 'poor countries or poor people' towards a multi-dimensional view of developing countries that better captures the heterogeneity of MICs and the varying development challenges they face. When the World Bank originally created its country-classification system, it intended to set income thresholds that allowed for the creation of a link between a country's economic and social development: "The process of setting per capita income thresholds started with finding a stable relationship between a summary measure of well-being such as poverty incidence and infant mortality on the one hand and economic variables including per capita GNI estimated based on the Bank's Atlas method on the other."<sup>30</sup> These thresholds, however, were set arbitrarily (Sumner, 2012a). Furthermore, the non-linear relationship between economic growth, poverty reduction and other human-development indicators means that the classification system is grouping together countries where such a stable relationship does not necessarily exist.

Moreover, the classification system does not adequately reflect the nature of development challenges and the varying degrees to which the passing of the (rather arbitrary) income threshold was accompanied

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<sup>30</sup> See: <http://data.worldbank.org/about/country-classifications/a-short-history>.

by reductions in poverty levels, structural changes and effective institution-building. For instance, in the group of LMICs, there are countries such as Sudan, Nicaragua and Timor-Leste where issues of fragility, state-building and security are among the primary concerns for overcoming widespread poverty. There are countries such as India and Indonesia – both consolidated democracies and members of the G20 – where inclusive growth across all regions and cultural groupings remains challenging. And there are countries such as Ghana and Zambia where commodity-based economic growth needs to be followed by economic diversification. In these latter countries, the process of building up effective institutions that are able to design and implement pro-poor policies has yet to keep pace with rapid economic growth. The same problem constellations apply to uppermiddle-income countries. There are countries in the upper third of the income range (US\$3,976 to \$12,275), such as Uruguay and Chile, whose main challenge is to consolidate economic progress and to catch up with the group of high-income OECD countries. And there are countries in the bottom third, such as Ecuador, Peru, Botswana and Namibia, where high levels of poverty and inequality remain key development challenges.

Grouping these countries under one heading fails to recognise these various development challenges. An adequate response to the changing geography of poverty thus requires a more nuanced view of developing countries' needs and capacities and moving beyond GDP per capita as the single determining factor for grouping countries and deciding on aid cut-offs. To get a more differentiated picture of these countries, it is important to develop a classification system that carefully balances a country's needs against its own financial and institutional capacities in order to better distinguish between countries that can wipe out absolute poverty based on their own resources and institutional capacities and those that cannot. Poverty in poor and especially fragile countries will remain on the agenda and continue to pose a particular challenge for the development community (see, for example, World Bank, 2011; Kharas & Rogerson, 2012). Nonetheless, the sharp reduction in the number of LICs and the fact that the graduation process has, in many cases, been accompanied by stagnating poverty levels and increasing inequality require a better understanding of the specific characteristics and development challenges of the countries 'in the middle'. Such a multi-dimensional approach towards country classifications would go beyond economic development and include factors that provide a more accurate picture of a country's social and political development. Proposals for different country classifications are already under way, for instance with regard to the internal and external capacities of countries (for example, Harris, Moore, & Schmitz, 2009), or with regard to a multi-dimensional approach towards fragile states (Grävingholt, Ziaja, & Kreibaum, 2012) or a multi-dimensional clustering system of different types of developing countries (Tezanos & Sumner, 2012). However, given the dominant widespread practice of classifying countries



according to GDP per capita, more research and efforts are needed to develop such classifications further and to establish them among development researchers and practitioners.<sup>31</sup>

### 3.2 A Global Rationale For Development Policy

While it is important not to exclude countries from development assistance on the basis of their average income, it is important to acknowledge that global development challenges beyond poverty reduction have increased in importance. In the late 1990s, the seminal work of the United Nations Development Programme on global public goods (GPGs)<sup>32</sup> highlighted that minimising the negative consequences of globalisation requires the adequate provision of GPGs, ‘concerted cross-border public policy action’ (Kaul, Grunberg, & Stern, 1999, p. 3) and a new paradigm for international cooperation (Kaul et al., 1999). Such a global approach to development acknowledges that major global challenges such as climate change, food insecurity, financial instability, communicable diseases, migration, conflict and insecurity have increased along with accelerating globalisation and are problems that not only potentially affect us all but also require multi-layered interventions at the national, regional and global levels (Kaul, 2013).

Initially, when the concept started to be widely discussed in international forums in the early 2000s<sup>33</sup>, some donors subscribed to this new global approach to development (for example, France, Sweden and Germany) while others (for example, the United Kingdom) contested it (Carbone, 2007). However, against the backdrop of intensifying globalisation, frequent global crises and a steadily growing range of global challenges, the current trend among European donors<sup>34</sup> points towards a global outlook on development (Lammers, 2011) and “a new ‘grand purpose’ for development policy: managing global interdependencies in a globalized world” (Severino & Ray, 2009, p. 5). This diversification of development policy and the increasingly complex set of objectives are also reflected in the changing nature of aid. During the last decade, the amount of aid allocated to GPGs has increased steadily. Whereas estimates on the exact share of aid financing for GPGs vary – largely due to different definitions used for GPGs – they all point towards a marked increase of aid that is directed to finance the provision of GPGs (te Velde, Hewitt, & Morrissey, 2006; Cepparulo & Giuriato, 2009). Shafik (2011, p. 4) expects aid to become the “key catalyst for financing

<sup>31</sup> As part of the research process for this article, the author presented previous versions at academic conferences and in public discussions. While the issue of aid to MICs continues to be a controversial topic for discussion, there was a wide consensus that the problem with the MIC category is that everybody agrees that it is increasingly ill-suited, but that they all – including development researchers – keep using it. Classifying countries differently thus also includes overcoming path dependence.

<sup>32</sup> According to Kaul et al. (1999, p. 2): “A global public good is a public good with benefits that are strongly universal in terms of countries (covering more than one group of countries), people (accruing to several, preferably all, population groups), and generations (extending to both current and future generations, or at least meeting the needs of the current generation without foreclosing development options for future generations)”.

<sup>33</sup> For example at the Financing for Development conference held in Monterrey in March 2002 or the 2002 World Summit on Sustainable Development in Johannesburg.

<sup>34</sup> DFID is a somewhat special case in these discussions. On the one hand, the department continues to emphasise the primacy of poverty reduction in its development programmes. Yet, at the same time, DFID has set up a Global Partnerships Department to contribute towards shaping global development policies and working with emerging economies towards global outcomes; see: <http://www.dfid.gov.uk/Documents/publications1/op/glob-parts-dept-2011.pdf>. Moreover, in a recent speech on future co-operation with emerging economies, the UK’s former International Development Secretary, Andrew Mitchell, clearly stated that ‘[t]he really big strategic issues [...] don’t readily lend themselves to single country solutions’; see: <http://www.dfid.gov.uk/News/Speeches-and-statements/> 2011/Emerging-powers/.

global problem solving” and to increasingly serve two distinct purposes: poverty reduction and the provision of GPGs.<sup>35</sup>

The trend of orientating development policy towards global challenges has also been accompanied by a changing focus and interest that can be attributed to the provision of GPGs – from a one-sided focus on developing countries’ interests to an emphasis on mutual interests in tackling global challenges. From a development policy perspective, the initial approach taken was that the provision of GPGs is essential for development and reductions in poverty. Following this line, in 2005 the World Bank, for example, defined GPGs as: “...commodities, resources, services and systems of rules or policy regimes with substantial cross-border externalities that are important for development and poverty-reduction, and that can be produced in sufficient supply only through co-operation and collective action by developed and developing countries” (World Bank, 2005, p. 2).

Development policy thus shifted towards a multi-layered approach, whereby its focus (theoretically) continued to represent the interests of developing countries as well as to work towards coherent external policies that do not undermine the policy’s objectives. This one-sided emphasis on a developing country’s interests in a GPG approach to development has moved successively towards the notion of mutual interests or ‘collective self-interests’ (Kaul, 2010). The concomitance of a relative loss of importance of the EU and OECD countries vis-a-vis emerging countries on the one hand, and escalating global crises and the growing challenge to provide GPGs on the other, has now led to a situation in which development-related GPGs shape EU and OECD external relations (Faust & Messner, 2012).

Addressing global systemic risks such as an increasingly fragile ecosystem, resource scarcity, unsustainable fossil-fuelled economic growth and the regulation of global financial and trade flows is not only in the interest of the EU and other industrialised countries. Finding solutions to these challenges ultimately depends on the development paths of emerging economies and other increasingly powerful developing countries and the interests they represent in global governance processes. The future challenge in co-operating with developing and emerging countries therefore lies in balancing European interests with those of partner countries and developing joint and mutual interests (Faust & Messner, 2012).

How is this related to the question of continuing or discontinuing development co-operation with seemingly ‘better-off’ countries? As Altenburg (2010) argues, the principles that guide development policy are decisive for whether or not development co-operation with MICs and emerging economies is still

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<sup>35</sup> Blending aid resources for poverty reduction with the financing for GPGs, however, remains contested. Kaul (2010; Kaul et al., 1999) has repeatedly called for financing ODA and GPGs separately, mainly to ensure that aid is not directed away from poverty reduction. Severino and Ray (2009, p. 22), on the other hand, propose combining both types of financing and moving from ODA to ‘Global Policy Finance’ to better reflect the changing paradigm of development policy. Whatever view one takes in these debates, the current practice of categorising GPG-related expenditures as ODA implies that aid is currently being used to address both national and global development challenges.

appropriate. A broad definition of development policy and a GPG approach to development – with an emphasis on mutual and joint interests – requires continued EU engagement with emerging economies and other increasingly powerful developing countries: “In trying to deal with global problems and challenges, the governments of richer countries will be obliged to work in a highly networked mode with other (newly) powerful agents, often with the aim of changing the rules of political and economic games. The co-operation of a range of influential countries from among the ranks of the former ‘developing countries’ will be essential, partly because they are increasingly the source of some problems (e.g. climate change), partly because it will be difficult to change international rules without their co-operation, and partly because they exercise influence of various kinds over smaller, poorer neighbouring countries (Harris et al., 2009, p. 25)”.

Adopting a global outlook on development thus acknowledges that global challenges beyond poverty reduction have increased in importance and that development policy can make significant contributions to support the adequate provision of GPGs. On the level of objectives, one could therefore argue that development co-operation with emerging economies and anchor countries should focus mainly on regional and global development challenges and neglect internal development challenges such as poverty reduction and social development (Stamm, 2004). In many country contexts, however, the boundaries between different policy objectives are not, and cannot be, as clearly separated as in the past. National development is a key prerequisite for the effective provision of a number of GPGs, requiring strong financial and policy-making capacities of developing countries to address these (Kaul, 2013). National development challenges, also in MICs, can thus have a global character, and a neglect of these can easily be detrimental to the effectiveness of global problem solving.

This is even more so since the shift of global poverty to MICs has been accompanied by a shift of other developmental challenges to this group of countries. Global health is a case in point. The prevalence of HIV/ AIDS, tuberculosis and other vaccine-preventable diseases is higher in MICs than in LICs (Glassmann, Duran, & Sumner, 2011). These are obviously national development challenges, but they also pose a global risk. Given that these are communicable diseases, the risk of infection does not stop at national borders. Outbreaks can have negative spillovers, as in the case with polio in the Democratic Republic of the Congo, a LIC which imported the disease from neighbouring Angola, an upper-middle-income country (Glassmann et al., 2011). Controlling infectious diseases is thus ultimately a global challenge, requiring continued focus on the prevalence in MICs and the capacity of their health systems.

This blurring of objectives not only occurs at the individual country level. The adequate provision of GPGs requires controlling risks at the country level that have the potential to develop into global systemic risks, but it ultimately requires effective and co-operative governance at the global level. Many important global governance fora or agreements – or stalemates – such as the World Trade Organization’s Doha Round or the Kyoto Protocol and subsequent climate agreements, suffer from diverging interests and fears over

unequally distributed costs and benefits. Building on the liberal school of foreign-policy analysis, it is argued that these lines of conflict cannot be exclusively attributed to an increasingly redundant 'North-South' divide. In addition, domestic conditions such as the varying socio-economic transformation pressures within a given country or the type of political regime have a heavy impact on how countries engage in global governance processes: how cooperative they are, the strategies they adopt and the interests they represent (Conzelmann & Faust, 2009). These domestic conditions often tend to create cooperation-adverse environments in non-OECD countries. In most developing countries, and even in the most powerful emerging economies, domestic political processes often tend to concentrate on ensuring basic material needs and on redistribution challenges that arise in the wake of rapid economic and political transformation (Chaudhuri & Ravallion, 2006).

The significant role of domestic politics in shaping international co-operation has always been on the agenda of scholars engaged in international relations and foreign-policy analysis (for example, Putnam, 1988; Moravcsik, 1997). This interrelatedness is also reflected in a recent analysis of the EU's Strategic Partnerships.<sup>36</sup> Assessing the strategic partnership with China, Grevi and Khandekar (2011, p. 17) conclude that different domestic conditions and priorities have so far impeded the development of shared interests and more substantial co-operation at the global level: 'As a developing nation, the priorities of China are different from those of a largely post-industrial society like Europe. ... The alleged EU-China strategic axis will remain elusive as long as both sides fail to address their internal problems'. The same is found for the strategic partnership with India, where a 'mismatch of priorities' has so far prevented the identification of mutual interests: 'The EU's priorities towards India are trade, security, energy and climate change ... . India on the other hand seeks in the EU a partner for sustainable agriculture, development, commerce and a source of technology transfer to maintain its growth' (Grevi & Khandekar, 2011, p. 21).

While it is important to adopt a more complex set of strategic objectives with anchor countries and emerging economies and to support these countries in providing specific GPGs, it is thus equally important to acknowledge that national and global challenges are inextricably linked. Poverty can thus no longer be reduced to the problem of poor people in poor countries, but has to be seen as a 'global bad', requiring collective action at the global level (Sumner & Mallet, 2012). Identifying and working towards mutual and joint interests could require the EU to continue offering support to tackle countries' poverty problems and internal development challenges, to ease the socio-economic transformation pressures and to accompany the countries on a sustainable development path.

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<sup>36</sup> The EU maintains strategic partnerships with a rather heterogeneous group of 10 countries, half of which (Brazil, China, India, South Africa and Mexico) have gained importance in global governance processes and are part of the G20, while at the same time qualifying for ODA eligibility according to OECD/DAC rules. Strategic Partnerships in general aim to provide a framework to engage with these countries on a wide range of policy areas (e.g. trade, environmental issues and development). However, the overall strategic orientation of the EU's Strategic Partnerships remains unclear (Gratius, 2011).

#### 4. CONCLUSION

The changing development landscape and the need for greater differentiation require substantial changes in EU development policy. Putting the question of development co-operation with MICs in the context of a changing geography of poverty and the need to think of development as a global endeavour reveals the conceptual and political challenges inherent in this question. This last Section will outline some of these challenges and focuses not only on the EU's role as an additional bilateral European donor but in particular on its specific role for ensuring complementarity, coordination and coherence across European donor practices and policies. In this light, it emphasises the substantial challenges the EU is facing in ensuring a coordinated division of labour and a strategically consistent engagement with MICs and emerging economies.

Poverty reduction will undoubtedly remain the primary concern and policy objective for EU development policy, reaffirmed by legal provisions in the Lisbon Treaty. In order to achieve this objective, the EU could concentrate its development assistance on a decreasing number of poor countries. Such an approach, however, fails to acknowledge that the challenge of global poverty reduction has changed and that national income has become an insufficient criterion to capture the poverty problem and development challenges of a country. Therefore, one implication for the EU relates to finding better 'technical' solutions to classify countries and to avoid a reliance on classifications that only reflect a country's economic development. According to the analysis in this article, such a classification system would have to combine a number of categories in order to better reflect a country's social and political development and to better capture the specific problem constellations of partner countries and the increasing complexity of the developing world.

A second challenge relates to the political dimension, the distribution of European aid and the question of cross-country division of labour among European donors. The process of selecting and exiting partner countries is still considered a national prerogative by European bilateral donors and is insufficiently co-ordinated at the EU level, despite the provisions made in the Paris Declaration and the Code of Conduct on Complementarity and Division of Labour adopted in 2007 (Heldgaar, 2008; Schulz, 2009). So far, the concerns over such an unco-ordinated approach have related to an uneven and sub-optimal cross-country distribution of aid, resulting in 'aid darlings' (countries that attract a number of donors and where the level of ODA per capita is relatively high) and 'aid orphans' (low-income and often fragile countries where only a limited number of donors are present and where ODA levels per capita are low) (McGillivray, 2011; Dollar & Levin, 2004b). The European Consensus (Art. 48) and the Code of Conduct have assigned to the EU the role of compensating for such an uneven distribution of funds. At present, however, the phenomenon of aid orphans is in general attributed only to low-income countries (Utz, 2011; OECD/DAC, 2011a), whereas MICs are often excluded from the analysis. Accordingly, the EU's main focus to fulfil its mandate is on low-income, fragile countries where the conditions are considered to be too difficult and

too risky by many Member States to implement aid programmes. The changing geography of poverty could give this debate a new twist.

If the EU applied similar income cut-offs as the Member States, without including a more holistic view towards country-specific development challenges (poverty and human development, social inequality, institutional and financial capacities), this could result in marginalising seemingly better-off countries that continue to experience serious internal development challenges. In many Latin American countries that have grown richer in per capita terms but continue to experience significant development challenges, the EU is already one of the few European donors left (Morazan, Sanahuja, & Ayllon, 2012).

Therefore, any approach to global poverty reduction and partner-country selection should not be decided by Member States or by the EU individually. Rather, it needs to be accompanied by a joint strategy and division of labour towards countries where it is not the absolute lack of resources that constitutes the main challenge, but rather where the EU and Member States can make an important contribution in the areas of governance, public-sector reform, setting up effective taxation systems and promoting domestic accountability. Such coordinated and concerted actions would also avoid an over-concentration of EU donors and funds on a decreasing number of poor countries, while MICs receive less and less support in their fight against poverty and social exclusion. A first effect of a potential marginalisation of MICs can already be seen in the area of health, where income status determines the volume of health aid and access to initiatives like GAVI (Global Alliance for Vaccines and Immunisation) and the Global Fund. As a result of such an income threshold, the funds disbursed correlate insufficiently with the global disease burden, which has shifted to MICs. In some areas, for example vaccination rates and HIV/AIDS treatment, LICs (on average) already perform better than MICs (Glassmann et al., 2011). In view of the increasing number of MICs and the varying degrees to which economic growth has so far been accompanied by reduced levels of poverty and improvements in social development, the need for a co-ordinated EU approach to achieve a balanced and problem-sensitive distribution of development aid has become ever more relevant.

Developing a co-ordinated EU approach to address the new geography of poverty requires making necessary changes within the existing narrow definition of EU development policy. A second far-reaching policy challenge for the EU is to address the mismatch between its partner-country portfolio and its development objectives. Against the backdrop of multiple global challenges and the strategically important role of the developing world in securing global commons, a narrow definition of development policy and an exclusive focus on poverty reduction will be increasingly difficult to sustain. On the contrary, due to its global presence, the EU is ideally placed to adopt a broad definition and a global rationale of development policy. This means that – in co-operating with anchor and emerging countries and other strategically important countries for the provision of GPGs – the EU will have to target a portfolio of strategic objectives instead of a single objective (Gavas, Koch, Bello, Van Seters, & Furness, 2011).

More than ever, this requires the EU to break up the traditional structures of an asymmetric donor-recipient relationship. Moving towards mutual interests requires the EU to reconcile European interests with those of influential partner countries, and to identify GPGs of joint strategic interest as well as European contributions to a country's development path. Given the interrelatedness of internal development challenges on the one hand and co-operative governance on the other, the key challenge for the EU will be to find the correct balance in addressing poverty-reduction objectives and internal development challenges, while promoting strategic objectives that are in the mutual interest of the EU and partner countries.

Moreover, when a traditional development agency that is mostly concerned with poverty reduction and a country's internal development challenges moves towards a global rationale of development, this substantially increases the coordination challenges, both at the EU institutional level and between the EU and its Member States. A broad definition of development policy also implies that the interfaces between different political responsibilities become larger and that the demand for inter-ministerial or inter-departmental co-ordination increases significantly (Faust & Messner, 2012). At the EU institutional level, it requires the EU to redefine the role of development policy vis-a-vis other policy fields. Foreign policy, economic and trade policy, finance and investment policy, environmental and climate-change policy, migration, technology transfer and research policies have gained importance in the EU's relations with non-OECD countries (Makhan, Gänzle, & Grimm, 2012). Managing these interfaces will become more important as the difficulties in distinguishing between the competences and responsibilities of different Directorates-General increase.<sup>37</sup>

Ideally, a global approach to development would be integrated in an overarching and joint EU global strategy defining the EU's engagement with non-OECD countries. But while the EU has started to formulate policies intended to align various external-policy fields behind a single strategic orientation (for example, the 2003 European Security Strategy, the 2005 Joint EU-Africa Strategy, or the 2010 EU Strategic Framework and Action Plan on Human Rights), this has not yet been followed by an overall global strategy that clearly identifies the EU's priorities and how best to engage with influential developing and emerging countries to this end. In general, the EU's Strategic Partnerships aim to provide a framework to engage with these countries on a wide range of policy areas (for example, trade, environmental issues and development). The EU, however, has not yet identified its main interests and objectives for these partnerships or chosen the strategic partners needed to achieve them accordingly (Gratius, 2011; Renard,

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<sup>37</sup> The European External Action Service has a special role to play in this respect, given its mandate to ensure more coherent EU external policies and to co-ordinate the EU's foreign-policy interests with development objectives. In addition to primary foreign and security interests, the Service needs to take on the challenge to ensure a coherent EU-wide approach towards the provision of GPGs and to align different EU external policies behind this common objective (see also Duke and Blockmans, 2010; Furness, 2010). Moreover, avoiding a fragmented and incoherent EU approach to GPGs also implies that a development-related GPG strategy with emerging and anchor countries has the support of other Directorates-General in order to ensure a coherent and institution-wide EU strategy towards these countries.

2011). Unlike the anchor-country concept, which is based on a systematic selection of countries with a particular importance for the provision of GPGs and global governance processes, the overall strategic orientation of the EU's Strategic Partnerships remains unclear. Herman van Rompuy, President of the European Council, publicly admitted: "[W]e have strategic partners, now we need a strategy." This relates as much to the selection of strategic partners as to the content and overall joint objective of these.

At the Member State level, the trend towards a global approach to development has so far not been accompanied by subscribing to a common EU development strategy for addressing global challenges and jointly engaging with strategically important partner countries for this purpose (Furness & Makhan, 2011). Given the declining influence and manoeuvring space of EU donor agencies in these countries, a move towards joint and co-ordinated approaches could increase the weight and potential leverage of the EU's development programme significantly. This, however, would have to entail Member States and the EU aligning and coordinating their strategic engagements with emerging economies, and making distinct choices about where their joint global priorities lie. Such a process might prove to be challenging, since it requires reconciling mutual and joint European interests with the national interests that Member States pursue through their bilateral aid programmes.

An EU-wide approach to the provision of GPGs thus has to go beyond the realm of development policy and integrate other policy fields and ambitions behind a common objective. For this purpose, the establishment of a new EU strategy for how to work – from a development perspective – with emerging global players needs to be aligned with other policy fields and closely co-ordinated at the EU level and with Member States' global strategies. Given the complex institutional and policy set-ups of the EU, this will be no easy task. Competences over policies with specific importance to the provision of GPGs vary significantly: some are exclusive to the Commission (for example, economic and monetary policy, trade and agriculture), some are shared competences (development, climate change and environmental policies), while foreign and security policy remains in the domain of Member States. Establishing an EU-wide approach to GPGs is therefore likely to include conflict over competences and thematic responsibilities – a conflict that cannot be solved by individual departments or policy fields. Addressing these will require strategic decisions in the highest political fora of the EU.



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## CHAPTER V

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### A TYPOLOGY OF POLITICAL CONDITIONALITY 'BEYOND AID': CONCEPTUAL HORIZONS BASED ON LESSONS FROM THE EUROPEAN UNION

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Svea Koch

#### 1. INTRODUCTION

Since the post-Cold War period, democratic governance and increased respect for human rights have been an important objective of the international community and in particular of members of the Organization for Economic Cooperation and Development (OECD). In this context, political conditionality – most often in the form of aid sanctions or suspensions – became one of the key instruments in pursuing issues of political governance in developing, and often aid-dependent, countries (Crawford, 2001). Given that development policy constituted the main linkage and driver of the relationship between the developed and the developing world, the concept of political conditionality has, for a long time, mainly been linked to the field of foreign aid. This focus on political conditionality in foreign aid has at least partly neglected the fact that political conditionality has played a role in other external policies for quite some time, such as trade policy in the case of the US (Carnegie, 2013; Hafner-Burton, 2009), or started to become increasingly important in other policy fields over the last decade, as in the case of the EU (Orbie, 2008; Smith, 1998).

Moreover, the fundamental shifts in the relationship between the West and developing countries during the last decade have direct implications for the concept of political conditionality. Many developing economies have grown significantly and graduated from low-income to middle-income status. As countries grow richer in per capita terms, foreign aid typically accounts for a very limited share of gross domestic product (GDP) (Carbonnier & Sumner, 2012). These patterns of 'shifting wealth' (OECD, 2010) have altered the international landscape and made distinctions such as 'North' and 'South', 'donor' and 'recipient', and asymmetric 'dependency' relationships increasingly redundant (Carbone, 2013; Harris et al., 2009). Other external policies – such as trade and investment, climate, and energy, as well as foreign and security policy – have also gained in importance in the West's relations with the developing world and broadened the strategic importance from poverty reduction to international cooperation for the provision of global public goods (Koch, 2012). In addition, non-Western donors, in particular China, increasingly offer developing countries alternative trade, investment and aid packages with little political strings attached and thus increasingly challenge the use of political conditionality by Western donors in development cooperation (Huliaras & Magliveras, 2008; Kaya, 2014). In this changing international landscape, tying political conditionality mainly to aid will have little traction and not provide sufficient



leverage due to the decreasing importance of the policy field, the declining aid dependence of most developing countries and the emergence of new non-Western donors.

In the future, leverage across different external policies will have to become the central source of influence if Western countries continue to emphasize normative approaches in their external relations, aiming to promote democratic development and respect for human rights. Stronger diplomatic engagement will have to be aligned with other areas of external action, so that incentives or sanctions across aid, trade, investment, economic, security, energy, and other fields enhance each other. This requires finding “more innovative ways... of intersecting incentives and pressure between the ‘silos’ of different policy domains” (Youngs, 2010, p. 11).

This paper argues that the decreasing importance of aid – and the increasing importance of other external policies – requires a new research agenda on political conditionality that (i) studies the various sources and influence mechanisms of different political conditionality instruments ‘beyond aid’ and (ii) analyses these instruments more holistically, with a focus on the relationship and the interaction between different political conditionality instruments.

The aim of this paper is twofold. First, it sets out to ask how political conditionality can be conceptualized across different policy fields: What are the main leverage mechanisms we need to be aware of when studying political conditionality ‘beyond aid’? In answering this question, I aim to contribute to addressing the theoretical gap in the existing literature by conceptualizing the varied conditionality mechanisms across different policy fields in an ideal–typical typology. I then use the example of the European Union<sup>38</sup> (EU) – a supranational institution with a strong emphasis on the promotion of democracy and human rights and extensive experience in applying political conditionalities – to further develop the typology by applying it to the existing conditionality mechanisms in different external policies of the EU. The second contribution of the paper is to highlight existing research gaps and to identify elements of a new research agenda on political conditionality. To this end, I apply the typology to the literature on EU political conditionality to draw attention to the main themes as well as understudied areas within the existing research. The added value of the literature review is not its comprehensiveness but rather its synthesized analysis of different strands of research on political conditionality and its focus on the need to (i) transfer lessons from one strand of research to the others, and (ii) to study different political conditionality instruments concurrently.

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<sup>38</sup> For the purposes of this paper, the term “EU” is used to refer to the policies administered by the EU institutions. In the case of the Common Foreign and Security Policy, it refers to the intergovernmental structure that guides the EU’s foreign policy. The focus of this paper does not include bilateral policies and political conditionality applied by the EU’s Member States. However, given the EU’s supranational character, Member States do obviously influence the decision and policy making of the EU Institutions through various channels (see e.g., Tallberg, 2002b).

The paper starts off with a conceptual discussion of political conditionality, leading to the development of a typology that identifies four different ideal–typical mechanisms of political conditionality. In the third part, the typology is applied to the case of the EU and an optimized, refined typology is presented. The fourth part applies the refined typology to different strands of research on EU political conditionality to identify research gaps. The last section concludes and highlights elements of a future research agenda on political conditionality ‘beyond aid’.

## 2. A TYPOLOGY OF POLITICAL CONDITIONALITY

Political conditionality is a complex phenomenon and no consensual, widely shared definition exists among political and social scientists, economists, or legal scholars. The concept of the “first generation of political conditionality” (see Molenaers, Dellepiane, & Faust, 2015a) emerged in the postCold War period. At the time, it referred mainly to negative measures in the field of development. In this vein, Stokke (1995) defined political conditionality as: “the use of pressure, by the donor government, in terms of threatening to terminate aid, or actually terminating or reducing it, if conditions are not met by the recipient” (Stokke, 1995, p. 12). This focus on negative measures in defining and conceptualizing political conditionality has also resulted in “an automatic reflex to identify conditionality with sanctions” (Fierro, 2003, p. 99).

This traditional understanding of political conditionality is not only becoming less and less appropriate for capturing the full toolbox and various characteristics and leverage mechanisms applied by aid donors to incentivize political reforms. As an approach, it is also too limited to capture the increasing diversification and use of political conditionality in policy fields other than foreign aid. Diversification, in this sense, relates to (i) the different types and incentive mechanisms of political conditionality in different policy fields. Nowadays, political conditionality goes beyond the use of classic tools of enforcement such as sanctions and encompasses positive as well as negative measures across different external policies. Trade, foreign, security, climate, and energy policy have become increasingly important in the West’s relationship and cooperation with developing countries, and they include political conditionalities to varying degrees. (ii) The second aspect of diversification of political conditionality relates to the changing objectives that are pursued with the instrument. Traditionally, political conditionality in foreign aid has been used and conceptualized mainly with a “narrow” and minimalist view on democratic development and the so-called first generation of human rights, that is, political and civil rights (see e.g., Diamond, 1999; Tomasevski, 1997). Accordingly, research largely focused on the use of conditionality in cases of election irregularities, coup d’états, and restrictions of political and civil liberties (see e.g., Crawford, 2001; Stokke, 1995). Although democratic reform and political and civil rights remain important for the use of political conditionality, the second generation of human rights (social and economic rights) and

elements of the third generation of human rights (environmental rights)<sup>39</sup> have become increasingly relevant against the background of intensifying globalization. In trade policy, for example, political conditionality mainly aims at ensuring compliance with international labor standards and, more recently, also aims at influencing the sustainable development of trade partners (Hafner-Burton, 2009; Orbie, 2011; Orbie & Tortell, 2009).

Some therefore argue that questions of how to conceptualize and theorize political conditionality have gained renewed relevance in the context of accelerating globalization and more connected and intertwined markets and people (Blanchard & Ripsman, 2013). In this view, higher interconnectivity and interdependence also lead to higher public and political interest in influencing other countries' domestic political processes and human rights performance (Blanchard & Ripsman, 2013). Studying this diversification of political conditionality 'beyond aid' requires a broadening of the concept and definition of the term as well as a broadening of the research rationale. It also requires a conceptual understanding of political conditionality that is applicable across different policy fields and accommodates different incentive mechanisms for different political objectives.

International relations research and theory provide important guidance in this respect. From an international relations viewpoint, conditionality is considered a mechanism through which states and international institutions aim at influencing the behavior of other states by using material incentives. As a concept, conditionality is closely linked to a rational choice logic that defines actors as cost–benefit calculators and strategic utility-maximizers (Kelley, 2004). Building on a logic of consequentialism, international institutions and states aim to change the behavior of other states not by influencing their preferences but rather by influencing their cost–benefit calculation. The extent to which conditionality can be considered a mechanism of coercion is disputed. Those who focus mostly on negative conditionality either consider the use of material incentives as a key instrument of coercion (see e.g., Dobbin, Simmons, & Garrett, 2007; Goodman & Jinks, 2004; Weyland, 2005), or they differentiate mechanisms of coercion, highlighting the difference between the use of physical (military) force and material incentives (see e.g., Magen, Risse, McFaul, & Lehmkuhl, 2009). Those who include positive conditionality in their conceptualization of conditionality highlight the fact that conditionality can

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<sup>39</sup> The division of human rights into three generations goes back to Vasak (1977). Following this division, the first generation of human rights refers to civil and political liberties, such as freedom from torture, freedom of speech, religion, and press, etc. The second generation of human rights refers to collective rights, such as the right to work and the right to social security, codified in the International Covenant on Economic, Social and Cultural Rights (1966). The third generation of human rights relates to the 1972 Stockholm Declaration of the United Nations Conference on the Human Environment and the 1992 Rio Declaration on Environment and Development and includes the right to development, the right to peace, the right to a healthy environment, and the right to intergenerational equity (Vasak, 1977).

constitute an invitation to voluntary adaptation and mechanisms of “reinforcement by reward” (Schimmelfennig, Engert, & Knobel, 2003).

What is clear, however, is that conditionality differs from a broader set of means of international influence generally subsumed under socialization.<sup>40</sup> The main difference between socialization and conditionality is the use of material (positive and negative) incentives in the latter case and the reliance on “the logic of appropriateness” (March & Olsen, 1998) in the former: “The defining feature is that external actors do not link any concrete incentives to behavior but rely solely on the use of norms to either persuade, shame, or praise actors into changing their policies” (Kelley, 2004, p. 428). In the case of conditionality, external incentives are expected to be able to change the utility calculations of actors by raising the costs of non-compliance or by offering additional benefits in order to change cost–benefit calculations (Risse & Börzel, 2012; Schimmelfennig & Sedelmeier, 2004). Changing the behavior of states, rather than their beliefs or preferences as in the case of socialization, is considered the ultimate goal of conditionality (see e.g., Kelley, 2004; Risse, Ropp, & Sikkink, 1999; Tallberg, 2002a).

In the broadest terms, conditionality thus describes an incentive instrument in the relationship between two actors, in which one actor aims at changing the behavior of the other by setting up conditions for the relationship and by manipulating its cost–benefit calculation by using (positive and negative) material incentives. In the case of political conditionality, the behavior that is sought to be changed relates to democratic development and the protection and promotion of all three generations of human rights. In order to capture this definition conceptually – and to provide a structured overview of the varied types of political conditionality and their different leverage mechanisms – I develop a simple ideal–typical typology of political conditionality along two dimensions (see Figure 4).

The aim of the typology is to capture and distinguish the different mechanisms potentially at play in different external policies. Empirically, it is possible that different mechanisms are combined by the conditionality actor and that conditionality recipients are faced with varying obligations and different types of political conditionality at the same time. It is also possible that political conditionality is applied in one policy field but not in another (e.g., trade sanctions are imposed on a country but aid continues to flow or vice versa). The typology thus aims to provide researchers with an idea of the different kinds of mechanisms that exist in different external policies and that need to be considered to study the existence and interplay of various sources of influence potentially at play.

The first dimension of the typology relates to an ex-ante mechanism of conditionality: If conditions need to be fulfilled before entering into a relationship, a specific form of cooperation or before reaping the benefits of a beneficial agreement, it is commonly referred to as ex-ante conditionality (see e.g., Checkel,

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<sup>40</sup> Linked to a constructivist logic, socialization processes emphasize the transmission of international norms and global ideational structures through persuasion and social learning (Checkel, 2001).

2000; Fierro, 2003). The interest of the conditionality recipient in receiving the benefit is used by the conditionality actor as a lever for desired behavior change. Ex-post conditionality, on the other hand, refers to conditions that are set during the course of an ongoing (contractual) relationship. The leverage mechanisms in ex-post conditionality relates to the interest of the conditionality recipient in upscaling, continuing, or resuming beneficial cooperation. In ex-post political conditionality, democratic governance and respect for human rights are objectives, whereas in ex-ante conditionality they represent a precondition.<sup>41</sup>

The second dimension of the typology relates to the quality of the leverage mechanism, which can be both punitive and restrictive (negative) or rewarding and incentivizing (positive). Positive conditionality consists of the receipt of benefits subject to the fulfillment of conditions, whereas negative conditionality involves the reduction, suspension, or termination of benefits should the recipient no longer meet the conditions (Fierro, 2003; Smith, 1998).

These two dimensions of political conditionality provide the basis for an ideal–typical characterization of different types of political conditionality in different external policies (Figure 1). Zooming in on the four different fields reveals the differences in the intervention logic and leverage mechanisms of each type of political conditionality.

Ex-ante/positive conditionality is considered by some as the “authentic conditionality” (Fierro, 2003, p. 131), since conditions, by definition, have to be imposed before entering into an agreement or partnership (Selbervik, 1999). Ex-ante/positive conditionality represents a strategy of “reinforcement by reward” (Schimmelfennig & Sedelmeier, 2004, p. 670), a cooperative approach following “an external incentives model” (Schimmelfennig & Sedelmeier, 2004, p. 671) in which the conditionality actor makes certain benefits contingent upon the fulfillment of pre-determined conditions. In theory, this type of political conditionality is meant to be ‘hands-off’ in the sense that no additional coercive influence is taken to ensure compliance with the set conditions (Schimmelfennig & Sedelmeier, 2004). Examples of ex-ante/positive conditionality include so-called “membership conditionality” (Kelley, 2004, p. 426), whereby institutions or organizations make admission dependent on certain political (and often economic) conditions (e.g., the EU, Mercosur, G8, the Council of Europe, or NATO). Another example of ex-ante, positive conditionality is aid or trade selectivity, where sufficient levels of democratic governance and respect for human rights are considered pre-conditions for more beneficial aid or trade concessions (Orbie

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<sup>41</sup> This general distinction into ex-ante and ex-post conditionality is common. The understanding of ex-ante and ex-post is, however, different in particular disciplines and policy fields. In particular in the aid community, ex-ante is commonly related to the disbursement of funds before certain performance standards are met, based on commitments to reform. In contrast, ex-post conditionality refers to the disbursement of funds after results have been achieved (Adam, Chambas, Guillaumont, Guillaumont-Jeanneney, & Gunning, 2004; Collier, 1997; Koeberle, Bedoya, Silarsky, & Verhegen, 2005). This logic, however, cannot easily be transferred to other external policies.

& Tortell, 2009; Svensson, 1999; World Bank, 1998). An example of aid selectivity is the Millennium Challenge Corporation (MCC)<sup>42</sup> of the United States.

The mechanism of ex-ante/negative conditionality relates to negative measures that are used to induce preferred outcomes or political reforms before benefits are granted or before actors enter into a (contractual) relationship. Following Schimmelfennig and Sedelmeier (2004), this mechanism reflects “reinforcement by punishment” (p. 4), meaning that the costs of non-compliance are increased by imposing punishment on the conditionality recipient. This punishment can relate to negative measures taken in development, foreign, or trade policy to influence outcomes in specific policy domains. It can also include strong pressure in diplomatic realms or in political dialogs.

The logic of ex-post/positive conditionality is that an incentive mechanism is created where the size of the benefit depends on the level of performance and reform speed of conditionality recipients. The difference to ex-ante/positive conditionality is that the benefit is not fixed but dynamic and varies with the actual performance which is assessed continuously, throughout the course of a relationship or the use of a particular conditionality instrument. In other words, democratic governance is not a precondition in this type of political conditionality. Rather, it is the objective, and recipients can start from very different levels of performance. Ex-post/positive conditionality occurs mostly in relation to financial benefits, whereby the amount of financial assistance is (on a continuous basis) a function of the reform performance stipulated. Examples include the EU’s Governance Facility in its Neighborhood Policy 2007–2013.

Ex-post/negative conditionality refers to the use of enforcement and pressure – in the form of a reduction or suspension of benefits – to obtain desired political changes or reforms in an ongoing relationship or during the course of an agreement. The leverage mechanism consists of the (temporary) withdrawal of benefits in order to achieve compliance of the conditionality recipient, that is, in most instances, the government of a given country. Examples include the imposition of sanctions,<sup>43</sup> the temporary suspension of development cooperation and of diplomatic or economic relationships, or condemnation in international institutions and forums (Fierro, 2003).<sup>44</sup>

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<sup>42</sup> The Millennium Challenge Corporation (MCC) was introduced by the United States under the administration of President George W. Bush in 2004. The MCC is a performance-based allocation model, which releases \$5 billion per year to those countries that fulfill a catalog of 17 good governance criteria.

<sup>43</sup> Economic sanctions are foreign policy tools that use coercive economic measures, such as trade embargoes, visa bans, and asset freezes in order to achieve political goals (Portela, 2010). In development policy, sanctions are used to pressure governments of developing countries to pursue political reforms by threatening to withhold aid or by actually suspending it (Stokke, 1995). In trade policy, sanctions refer to the withdrawal of trade benefits in order to force countries to comply with their international obligations to respect human rights and core labor standards (Zhou & Cuyvers, 2011).

<sup>44</sup> It is important to note, however, that parties do not necessarily need a legal agreement in order for ex-post/negative conditionality to be applied, especially for the use of sanctions. Rather, elements of the political or economic relationship

This general and simple conceptualization of the different ideal–typical types of political conditionality shows the different mechanisms and tools available to influence state behavior. Such a conceptual understanding is necessary to shift the focus from a narrow understanding of political conditionality – namely negative measures regarding foreign aid – to a broader variety of different incentive schemes and leverage mechanisms in external relations. The introduced diversification of types and objectives of political conditionality and the actual conceptual variety, however, become more apparent if a specific example, in this case the EU, is included in the analysis.

Figure 4: Typology of political conditionality

	Ex-ante	Ex-post
Positive	Conditions need to be fulfilled as <i>prerequisite</i> to the granting of <i>benefits</i>	Granting of <i>additional benefits</i> conditioned on performance <i>during the course of a relationship</i>
Negative	<i>Reducing or suspending</i> benefits <i>before</i> entering into beneficial cooperation or agreements	<i>Reducing, suspending or terminating</i> benefits <i>during the course of a relationship</i>

### 3. THE EU'S POLITICAL CONDITIONALITY INSTRUMENTS 'BEYOND AID'

Studying the EU as an example of the application of the typology is a valid approach from two perspectives. First, the EU has emphasized the promotion of democracy and human rights in its external relations in consecutive treaty and policy documents and is considered a key player in the field of political conditionality.<sup>45</sup> Some authors would even go as far as portraying the EU as a “normative power” in world politics, not least on account of its own history (Manners, 2002, p. 235). Second, the EU has (exclusive and shared) competences over a wide range of external policies. It also has legal obligations through the Treaty of Lisbon which stipulates that all fields of external action should seek to advance the promotion of democracy and respect for human rights (Art. 10 A (1)). In a first step, I briefly trace the evolution of

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between the parties such as the exchange of goods, diplomatic ties, or financial assistance are stopped or used as bargaining chips.

<sup>45</sup> According to Article 21 (1) of the Lisbon Treaty: “The Union’s action on the international scene shall be guided by the principles which have inspired its own creation [...] and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity and respect for the principles of the UN Charter and international law.”

political conditionality in the EU's external relations to then use the typology to identify the various types of political conditionality the EU has in place.

*(a) The evolution of political conditionality in the EU*

The evolution of political conditionality in the EU exemplifies the diversification of political conditionality over the last decade: from tying political conditions to EU membership, the EU expanded its spectrum of conditionality to include sanctioning aid recipients and using targeted sanctions in foreign policy and, more recently, to promote sustainable development through trade agreements. The EU has a long history of granting EU membership only to those countries that can be considered 'democratic'.<sup>46</sup> It took some time, however, for the EU to also apply political conditionality in its wider external relations with non-accession countries. An important trigger occurred in 1977 when the then European Community saw itself forced to react to a massacre in Uganda – for the first time, without any legal basis, it suspended promised aid funds (Bartels, 2009). But it was not until the end of the Cold War that political conditionality emerged more systematically within the EU's external relations, notably within the framework of development cooperation (Portela, 2010). In 1995, the EU created a legal basis by integrating a so-called essential elements clause, including a "suspension mechanism" (Bartels, 2008, p. 4), into all agreements with third countries. This essential elements clause stipulated that respect for human rights and democratic principles formed the basis for the agreement.<sup>47</sup>

In the following years, the EU made use of the clause in numerous instances, mainly in the form of aid suspensions as a reaction to coup d'états, election irregularities and gross human rights violations, with the level of human rights violation being an important determinant for EU aid sanctions (Hazelzet, 2005). In 2000, with the coming into force of the Cotonou Agreement between the EU and the African, Caribbean, and Pacific Group of States (ACP), this focus of political conditionality was exceptionally broadened by making good governance – and thus issues such as corruption and bribery – essential elements of the agreement (Hadfield, 2007). More recently, and to the extent that the EU's objectives and policies with the developing world have gradually diversified (Koch, 2012), the EU has also started to attach political conditionalities to other external policies more systematically.

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<sup>46</sup> This is exemplified by the rejection of Spain's application to become an EU member in 1962. In 1993, the EU's accession policy was formalized at the Copenhagen Summit, leading to the subsequent "Copenhagen Criteria" which determine whether a country is eligible to become an EU member. The Copenhagen Criteria require that a state has the institutions to preserve democratic governance and human rights, has a functioning market economy, and accepts the obligations and intent of the EU.

<sup>47</sup> Since 1995, the EU has systematically included conditionality clauses (so-called essential elements clauses) in most of its economic, partnership, cooperation, and association agreements. The most comprehensive agreement in this respect is the Cotonou Agreement between the EU and ACP states which provides for dialog as well as suspension mechanisms (Del Biondo, 2011). Essential element clauses are also included in most of the EU's association agreements and cooperation agreements with countries in Latin America and Asia (for a detailed overview, see Bartels, 2008).



The first official EU policy on the use of foreign policy sanctions in its Common Foreign and Security Policy (CFSP) was adopted in 2003,<sup>48</sup> even though the EU had applied 'restrictive measures' – the preferred EU expression for sanctions – in several cases since at least the 1980s. The EU has become a very active player in the field of foreign policy sanctions, with empirical trends showing a significant increase in recent years (Lehne, 2012). According to the EU, 34 countries – of which most are on the list of the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) as recipients of official development assistance – are currently subject to restrictive measures by the EU.<sup>49</sup>

In trade policy, the basic principles of a political conditionality approach had already been adopted in 1995, most notably in the EU's Generalized System of Preferences (GSP)<sup>50</sup>. Here, the EU follows a 'carrot and stick' conditionality approach, in which the violation of human rights standards leads to the withdrawal of trade preferences, whereas adherence and compliance leads to more beneficial trade conditions. The launch of the "Global Europe Strategy" in 2006 envisaged greater use of Free Trade Agreements (FTAs) (Heydon & Woolcock, 2009), a turn which was for the most part commercially motivated. Given the resistance of many partner countries, most prominently India, to include political issues into FTAs, the EU refrained from mandatory essential elements clauses in FTAs but links FTAs to existing cooperation agreements, which in most cases entail 'essential elements clauses'.<sup>51</sup>

The EU did, however, start to include social norms and environmental standards more systematically and comprehensively into its FTAs in an attempt "to develop the mutual supportiveness between trade, environmental and social policies" (Bossuyt, 2009, p. 708). This so-called step-change (Bossuyt, 2009, p. 704) in the EU's trade policy is aimed at the integration of the decent work agenda into the broader focus on sustainable development through the inclusion of "sustainability chapters" in bilateral and regional FTAs.<sup>52</sup>

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<sup>48</sup> Within this strong focus on civil and political rights, the EU reacted most systematically to coup d'états, which were followed consistently by (temporary) aid suspensions (Del Biondo, 2011).

<sup>49</sup> Council of the European Union (2003)

<sup>50</sup> The EU's Generalized System of Preferences includes three types of agreements: the normal Generalized System of Preferences (GSP), the 'Everything But Arms' initiative for least developed countries, and the GSP+, which provides additional benefits to countries that adhere to the principles of sustainable development and good governance.

<sup>51</sup> The launch of the Global Europe Strategy instigated a discussion in the Council on the inclusion of political clauses in bilateral agreements, especially after India repeatedly objected to the inclusion of the essential elements clause in the proposed EU-India FTA. The debate resulted in the Council issuing new guidelines building on its 1995 decision, stating that political clauses need to be included in a framework agreement (i.e., association agreement or partnership and cooperation agreement) and the establishment of a legally binding link between an FTA and a framework agreement is sufficient (Ahnliid, 2013, pp. 204–205).

<sup>52</sup> This stronger focus on core labor standards in trade agreements emerged as part of the EU's commitment to promote the "social dimension of globalization" in the beginning of the 2000s. In 2006, the EU announced a "new generation of free trade agreements" with a stronger focus on sustainable development.

This snapshot of the evolution of political conditionality within the EU shows that the issues covered by a key actor such as the EU have widened with accelerating globalization. Over and above concerns for democratic governance and political and civil rights, these issues increasingly include decent work conditions and sustainable development. In the case of the EU, this evolution also reflects several consecutive treaty changes and the resulting gradual development of the EU into a more comprehensive foreign policy actor.

The use of political conditionality thus increasingly goes beyond a “narrow” focus on democratic governance issues: “The Europeans have values as well as goods and services they would like to export. These values include a developed sensitivity for the environment, the rights of workers, and distributional justice. They form part of an European model, if there is to be one” (Tsoukalis, 2003, p. 193).

This widened agenda is also not exclusively promoted through development policy, but through the EU’s external relations more broadly conceived. The EU thus provides guiding ideas on how much diversity there is with regard to political conditionality and provides an interesting case for applying the typology and further subdividing the ideal types of political conditionality.

*(b) The different types of political conditionality in the EU*

The main purpose of applying the typology to the EU is not to analyse the EU’s implementation or the effectiveness of different types of political conditionality (nor to derive statements about the desirability of political conditionality in external relations). Rather, the aim is to focus on the identification of different types of EU political conditionality ‘beyond aid’ and to further specify the different incentive structures and leverage mechanisms developed in the ideal–typical typology. There are various examples of ex-ante/positive conditionality, most notably in the EU’s accession, association, and trade policies. The EU’s pre-accession conditionality is a prominent example of ex-ante/positive conditionality. At the heart of the accession conditionality policy lies an “external incentives model” (Schimmelfennig & Sedelmeier, 2004, p. 669): The adoption of democratic rules and standards, as laid down in the Copenhagen criteria (Schimmelfennig & Scholtz, 2008), constitutes a prerequisite for EU membership. The EU’s association agreements also include ex-ante/positive conditionality. However, these agreements are less systematic and stringent than pre-accession conditionality.<sup>53</sup>

In both cases, ex-ante conditionality is related to the fulfillment of (different sets of) conditions as a prerequisite for the ratification of agreements. I therefore label this type of ex-ante/positive political

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<sup>53</sup> Association agreements can have different motivations such as economic and political (Neighborhood), economic and developmental (ACP), or commercial (Latin and Central America) (Woolcock, 2007). Depending on these differences, some association agreements include clear references to the Copenhagen Criteria, but these relate mostly to those countries that have a potential to become EU members. Other agreements focus more strongly on the free trade component and are thus less stringent on a country’s democratic and human rights performance (Fierro, 2003).

conditionality pre-ratification conditionality. Pre-ratification conditionality is largely of a voluntary nature: Countries know the conditions, they can choose to apply for a specific agreement, and the initiation of the process often comes as “a response to a previous request” (Fierro, 2003, p. 131) by applicant countries themselves.

There is, however, also another subtype of ex-ante/positive conditionality which relates to the idea that benefits are granted selectively, applying threshold criteria as a pre-condition for the receipt of benefits. Selectivity, as a concept, has its origins in the field of foreign aid, where the idea of allocating aid based on the governance performance of developing countries emerged in the 1990s (see Collier et al., 1997; Svensson, 1999; World Bank, 1998). The question of whether the EU provides aid selectively, which would mean that better-performing countries receive more aid, is difficult to answer. The EU does not have any pronounced policy initiatives for which developing countries could apply, such as, for example, the MCC of the United States. Moreover, research on EU aid allocation is largely outdated. The few studies that exist with an explicit focus on the EU show that democratic governance and human rights played no substantial role as a pre-condition for the EU's aid allocation until the 2000s. These studies consider the EU's (economic and security) interests to be the dominant motivations for EU aid allocation (see e.g., Wolf & Spoden, 2000; Zanger, 2000).

Nonetheless, the EU does make use of the idea of selectivity in its trade policy. The EU's GSP+ trade scheme, established in 1991 and reformed in 2006 and again in 2012, represents a “carrot” approach and offers more favorable market access to countries that qualify as economically “vulnerable” and that ratify and implement 27 international conventions relating to human and labor rights, the environment, and good governance<sup>54</sup> (Bartels, 2008; Orbie & Tortell, 2009). The difference to pre-ratification conditionality is that countries do not go through a lengthy conditionality process to qualify for an agreement (that is then irreversible), but are chosen selectively according to their actual performance. Selectivity implies that benefits (financial or trade conditions) are provided only to countries that fulfill certain performance criteria and that these benefits can be withdrawn (ex-post) if these criteria are no longer met (unlike under pre-ratification conditionality).<sup>55</sup>

The use of ex-ante/negative conditionality is not an explicitly stated official EU strategy, and it is documented sparsely in the existing research. It mostly relates to political conditionality applied ‘behind closed doors’, in political dialogs and negotiations of beneficial agreements. Possible examples include the withdrawal of already offered cooperation instruments (such as budget support or capacity building) or the threat of withholding the actual benefit. In the case of the EU, the only mechanism documented in

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<sup>54</sup> These trade preferences are currently granted to 10 countries; online:  
<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1006>.

<sup>55</sup> An example of a withdrawal of benefits is the downgrading of Sri Lanka from GSP+ to a normal GSP scheme in 2010, based on the accusation of the use of forced labor (Castillejo, 2011).

research relates to informal pressure in the EU's accession policy. Hughes, Sass, and Gordon (2005), for example, stress the importance to distinguish "between formal conditionality [...], and informal conditionality which includes the operational pressures and recommendations applied by actors within the Commission [...]" (p. 526). Following this distinction, they argue that the EU does make use of informal conditionality and exercises additional pressure in its accession policy to reinforce desired outcomes and reform steps before agreements are concluded (Hughes, Sass, & Gordon, 2005, p. 525). This is confirmed by Kacarska (2012) who shows that the EU has used informal pressure to get Macedonia to adopt legislation that protects the rights of minorities. I label this type of political conditionality intensifying conditionality, since additional (informal) measures are taken to influence and 'intensify' the existing formal conditionality process. How systematic and widespread this use of intensified conditionality is – especially beyond the EU's accession policy – remains understudied.

The use of ex-post/positive conditionality, on the other hand, is well established in the EU and used in a number of external policies. In development policy, the EU's Governance Incentive Tranche (GIT) is a case in point. The GIT was established in 2006 by the European Commission (see European Commission, 2006, 2009b) with the objective of promoting governance reforms in ACP countries. According to the original design of the instrument, ACP countries were offered a top-up of up to 30% of their initial country allocation, if they subscribed to ambitious and credible political reform efforts. I refer to this type of political conditionality as incentivizing conditionality, since positive measures, in this case financial rewards, are used to encourage better governance (European Commission, 2009). The EU's newly adopted 'more for more' approach in its Neighborhood Policy (European Commission & European External Action Service, 2012, 2013), a follow-up to the Governance Facility applied during 2007–13, is another practical example of an attempt at incentivizing conditionality. The basic idea of the 'more for more' approach is that those countries that introduce and implement more democratic reforms will also receive more benefits ('beyond aid') from the EU during the course of the relationship: "Only those partners willing to embark on political reforms and to respect the shared universal values of human rights, democracy and the rule of law have been offered the most rewarding aspects of the EU policy, notably economic integration [...], mobility of people [...], as well as greater EU financial assistance"(European Commission & European External Action Service, 2012, p.3).

Even though the EU is often contrasted with the United States as using mainly positive conditionality instruments (Santiso, 2002; Schimmelfennig, 2008; Zalewski, 2004), the use of ex-post/negative conditionality, i.e., 'sanctioning conditionality' – both in EU foreign and development policy – has also become widespread since the 1970s (Bartels, 2008; Hazelzet, 2005). Based on the essential elements clause integrated into its cooperation agreements, the EU has made comprehensive use of aid suspensions and sanctions in its development policy: "[T]he chief instrument applied by the EU is the suspension of financial aid and other forms of cooperation [...]" (Bartels, 2008, p. 11). Most prominent in

this respect is Article 96 of the Cotonou Agreement which provides for a consultation mechanism and the eventual application of aid sanctions if no agreement can be reached during the consultative period.<sup>56</sup> Outside of the Cotonou Agreement, the EU has also suspended aid to Belarus (1996) and to Uzbekistan (2005) (Bartels, 2008). Moreover, the EU has applied 'informal'<sup>57</sup> aid sanctions to Russia (1999), Peru (2000), Guatemala (1993), and to the Palestinian Authority (2006) (Portela, 2010). In recent years, the EU has also started to apply aid suspensions in the form of budget support suspensions (Molenaers, 2012).

The use of sanctions also constitutes an important element of the EU's CFSP. These restrictive measures can be subdivided into different types of measures<sup>58</sup> and applied for a number of reasons: the fight against terrorism, the proliferation of weapons of mass destruction, and to uphold the respect for human rights, democracy, the rule of law, and good governance (Kreutz, 2005; Portela, 2010). The EU has also clearly expressed that it favors the use of targeted sanctions<sup>59</sup> over comprehensive economic sanctions.

The use of trade sanctions, on the other hand, appears to be much more limited. The EU has made use of GSP sanctions, or 'downgrading', in only three cases: Burma (1997, GSP), Belarus (2007, GSP), and Sri Lanka (2010, GSP+ removal). In all other cases, the EU has refrained from using its GSP system to apply trade sanctions, even in cases where the European Parliament and civil society organizations have urged the EU to do so (see Orbie, 2008). The 2013 events in Bangladesh after the collapse of the Rana Plaza building, however, show that the EU does exercise pressure through its trade policy, even if it refrains from 'formal' trade sanctions. In the case of Bangladesh, the EU negotiated a compact that demanded clear improvements and reform steps from the government in order to avoid being sanctioned.<sup>60</sup> In addition, the EU's reformed Neighborhood Policy also included elements of negative conditionality. The opposite of the 'more for more' approach – which stipulates that better performers receive more benefits – is 'less for less': When neighboring countries do not introduce and implement the political reforms requested by the EU, they receive fewer instead of more benefits.

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<sup>56</sup> Since 2001, the EU has initiated Article 96 in 13 cases (Cote d'Ivoire, Liberia, Zimbabwe, Central African Republic, Guinea-Bissau, Togo, Guinea-Conakry (2004 and 2009), Mauritania (2005 and 2008), Fiji, Madagascar, and Niger). For a detailed overview of the application of Article 96, see Portela (2010).

<sup>57</sup> Informal, in this context, implies that the decisions for these aid suspensions were not taken in the ACP, GSP, or CFSP frameworks, or in any other legal framework. Some of them were announced by the Council, others were handled discretely by the European Commission (Portela, 2010).

<sup>58</sup> Arms embargoes, trade sanctions, financial sanctions, flight bans, restriction of admission, diplomatic sanctions, boycotts of sport and cultural events, suspension of cooperation (Kreutz, 2005, p. 5).

<sup>59</sup> According to the EU: "Sanctions should be targeted in a way that has maximum impact on those whose behavior we want to influence. Targeting should reduce to the maximum extent possible any adverse humanitarian effects or unintended consequences for persons not targeted or neighboring countries. Measures, such as arms embargoes, visa bans and the freezing of funds are a way of achieving this." (Council of the European Union, 2004, p. 3).

<sup>60</sup> See: [http://europa.eu/rapid/press-release\\_IP-13-667\\_en.htm](http://europa.eu/rapid/press-release_IP-13-667_en.htm).

The EU also has another subtype of ex-post/negative conditionality in place, which exists in a gray area between conditionality and social learning. In 2008 (with the signing of the CARIFORUM EPA), the EU began to include sustainable development chapters in its free trade agreements, calling on the parties to promote and respect labor and environmental standards. Sustainable development is not treated as an obligation in itself, as there is no explicit mentioning of the possibility to violate the principle. Furthermore, the sustainable development chapters do not give either side the right to enforce sustainable development provisions, with a suspension of concessions and provisions in case of non-compliance ruled out (Bartels, 2012; Van den Putte, Bossuyt, Orbie, & De Ville, 2013). Compared to the EU's 'essential elements clause', however, the sustainable development obligations are subject to specific monitoring mechanisms which in most cases relate to the convocation of governance and civil society consultations and, in case of non-satisfactory results, entail consultation of a panel of experts.<sup>61</sup> These monitoring mechanisms provide only for soft dispute settlement mechanisms, emphasizing consultative measures and dialog and thus ex-post mechanisms of social learning (Postnikov & Bastiaens, 2014). At the same time, there has been a debate on whether social and environmental rights are fundamental rights and thus whether they should come under the 'essential elements clause' (see Van den Putte et al., 2013). Given that most partners that have entered into an FTA with the EU have also signed a cooperation agreement that entails an 'essential elements clause', it is theoretically possible that a violation of social and environmental rights would lead to a suspension of the agreement, as there is significant overlap between the EU's human rights clause and the provisions concerning labor and environmental standards. In particular with regard to core labor standards, the European Commission has stated that these are also covered by the standard human rights clauses, while also stating that the suspension of an FTA is considered a measure of last resort.

The example of the EU reveals the variety of mechanisms and multitude of political conditionality instruments across different external policies that have to be captured conceptually. This is interesting from two perspectives: First, political conditionality has not lost relevance in the EU's external relations. Rather, it has become a concept that is clearly used and applied beyond development policy. Second, the nature, quality, objectives, and leverage mechanisms have become broader and more diversified. Applying the ideal-typical typology of political conditionality to the case of the EU thus allows identifying further subtypes and specifying the existing leverage mechanisms and design of particular types of political conditionality (see Figure 5).

So far, the focus of this paper has been twofold: firstly, to conceptualize different types of political conditionality across different policy fields in an ideal-typical typology; and secondly to apply this ideal-

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<sup>61</sup> In the case of the CARIFORUM EPA, there is a joint CARIFORUM-EC Consultative Committee, which can also turn to the ILO for advice. If no agreement is reached, a panel of experts is consulted to examine the matter and to write a report with concrete recommendations and proposals for next steps (Van den Putte et al., 2013).

typical typology empirically to the case of the EU. The last part of this paper will shift the focus from the conceptualization of political conditionality to existing research on EU political conditionality 'beyond aid' and thus from conceptual aspects to gaps in the existing research.

Figure 5: Typology of EU political conditionality 'beyond aid'

	Ex-ante	Ex-post
Positive	<p><b>Pre-ratification conditionality:</b> Conditions need to be fulfilled as a prerequisite before the signing of accession or association agreements</p> <p><b>Selectivity:</b> Rewards good performers with increased aid and better trade conditions based on <i>pre-determined</i> performance criteria</p>	<p><b>Incentivizing conditionality:</b> Aims at incentivizing behavior by making the extent of benefits granted (aid, trade conditions, mobility agreements) contingent upon <i>the level of performance and reform pace</i></p>
Negative	<p><b>Intensifying conditionality:</b> A reduction of potential benefits or use of informal pressure before the signing of an agreement or before entering into a specific form of cooperation</p>	<p><b>Sanctioning conditionality:</b> Reducing or suspending benefits to make countries comply with conditions during the course of a (contractual) relationship</p> <p><b>Oversight conditionality:</b> The inclusion of sustainable development chapters in trade agreements that cater for the establishment of oversight mechanisms</p>

In the following, the developed typology on EU political conditionality (Figure 5) will be used to guide a review on EU political conditionality. The EU literature is thus part of the empirical part of this paper. More specifically, I will attempt to answer the following questions: How comprehensively has the existing literature focused on the EU's use of political conditionality 'beyond aid'? What are the existing gaps in the existing research on political conditionality across policy fields? In answering these questions, I will draw on different strands of research, notably the literature on political conditionality in development, foreign, trade, and accession policy, and aim to synthesize findings across these different bodies of research.

#### 4. USING THE TYPOLOGY ON EU POLITICAL CONDITIONALITY TO IDENTIFY RESEARCH GAPS

A review of the existing literature on EU political conditionality in the light of the developed typology shows that different types are covered and analysed to very different extents. The most developed strands of research focus on the EU's use of sanctioning conditionality in both aid and foreign policy and

the EU's use of pre-ratification conditionality in its accession policy. In terms of sanctioning conditionality in development policy, a strong focus on aid sanctions (mostly by EU Member States) emerged in the post-Cold War period during the 1990s (see e.g., Crawford, 2001; Stokke, 1995). The EU's (non-) application of Article 96 has also attracted a great deal of scholarly attention (see e.g., Bradley, 2005; Del Biondo, 2011; Fierro, 2003; Hazelzet, 2001; Hilpold, 2002; Holland, 2002; Portela, 2010). Comparatively little work has been done on the EU's use of budget support suspensions and, in particular, the EU's use of informal aid sanctions (see e.g., Portela, 2010). Since the 2000s, academic attention has increasingly turned to the EU's sanctions policy in its CFSP (see e.g., Brummer, 2009; de Vries, 2002; Eriksson, 2005; Hufbauer & Oegg, 2003; Kreutz, 2005; Portela, 2010). In addition, a vast body of literature has studied the EU's use of pre-ratification conditionality in its enlargement process (see e.g., Moravcsik & Vachudova, 2003; Schimmelfennig & Scholtz, 2008; Schimmelfennig & Sedelmeier, 2004, 2005; Schimmelfennig et al., 2003; Smith, 2003). It is notable that most of the existing research has focused on the formal conditionality process. In contrast, only a few studies draw attention to the existence of informal conditionality (see e.g., Hughes et al., 2005; Kacarska, 2012).

The literature on the other types of political conditionality appears to be rather thin. Research on ex-ante/positive conditionality in the form of selectivity is reduced to a few studies, both with regard to aid selectivity and GSP+. Most aid selectivity studies focus on bilateral aid provided by EU Member States (e.g., Alesina & Weder, 2002; Berthélemy, 2006; Neumayer, 2003), whereas comparatively little attention is paid to aid administered by the European Commission (e.g., Carey, 2007; Wolf & Spoden, 2000; Zanger, 2000). There is even less research on GSP+. The few existing works focus on the compatibility of the GSP+ system with World Trade Organization rules (e.g., Bartels, 2007) or the evolution of GSP+ and the EU's relationship with the International Labor Organization (Orbie & Tortell, 2009). Ex-post/positive conditionality has attracted some scholarly attention, for example incentivizing conditionality in development policy and, more specifically, the governance initiative (see e.g., Molenaers & Nijs, 2009, 2011). Few works have so far analysed the EU's human rights clauses in bilateral and regional trade agreements (see e.g., Bartels, 2008; Hafner-Burton, 2005; Kryvoi, 2008). Similarly, there is only limited research on the inclusion of labor standards in trade policy instruments (see e.g., Bossuyt, 2009; Orbie, 2011; Orbie & Kerremans, 2009) and on the inclusion of sustainable development chapters in free trade agreements (see e.g., Correa, 2013; Van den Putte et al., 2013).

Overall, the existing literature has focused largely on the more 'traditional' types of EU political conditionality, that is, aid and foreign policy sanctions and accession conditionality. Research on positive types of EU political conditionality other than accession conditionality is comparatively limited. In addition, most of the existing research has focused on development, foreign, and accession policy, whereas the EU's use of political conditionality in trade policy is still under-researched. There is thus large potential for future research on the understudied types of EU political conditionality, namely: selectivity



in EU aid and trade, as well as intensifying, incentivizing, and oversight conditionality in all external policies of the EU. Besides this potential arising from a future focus on so far neglected types of political conditionality, there is also a great need for more integrated studies on the different types of EU political conditionality.

So far, research on EU political conditionality has been conducted in a rather disconnected fashion: Development researchers focus on aid sanctions; foreign policy researchers on CFSP sanctions; and enlargement researchers on accession conditionality. Similarly, researchers interested in trade policy have so far only rarely focused on the linkage of trade to nontrade issues. This fragmented approach has resulted in very little exchange and mutual learning between these different strands of literature and in insufficient comparisons of different types of political conditionality. A strong focus in the literature on EU political conditionality, for example, has been on the EU's use and actual application of individual conditionality instruments. The emphasis here is mainly on consistency and the question whether the EU has made use of either aid sanctions (Crawford, 2008; Del Biondo, 2011; Hazelzet, 2005; Youngs, 2001) or foreign policy sanctions (see e.g., Brummer, 2009) in a systematic and balanced manner. By focusing on the application of specific types of conditionality in a non-integrated and non-comparative manner, a number of research questions remain largely understudied: When and why does the EU apply a specific type of political conditionality (and not another)? Are there countries or regions where the EU prefers aid over foreign policy sanctions and vice versa? Is there a gradual shift from development policy to foreign and trade policy as political levers, as countries become less dependent on aid? Is there inter-institutional exchange and debate over the right types of measures in a given situation, or do different EU institutions act and decide independently in a compartmentalized manner?

Another main theme in the existing literature on EU political conditionality centers on the effectiveness of different types of EU political conditionality in aid (see e.g., Bratton & van de Walle, 1997; Portela, 2010; Smith, 1998), foreign policy (see Kreutz, 2005; Portela, 2010), accession policy (e.g., Moravcsik & Vachudova, 2003; Schimmelfennig & Scholtz, 2008; Schimmelfennig & Sedelmeier, 2004, 2005) and, to a lesser extent, in trade policy (Donno, 2012; Hafner-Burton, 2009). Findings on the effectiveness and on the conditions for effective political conditionality are, however, mostly limited to the individual types of political conditionality. Research on the effectiveness of the EU's accession conditionality, for instance, is highly relevant for conditionality research in general but has hardly been fed back into other strands of political conditionality research (see Schimmelfennig, 2009). Even though accession conditionality is a very specific, unprecedented type of conditionality, it has provided a number of important theoretical and empirical contributions on the conditions under which conditionality is effective (see e.g., Grabbe, 1999; Moravcsik & Vachudova, 2003; Schimmelfennig & Scholtz, 2008; Schimmelfennig & Sedelmeier, 2004, 2005; Schimmelfennig et al., 2003; Smith, 2003). These insights could be built upon by other strands of political conditionality research.

The same is true for research on the effectiveness of sanctioning conditionality. Although aid and foreign policy sanctions research both study a form of political conditionality with similar intervention logic, they are commonly analysed separately, with hardly any exchange between both strands of research. Aid suspensions usually do not feature in the mainstream sanctions literature, as they are considered to be softer tools than foreign policy interventions (Portela, 2010). One of the few studies that actually compares the different sanctions of the EU in development, foreign, and trade policy, Portela (2010), for example, finds Article 96 to be more successful than CFSP or trade sanctions. Further research should thus not only transfer lessons from the foreign policy to the aid sanctions literature and vice versa, it should also study sanctioning instruments collectively and focus on their interaction and comparative advantages: What is known about the relationship between aid and foreign policy sanctions? What goals can be better achieved with aid suspensions as opposed to foreign policy sanctions and vice versa? Are some regime types more susceptible to foreign policy than to aid sanctions? Are aid sanctions in general more successful than foreign policy sanctions, and if so, should they be used at all, given the likely damage to developmental objectives?

This need to study different conditionality instruments collectively and comparatively not only applies to foreign policy and aid sanctions. The few existing works on the effectiveness of essential elements clauses in development and trade agreements draw interesting conclusions. Hafner-Burton (2009), for example, highlights the potential of human rights clauses in trade agreements to create incentives for at least some governments to improve their human rights record by increasing the costs for non-compliance. Donno (2012) finds that vulnerability to enforcement and dependence on the EU determines the effectiveness of human rights clauses. She argues that such clauses are modestly effective in improving political freedom and physical integrity rights in those countries that heavily depend on EU aid and trade. Recent evidence also suggests that the EU's approach to improving labor rights through preferential trade agreements has a positive and statistically significant impact on workers' rights (Postnikov & Bastiaens, 2014). It is thus important to study positive and negative measures in different external policies both collectively and comparatively: Which leverage mechanism is most promising in which country and problem context? When are cooperative measures more suitable, and when are sanctions the best possible reaction?

Another striking feature of the existing body of research is its lack of focus on political conditionality coherence. This relates as much to the decision-making process and interaction of different actors at the EU level as to the intersection and coherence of different incentive structures in the targeted countries. The diversified use of political conditionality requires greater focus on coherence at two levels: (i) between different conditionality instruments, and (ii) between political conditionality and other policies. On both levels, very limited research exists. Regarding coherence between conditionality instruments, a recent article by Portela and Orbie (2014) concludes that EU trade and foreign policy sanctions were

coherent in Myanmar and Belarus, but not in Sri Lanka, the latter being a result of the EU's institutional fragmentation. Bartels (2008) confirms the problem of institutional insulation of different EU bodies responsible for administering different conditionality policies, adding information about lack of consistency regarding the standards of the EU's different conditionality regimes. He also highlights lack of coherence between different external policies of the EU. Some policies, for example the EU's fisheries agreements, do not provide for human rights clauses or other political conditionality instruments. The benefits provided under these agreements can easily undermine the incentives created by other instruments that are intended to hold governments accountable for their human rights performance (Bartels, 2008). The tradeoffs between those policies that make use of political conditionality and those that do not are likely to grow in the future, with new areas of cooperation, such as financial assistance for climate change adaptation and mitigation, becoming increasingly important. If these policies do not include human rights provisions, they are likely to nullify the attempts at incentivizing human rights performance of other policies. So far, the existing research has paid too little attention to the coherence of political conditionality on both levels, partly as a result of the conspicuous lack of exchange between the different bodies of research identified above.

## 5. CONCLUSION

This paper set out to answer two questions: (i) How can political conditionality be conceptualized to capture the various leverage mechanisms in different external policies? (ii) How do we need to study political conditionality in the future, if we wish to draw greater attention to the different political conditionality instruments in different external policies?

Regarding the first question, I argued that the conceptual development and understanding of political conditionality – traditionally narrow in scope in that it mainly covers negative measures in aid – has not kept pace with the increasing complexity of political conditionality instruments 'beyond aid'. The main argument of this paper is that a diversification of political conditionality has taken place, leading to different types and objectives of political conditionalities which have to be integrated into the conceptualization of the phenomenon. The example of the EU has served to illustrate the evolving shift of the objectives of political conditionality from an exclusive focus on political and civil rights to the second and third generations of human rights, and concerns for labor rights and sustainable development more broadly. It has also served to identify a large variety of different types of political conditionality across different policy fields.

Overall, the analysis shows that the concept of political conditionality has not lost its relevance in an era when foreign aid and traditional relationships between the developed and developing worlds are undergoing dramatic shifts. It also shows, however, that political conditionality has to be conceptualized differently in order to capture the various leverage mechanisms and objectives that have emerged in development policy, but also in foreign, security, and trade policy.

This conceptual development process also has implications for research on political conditionality. A brief overview of the existing literature on different types of EU political conditionality has illustrated that research continues to focus mainly on the 'traditional' types of political conditionality, leaving open significant potential notably for studying positive measures and the connection of trade policy to issues of human rights. The largest gap in the literature, however, relates to the division between different bodies of research and lack of transfer of theoretical and empirical insights from one strand of research to another. By studying different types of political conditionalities separately, the potential for mutual learning and more comprehensive theorizing of how and when different types of political conditionality work remains underdeveloped. Most importantly, due to the gulf between different conditionality research strands, very little is known about the interaction of the various conditionality instruments. Are there tradeoffs? Can different instruments potentially undermine each other? Does positive conditionality work better than negative conditionality? If so, does its effectiveness differ across different country contexts and regime types? Is conditionality more effective if trade, aid, and foreign policy measures are applied jointly? Or is one instrument a sufficient lever for change?

The example of the EU clearly shows that, so far, too little is known about the extent to which the EU has developed consistent and coherent political conditionality strategies in response to the changed international landscape. In this new landscape, developing countries are becoming more assertive and have alternative partners as well as more domestic resources allowing them to follow their own development paths. Political conditionality has not yet disappeared, but both researchers and policy makers will need to adopt an integrative framework of political conditionality across policy fields. Only by adopting such a holistic approach can they assess the potential of the various instruments for promoting the ambitious agenda of holding governments accountable for their performance regarding democracy, human rights, and sustainable development.

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## CONCLUSION

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This thesis has looked into the challenges *within* and *of* EU development policy between 2005 and 2015. It has argued that these challenges moved from being concerns over how to make aid more effective towards a global outlook on development ‘beyond aid’ that seeks to adapt to seismic changes in the development landscape. The remainder of this thesis will not only offer conclusions by looking at the findings of my research, both individually and together, but will also focus on the explanatory factors that form the basis for the changing nature of the EU’s development-policy challenges in that period of time. When one reviews the findings of this thesis, it can be concluded that both internal and external factors (which cannot always be separated) have played a role explaining why the EU has moved from an emphasis on aid effectiveness to a focus on ‘beyond aid’ and global development challenges.

Internally, the political economy analysis of this thesis has shown that the EU – collectively – has not been capable of delivering on the commitments of the Paris Declaration on aid effectiveness. While politics have arguably always played a role in EU development policy, in particular in the aftermath of decolonisation and during the Cold War, there was a sense at the start of the 2000s that EU development policy had become more mature, pertinent, and efficient and had a clearer focus on poverty reduction. The 2005 Paris Declaration, that the EU both shaped and committed to, reinforced this perception, as it was largely focused on technical solutions for improving the EU’s relationship with developing countries towards more effective aid. However, the experience of EU budget support – as the most prominent aid modality of the aid effectiveness agenda – serves as a reminder that the influence of politics in EU development policy remains pervasive. Development ministries and bureaucracies in particular in Member States have largely been driven by domestic politics that have created disincentives for effective aid in favour of low-risk, short-term, and more visible forms of aid. Yet, principles such as ‘ownership’ and ‘alignment’, which are at the heart of the effectiveness agenda, ultimately depend on Member States’ ability and tolerance to manage risks. Three chapters of this thesis have analysed the domestic political factors in Member States and the influence structures between Member States and the EU that have affected decision-making in EU development policy and that have led to the weak implementation of the Paris declaration.

However, while internal EU factors clearly played a role in the loss of importance of the aid effectiveness agenda, the EU was also forced to adjust its development policy to external, global trends. Most importantly, it had to adapt to tectonic global shifts in economic and geopolitical power. The rise of the BRICS and the increasing wealth and development in a number of developing countries challenged the role of the EU – as a donor, but ultimately also as a global actor. As a donor, questions of aid effectiveness have been increasingly replaced by questions of how to engage with countries where aid plays less of a role as dependence or the importance of EU aid becomes smaller or even irrelevant. The rise of the new

donors has also been accompanied by a diversification of development actors and funds, with large amounts of development finance increasingly coming from non-traditional sources, including non-DAC donors, philanthropists, climate finance and global funds, as well as other less concessional flows (OECD, 2014). This huge rise in external finance flows to developing countries has also led to the reduced market share on the part of EU aid and arguably less EU influence.

This diversification of development actors and finance, coupled with the increasingly global nature of development challenges, has also led to paradigm shifts in the development agenda. Terms such as 'development effectiveness' (see, for instance, Kim & Lee, 2013), the new 'global development cooperation agenda' (Kharas, Makino, & Jung, 2011) and the 'post-aid' world (Mawdsley et al., 2014) now determine the academic and policy debate. The successor of the Paris Declaration, the 2012 Busan Partnership for Effective Development Co-operation, also reflects this new direction taken by international development. While formally still engaging with concerns over effective aid, Busan was mainly about the new Southern donors and how to gain their support and 'buy-in' (in particular of China, India and Brasil) as all of them had big reservations as regards signing up to the aid effectiveness agenda (Atwood, 2011; Abdel-Malek, 2015).

Beyond the EU's role as a donor, the shifts in the global development landscape also ultimately challenged the EU to invest more in its capacity as a global actor and in integrated forms of cooperation that go beyond development. In almost any issue the EU wants to make progress in globally – be it poverty reduction, climate change, illicit financial flows, illegal migration, or security and conflict, development aid alone will have little traction. This is certainly a result of the reduced importance of foreign aid and the global nature of the development challenges as outlined in the Introduction to this thesis, as well as to the changes in the global political landscape.

Even though, global poverty levels have fallen significantly, in particular countries where civil war, violent conflict, high levels of violent crime, and weak state structures are prevalent remain at the bottom of global development (Collier, 2009; World Bank, 2011). These so-called 'fragile states' play an important role for the EU, not least due to the geographic proximity of the African continent and the resulting security and migration challenges (Furness, 2014). Along with this, there is the rise of authoritarianism, which – together with the greater political and economic weight of these countries – challenges the EU's normative agenda. In poor, aid-dependent countries the suspension of aid might or might not 'do the trick', but where richer and more powerful countries are concerned, it certainly is too weak a response (Castillejo, 2016). Politically also very important – if not the most important external driver of more recent EU policies – is the migration crisis and the EU's attempt to stem migration flows to its continent. In 2015 and 2016, the EU experienced an unprecedented influx of refugees and migrants with more than 1 million people arriving in the EU, mostly fleeing from war and terror in Syria and other countries in the Europe's neighbourhood and Africa. Yet, it is important to note that the research for this thesis looked at the period

between 2005 and 2015, while the migration agenda only came into play when looking at the latest developments in these research areas.

Without going further into detail vis-à-vis these global trends, it nevertheless becomes evident that the aid effectiveness agenda has not only lost in importance due to the EU's internal incapability and domestic political impediments, but also through drastic global political and economic shifts that require both urgent responses along with more substantial reforms of the EU on institutional, policy and political levels. Two chapters supporting this thesis looked at global trends (mostly related to changing geographies of wealth, poverty and power) from different perspectives and analysed the implications for the EU- , both as a donor and as a global actor.

## **1. KEY FINDINGS OF THE RESEARCH PAPERS: CHALLENGES WITHIN EU DEVELOPMENT POLICY – THE IMPLEMENTATION OF THE PARIS DECLARATION ON AID EFFECTIVENESS IN THE EU FROM A POLITICAL ECONOMY PERSPECTIVE**

The first paper “Foreign Aid and the Domestic Politics of European Budget Support” (Faust & Koch, 2014) aimed at identifying the domestic political reasons for heterogeneous budget support policies in Member States and failed donor harmonisation in the EU. Our results shows that an EU-wide increase of right-wing governments, higher pressure on aid budgets due to the financial crisis, and aid systems and bureaucracies that saw their business models at risk created unfavourable conditions and high political costs for the provision of budget support. These ideological, economic and bureaucratic factors, in turn, have worked as serious barriers to improved donor harmonisation within Europe. To trace the impact of partisan politics on the provision of budget support, and to better understand the impact of the institutional set-up of a donor country's foreign aid system on its preferences for budget support, our quantitative analysis was complemented by qualitative evidence and two country cases: Germany, and the United Kingdom. The case studies clearly showed the influence of government ideology and party politics and the fact that the change in budget support policy was closely related to changes in government (from left- to right-wing) in both countries. They also showed that the aid system itself has been influential, and that Germany, for instance, has been influenced by the strong position of implementing agencies and civil society organizations that saw their business model threatened through budget support. The UK, on the other hand, has no such implementing agencies and more advocacy-oriented NGOs so that resistance towards budget support was much smaller. The independence of the development ministry or department and the role of ‘veto players’ are thus important factors in understanding EU donor decisions. Overall, the findings of the first paper clearly show that European donors manage risks differently – depending on the structure of their aid system and the political situation. In the case of budget support, these fiduciary and reputational risks proved to be the determining factors for supporting or abandoning budget support so that concerns over more effective aid have moved more and more into the background. The findings also show that these domestic political considerations hinder harmonisation on the ground

– mainly as headquarters centralized decisions that were then merely communicated to other European donors in the respective partner countries.

The second paper in support of this thesis “The Europeanisation of budget support: do government capacity and autonomy matter?” (Koch & Molenaers, 2015) looked at the degree of Europeanisation in EU budget support and the question of whether the EU had been able to reach into the domestic spheres of Member States. We divided the period of investigation into two periods: the inception of budget support at the beginnings of the 2000s; and the reform of budget support, commencing at the end of the 2000s. We also looked at the role of government capacity and autonomy in explaining different degrees of Europeanisation. In general, we found the EU had had very little influence on the policies of Member States. Along with this we found no vertical, horizontal and uploading/downloading dynamics that would indicate a certain level of Europeanisation in budget support policy in the first period under investigation. We did find a very limited use of delegation to the EU-level in the case of Belgium, which could be interpreted as a certain degree of Europeanisation. The low capacities of its aid bureaucracy and the size of Belgium as a donor emerged as important considerations in explaining the limiting of its engagement to sector budget support. Government autonomy in the form of ‘veto players’ also played a crucial role. The UK – where we expected Europeanisation to be most likely – did issue a policy that was very similar to the EU’s, but mainly did so due to domestic aid reform considerations (largely driven by the ruling Labor Party’s plan for a new direction in development policy). In theory, Germany would have had the bureaucratic capacity to follow the EU and to pursue a progressive budget support policy, but was bound by the low level of government autonomy. Equally important, however, is that the EU itself did not undertake specific steps to guide Member States’ domestic policies or to initiate a common approach and policy.

With regard to EU budget support reform in 2012, our analysis shows that the EU’s reform was mainly initiated and pushed for by influential Member States which not only focused on their own budget support policy reform but also aimed at changing the EU’s policy. Interestingly, at the same time Member States were shielding their own policies from EU influence and resisted initiatives from the EU towards a more unified approach towards budget support. In Germany, the same ‘veto players’ that were responsible for Germany’s critical stance during the first period were now responsible for halting budget support altogether and for lobbying in Brussels to drastically reform the EU’s policy as well. In the UK, a new center-right government declared that it would half budget support operations by 2015 and would prefer sector budget support in the future. Under the new government, DFID also started to question the EU’s approach and lobbied for reform, greater transparency and political sensitivity. Belgium ended its delegated general budget support funding through the EU in 2013. Political support for budget support (in the form of sector budget support) also faded and was pressurised by a very critical debate in the media. Belgium, however, did not lobby for a reform of EU policy but rather for a continuation of the

emphasis on poverty reduction and macroeconomic stability as the most important objectives. This is in line with our interpretation that Belgium promotes policies at – and through – the EU-level in compensation for its own domestic limitations.

In sum, the new EU's budget support reform was heavily pushed by a number of Member States who uploaded their own preferences and practices to the EU-level. These Member States also succeeded in dominating the European-wide debate on how to reform the EU's own policy. Interestingly, it was their government capacity which allowed them to successfully upload their preferences to the EU-level, whereas EU Member States with *less* government capacity failed to do so. We also find policy diffusion and a certain degree of horizontal Europeanisation among EU Member States. Further research that looks into the exact mechanisms and direction of influence of this potential horizontal Europeanisation would, however, be needed.

The third paper “The rise and demise of European budget support: political economy of collective European Union donor action” (Koch, Leiderer, Faust & Molenaers, 2017) analysed the weak implementation of the Paris declaration in the EU by using and comparing principal-agent and collective action theories. Our results show that the Paris Declaration primarily aimed at solving the conflicts of interests in the donor–recipient relationship from a principal-agent perspective. Yet, while formulating the ‘right’ technical principles, the aid effectiveness principles presuppose a number of assumptions regarding the political (cap)ability of (EU) donors to act collectively. These assumptions, however, fail to include the political economy of European donors and their own political, institutional and individual incentives that undermined this capability substantially. By using insights from collective action theory, we showed that the domestic political costs and incentives for European donors in implementing the Paris agenda, and in particular the aid modalities such as budget support, were not given enough consideration when the aid effectiveness agenda was formulated.

This third paper shows that the heterogeneity of preferences among donors (if not in respect to ultimate developmental goals, but at least in respect to policies and procedures through which to achieve these goals) has led to the emergence of a multi-faceted and highly fragmented international aid system. It highlights that the Paris agenda provided ‘a technical fix’ to this problem of preference heterogeneity, while ignoring the deeper-rooted political processes and costs that led to diverging preferences and interests among European donors in particular. This specific ‘political-cost structure’ can vary substantially depending on the domestic political situation, the weight and strength of political opposition and ‘veto-players’ and can hamper the interaction between Member States and between Member States and the EU. These costs for individual European donors and the incentives to ‘free ride’ were not foreseen or acknowledged in the Paris principles and the EU's own statements on aid effectiveness. It was shown that different aid modalities come at different political costs and incentives to free ride and that these cost structures hamper collective action. In the current political climate across Europe, these costs seem to



have gradually outweighed the benefits of budget support. Put differently, incentives to free ride and to focus on forms of foreign aid that are low-risk, easy to attribute, and good to sell to domestic constituencies seem bigger than incentives to stick to the Paris principles and concerns to make aid more effective.

### **1.1 Summary of findings on the challenges *within* EU Development Policy and the political economy of EU aid**

Taken together, the findings of the three first papers offer important insights into the internal factors why the EU failed to deliver on its Paris commitments and why the aid effectiveness agenda had lost in importance towards the end of the 2000s. First, they show that politics and the political economy of Member States are a decisive factor in EU development policy and that Member States are not unitary actors. As the rise and demise of budget support policy across Europe has shown, there are important developments across, and differences between, Member States that have to be taken into account in order to better understand Member States' interests and policy decisions. To understand these motives and preferences better, it is indispensable to open the 'black-box' of domestic politics within Member States that drive their policy decisions. For one, there is the political orientation of the government in place (which is not static but changes over time). Across Europe, there was a general trend towards more right-wing governments between 2010 and 2015, which heavily influenced aid policies and the provision of budget support in particular. As right-wing governments tend to be more risk-averse (regarding both reputational and fiduciary risks), they also favour low-risk and more visible approaches in development policy that are easier to communicate to their constituents. This has led to trends such as the increased role of the private sector, ideas of value for money and more results-based aid, and a general trend towards interest-driven development policy. Since governments change periodically, this also means, however, that Member States cannot easily be divided into groups and cleavages. For example, a number of previously generous and poverty-oriented donors have in the past turned into more restrictive, interest-driven and risk-averse donors (such as the UK, the Netherlands and Nordic donors such as Sweden or Denmark) as their governments changed from left- to right-wing.

A second factor that is often overlooked are the differences in the administrative set-up and how development is organised within Member States. As the case of budget support clearly shows, this set-up can play an important role in policy decisions and in how strong 'veto players' are vis-à-vis government decisions. Development is organized differently across Europe, with some countries having independent development ministries or departments (such as Germany or the UK), while with others the field of development is integrated into foreign and trade ministries (such as France, Sweden, Italy, Netherlands or Austria). While independent ministries or departments can more easily defend pure development interests, development risks being subordinated to foreign, security or commercial interests when fully integrated into foreign and trade ministries. On the other hand, even as an independent ministry or

department, development tends to have a weak position in European cabinets and governments and its ideas and proposals are often ignored or subordinated to more strategic interests. As a result, ideas stemming from the development community that may be fully in line with international development agendas are often opposed in the Cabinet or remain isolated policies with no support by other ministries or members of the cabinet or government (see also Lundsgaarde, 2013). In addition, it is not only the development ministry that decides how to handle fiduciary risks as can be seen in the case of German budget support policy where the finance ministry and the budget committee were granted full control over the aid modality.

Third, the strength and role of implementing organisations are important factors determining the independence and strategic role of ministries (even if they are merged with foreign ministries) and such implementing organisations are sometimes even more visible in partner countries than the ministries themselves (as with GIZ in the case of Germany or the French development agency AFD). Implementing agencies have certain business models that they aim to defend (which normally differ whether they are development banks, project implementers, or belong to the private sector) and have different statuses in Member States (some are owned by the government, some are private but receive mostly government funding, some secure their funding through public tenders). Thus their interests differ largely, both within and across countries and it is very unlikely that Member States will support policies either at the national or European level that go against the interests of their implementing agencies.

Fourth, non-state actors such as NGOs and civil society organisations also have different roles in the aid system and different degrees of independence from the respective government. Some countries, such as the UK, have a more advocacy-oriented NGO scene that is more internationally oriented and fairly independent of the government. New and small Member States tend to have a comparably small NGO scene and no own implementing agencies which centralizes development policy and spending in the related government. Other NGOs, such as those in Germany, are heavily focused on the implementation of projects and receive high shares of their budgets from the government, which makes them less independent. The more money that NGOs receive from the state and the more focused they are on service delivery, the less risk-averse and the less open for systematic change they usually are. This also means that they have key interests and that they act as important 'veto players' against decisions that threaten their business and financing model (as in the case of aid effectiveness and budget support in particular).

Overall, we can thus conclude that the interests that Member States represent and the policies they favour are often determined by their own political economy and the preferences and vested interests of the different actors within their national development system. This not only has consequences for their national development policies but also for their engagement with and through the EU in Brussels. As a matter of fact, it also has important consequences for the policy space of the EU. In the case of the aid effectiveness agenda, Member States took active influence in shaping what the EU does, but mainly acted

according to domestic interests in their national policies. They also very adamantly shielded their decisions and policies from the EU's influence. Hence they were more interested in one-sided 'uploading' than in a two-way Europeanisation, let alone further integration in development policy. This is also in line with findings that have shown the limited degree of Europeanisation in EU development policy (see Carbone & Orbie, 2016). Faced with these strong uploading tendencies and also Member States' intention to micro-manage the EU's development interventions, the EU tried to protect its policy space by, for example, restricting the mandate of the EDF and relevant development cooperation budget committees to discussing the overall country strategies, leaving decisions regarding implementation to the EU (Hoebink, 2014). In addition, it has been argued that the EU may push for greater Europeanisation through the back door, by initiating certain thematic initiatives, which Member States can join voluntarily while adhering to the Commission's standards and ideas (Bué, 2010).

The resistance of Member States to 'more Europe' in their domestic development policies also explains why the Commission has so far struggled with its federator role and the coordination of Member States policies, in particular at the implementation level. Budget support (and the wider aid effectiveness agenda) is just one of several examples where Member States committed to joint actions and policies while resisting implementing these on the ground or at headquarter level. Achieving 0.7 % ODA/GNI is a very prominent example, where the Commission has tried over years to push Member States into delivering on the commitment, even by proposing binding mechanisms, but was constantly rejected by those Member States who refused to increase their ODA spending (and supported by those who did) (Koch & Morazan, 2010). Policy Coherence for Development (PCD) is another example, where Member States turned an inherently political issue into a reporting exercise, leaving very little room for the Commission to demand policy changes and stronger control mechanisms (Carbone & Keijzer, 2016). The 2007 Code of Conduct on Division of Labour and Complementarity between the EU and Member States also failed to thrive, mainly due to the absence of incentives. As a result, Member States often merely reported their partner country portfolios and aid allocation decisions to the EU and fellow Member States without jointly consulting on a common European approach – again shielding national decisions from EU influence (Klingebiel, Mahn, & Negre, 2016).

But, while Member States have taken advantage of the fact that development is a shared competence within the EU which limits the EU's opportunities to reach into the domestic spheres of Member States, DG DEVCO has not been a very strong actor in the past years either. When Member States were open for joint undertakings, mostly in the case of international agreements or fora, the EU was able to follow a joint approach and put a European stamp on international agreements (as in the case of the 2030 Agenda or the 2015 'Financing for Development' conference in Addis Ababa). The EU's capabilities to foster strong implementation and joint European initiatives, however, has been very weak. This is partly due to the emphasis given to the EU's donor role. In fact, the majority of human resources and political energy

invested in the institutional set-up for EU development policy are oriented towards managing the donor role, with little capacity for coordination. In addition, DEVCO has had arguably weak Commissioners in the present and past Commissions, with little political clout or the initiative to bolster coordination and to step on a member state's feet if necessary. Informally, high-ranking officials in DEVCO seem to have become disillusioned with the EU's coordinator role, stating that Member States simply do not want to be coordinated by the EU, so that energy in that respect is wasted to a large extent.

The European External Action Service (EEAS), as the organisation that is supposed to link the Commission, Member States and partner countries, has so far also not played a strong role in improving coordination. This is mainly due to its lack of human capacity and political clout in the unit responsible for development and cooperation. It also must be noted, though, that the EEAS did not feature prominently in this thesis as it only took office in 2009 and was not a signatory of the 2011 Agenda for Change or the 2011 Budget Support reform. The EEAS only started to play a more significant role when the programming for the 2014-2020 multi-annual financial framework was negotiated. By then, questions of aid effectiveness had already lost in importance and did not play a major role in the programming exercise.

This closer look at the political economy of Member States and the role and structure of the EU helps to explain the low adherence to the Paris principles and the demise of budget support in Europe: when the domestic costs and the perceived risks of providing potentially more effective aid became too high, Member States withdrew their support and focused on low-risk and more visible forms of aid (which were, arguably, also less effective). These decisions were taken bilaterally by every individual European donor, shielding domestic decisions from potential EU influence or coordination. The EU, in turn, became a victim of the preferences of Member States while its policy space has been severely restricted by the uploading tendencies of powerful Member States. As a result, the EU issued a budget support reform in 2011 that complied with those Member States' preferences but actually went against its own ideas and preferences. While it has been able to protect some of its budget support provisions (mainly in the form of sector budget support) it also had to distance itself more and more from aid effectiveness concerns and principles. More recent policy documents, such as the 2012 Agenda for Change or the new 2017 European Consensus on Development, make hardly any reference to aid effectiveness. This sheds an important light on the limited policy space and independence of the EU – and it also sheds light on the influence structure and dominant role of Member States in shaping EU development policy.

In addition, while domestic politics and the political climate across Europe had ultimate effects on the EU's ability to deliver on the Paris declaration, they also had implications for EU development policy more generally. While prospects for more integration (or at least coordination) in EU development policy were relatively positive towards the end of the Millennium, the past years clearly showed a negative trend. With fewer and less ambitious strategies in the area of coordinated and less-fragmented EU approaches in development, a strengthening of the supranational elements and joint initiatives, as foreseen in the

mid-2000s, seems more challenging now than at the beginning of the 2000s (Mackie et al., 2017; Klingebiel et al., 2017).

## **2. KEY FINDINGS OF THE RESEARCH PAPERS: CHALLENGES OF EU DEVELOPMENT POLICY – FROM AID EFFECTIVENESS TO ‘BEYOND AID’ AND A GLOBAL PERSPECTIVE ON DEVELOPMENT**

The fourth paper “From Poverty Reduction to Mutual Interests? The Debate on Differentiation in EU Development Policy” (Koch, 2012) synthesized and analysed the significant changes in the geographies of wealth and poverty that required fundamental reforms of EU development policy. The question whether wealthier countries should continue to receive EU aid is central to the paper and embedded in a thorough analysis of the changing development landscape. The paper concludes that any answer to this question depends on the definition and rationale of aid and on whether poverty reduction (a narrow understanding), a global approach to development (a broad definition) or both are the defining features of EU development policy.

With regard to poverty reduction, it was concluded that the question of whether to focus development aid on poor countries or poor people is unlikely to be resolved in the near future given the continuing rise of middle-income countries and the remaining poverty levels in these. It is also argued that both categories have specific shortcomings and that a multi-dimensional approach beyond economic development is required to better capture the heterogeneity of MICs and their diverse development challenges. At the same time, the paper shows that a global rationale for development has become increasingly important during the last decade. It acknowledges that global development challenges beyond poverty reduction and the need for multi-layered interventions at national, regional and global levels have become increasingly important. This diversification of objectives gives aid to MICs a different rationale as it considers these countries key for the provision of Global Public Goods and for the control of spill-over effects. In addition, it was found that global and national development challenges are inextricably linked because national development challenges, such as persistent poverty, poor health systems, loss of biodiversity, and so on can easily turn into global challenges. Any decision regarding whether to continue or discontinue foreign aid programmes with MICs has to take these different levels of objectives and different rationales to provide aid into account.

It was also concluded that these trends have substantial implications for EU development policy. Poverty reduction will remain a key objective of the EU as it has a legal basis in the Lisbon Treaty. By pursuing this objective, however, it is found that better ‘technical’ solutions to classify countries are required so that decisions to phase out support to poverty reduction is based on a multi-dimensional understanding of a country’s economic, social and political challenges. Phasing-out aid to specific countries, however, also requires an EU-wide coordinated approach, to avoid an overconcentration of funds in poor, well-performing countries and a marginalization of MICs with substantial national development challenges. At the same time, the article shows that the EU has a mismatch between partner-country portfolio and

development objectives that it needs to address by moving towards a global rationale of aid. This, however, substantially increases the coordination challenges, both at the EU institutional level and between the EU and its Member States. In a global approach to development, interfaces between different political responsibilities become larger and the demand for inter-ministerial or inter-departmental co-ordination increases. At the EU institutional level, it requires integrated policy responses across development, foreign, trade, finance, investment, migration, environmental, climate-change policies, and partly blurred responsibilities between these.

Nonetheless, any EU strategy likewise requires to be closely aligned with Member States' strategies – if this strategy concerns development policy including aspects of division of labour or policy-wide approaches with MICs and emerging economies. The paper concludes that this will be no easy task since competences over policies with specific importance to the provision of GPGs vary significantly: some are exclusive to the Commission (for example, economic and monetary policy, trade and agriculture); others are shared competences (development, climate change and environmental policies); while foreign and security policy remains in the domain of Member States. Establishing an EU-wide approach to GPGs and to working with MICs is therefore likely to involve conflict over competences and thematic responsibilities.

The fifth paper 'A Typology of Political Conditionality 'beyond aid': Conceptual Horizons Based on Lessons from the European Union' (Koch, 2015) built on the analysis of the trends in the changing development landscape and analysed the implications for the concept of political conditionality. It highlighted the increasing diversification and use of political conditionality in policy fields other than foreign aid and introduced the idea of a diversification of political conditionality. The typology presented captured this diversification along two dimensions: the timing of political conditionality (ex-ante/ex-post) and the quality of the leverage mechanism (positive/negative). When applied to the EU, it finds that a diversification of political conditionality had indeed taken place and that the issues that the EU promotes and needs to react to now range from concerns for democratic governance and human rights to decent working conditions and sustainable development. This widened agenda is also not exclusively promoted through development policy, but through the EU's wider external relations.

This is interesting from two perspectives: First, against the prevailing opinion, political conditionality has not lost its relevance in the EU's external relations but has become a concept that is clearly used and applied beyond development policy. Second, the nature, quality, objectives, and leverage mechanisms have become broader and more diversified. The article also analysed the EU literature and the extent to which the diversification of political conditionality had been researched so far. It was found that the existing literature focused largely on the more 'traditional' types of EU political conditionality, such as aid and foreign policy sanctions and accession conditionality, whereas research on positive types of EU political conditionality appeared to be limited. Likewise, most of the existing research focused on development, foreign, and accession policy, whereas the EU's use of political conditionality in trade policy

is still under-researched. The paper concluded that there was a huge potential for future research on the under-studied types of EU political conditionality, namely: selectivity in EU aid and trade, as well as intensifying, incentivizing, and oversight conditionality in all external policies of the EU.

This fifth paper also reveals a fragmented approach in the research on EU political conditionality, with very little exchange and mutual learning between different strands of literature and insufficient comparisons of different types of political conditionality: Development researchers focus on aid sanctions; foreign policy researchers on CFSP sanctions; and enlargement researchers on accession conditionality. Similarly, researchers interested in trade policy have so far only rarely focused on the linkage of trade to non-trade issues. Due to this gap in the literature, theoretical and empirical insights are not transferred between different bodies of research. The paper highlights the substantial void in studying positive and negative political conditionality instruments collectively and in focusing on their interaction and comparative advantages: What is known about the relationship between aid and foreign policy sanctions? What goals can be better achieved through aid suspensions as opposed to foreign policy sanctions, and vice versa? Which leverage mechanism is most promising in which country and problem-context? When are cooperative measures more suitable, and when are sanctions the best possible reaction?

Another striking feature of the existing body of research is its lack of focus on the coherence of political conditionality. This relates as much to the decision-making process and interaction of various different actors at the EU level as to the intersection and coherence of various different incentive structures in the countries targeted. The diversified use of political conditionality requires greater focus on coherence at two levels: (i) between different conditionality instruments, and (ii) between political conditionality and other policies. More focus should be given to research questions such as: Is there a gradual shift from development policy to foreign and trade policy as political levers, as countries become less dependent on aid? Is there inter-institutional exchange and debate over the right types of measures in a given situation, or do different EU institutions act and decide independently in a compartmentalized manner?

The paper concludes by arguing that the concept of political conditionality has not lost its relevance in an era when foreign aid and traditional relationships between the developed and developing worlds are undergoing dramatic shifts. It also shows, however, that political conditionality has to be conceptualized differently in order to capture the various leverage mechanisms and objectives that have emerged in development policy, but also in foreign, security, and trade policy. For research on EU political conditionality, this means that different conditionality instruments need to be analysed collectively to improve the mutual learning and more comprehensive theorizing of how and when different types of political conditionality work best.

## **2.1 Summary of findings: Challenges of EU Development Policy – from aid to ‘beyond Aid’ and a Global Perspective On Development**

Looking at the findings of the two papers on the challenges of development policy together (chapters 4 and 5) (and at what has happened in these areas in the meantime), one can see that the EU is still coming to terms with the rapid and substantial changes in the development landscape. For one, the differentiation agenda remains unfinished and has interestingly even changed its dynamics more recently. With the 2011 Agenda for Change, the EU decided that countries that have achieved upper-middle income status (UMICs) and countries whose share of global GDP is bigger than 2% (India and China) are no longer eligible for bilateral, geographic EU aid but remain eligible for thematic programmes of the DCI. The EU has thus based its decision concerning graduation mainly on a country's economic development without an exit strategy and without ideas or a plan for further engagement (through development or other external policies).

According to the mid-term review of the Development Cooperation Instrument DCI, this has resulted in a strategic vacuum in engaging with MICs: the loss of eligibility for bilateral geographic ODA, the limited objectives of the DCI thematic programmes, and the limited nature of the Partnership Instrument have constrained opportunities for development cooperation. It finds that the EU now lacks an adequate basis for development cooperation with many MICs, despite the persistence of poverty. While graduation has served the purpose of quantitatively freeing resources for LDCs and has given in particular UMICs the main responsibility of developing resources and policies for their own development, it has also limited the EU's basis for cooperation and opportunities for partnership. It is also criticized that the EU's approach to differentiation has neglected persistent widespread poverty in MICs as well as the emphasis on universality in the SDGs.

These findings of the mid-term review confirm the conclusions of my research on differentiation as they show the shortcomings of phasing out aid based solely on a country's economic income situation. They also show the limited effectiveness of the EU in moving beyond traditional development approaches. Thematic engagement with wealthier countries on global challenges remains little coordinated with the EU's other external policies and, even where aid has not been phased out, country-level coherence and complementarity between the geographic and thematic components in programming and implementation have been found to be a major problem. This also shows that intra- and inter-institutional coordination and coherence in the EU still lacks a joint strategic orientation for MICs: thematic programmes are allocated and planned in different units in DEVCO and are little coordinated, the partnership instrument is within the EEAS and is little coordinated with the DCI and EDF, and other external policies do not yet form part of a strategic engagement with this group of countries (or a selected number of them).



While these challenges remain unsolved, the differentiation agenda of the EU as such seems to have taken a different direction. The new 2017 European Consensus on Development highlights the importance of support to LDCs, but also acknowledges the need to continue to stay engaged with MICs, through development policy but also through other external policy areas of the EU. Contrary to the rhetoric of 2012, the persistence of poverty in MICs is acknowledged: “A key focus in engaging with MICs will be to ensure that no-one is left behind, by tackling poverty as well as formal and informal obstacles to social inclusion through equitable wealth creation and redistribution” (European Parliament, European Council and European Commission (2017), p. 46). Informal interviews in Brussels confirm this impression that the discourse on the differentiation agenda has changed in the past years. Mainly due to the changing preferences of Member States and the migration agenda, the EU is now less under pressure to reduce its funding to MICs and to push the graduation agenda further.

Already in 2012, Member States had different preferences as to how far the EU should go in phasing out aid to specific countries. Some Member States, such as Germany or the UK, favoured a more ambitious approach while in particular those countries with close ties to MICs and Latin American countries (such as Spain or Portugal) lobbied for continued EU engagement. As the influence of the UK has become smaller due to Brexit and as Germany seems less convinced about further differentiation, a different approach is expected in the next multi-annual financial framework (MFF). This current trend, which has still to be confirmed by actual policies and spending decisions of the next multi-annual financial framework, also seems to confirm the analysis of the political economy of EU aid that shows the influence of Member States over policy decisions of the EU and the fact the EU is heavily steered in its decision-making by Member States. In addition, the emphasis – at least rhetorically – on the need to focus EU aid on poor countries and on the fight against poverty that underlined the 2012 decision for differentiation seems to have gradually lost in importance and has been superseded by the security and migration agenda and a deliberate choice for a more strategic use of EU aid.

While the differentiation agenda has so far mainly focused on Latin American and Asian countries that receive funding from the DCI, the migration agenda relates mainly to countries in the EU’s direct neighbourhood and in Africa. Both debates are nevertheless connected, since the EU needs to justify its spending in MICs on a more general level. As highlighted in my research, the EU has had notoriously high spending in MICs (35.8 % for UMICs and 23.1 % for LMICs between 2015 and 2016), mainly as a result of ODA going to strategic countries such as Turkey (by far the largest recipient of EU aid), Morocco, Serbia, Tunisia, Egypt, the West Bank and Gaza Strip, Afghanistan and so on. Concomitantly, the EU has always struggled to meet the UN target of spending at least 20 per cent of its GNI on LDCs (between 2015 and 2016, the EU provided 22% of its ODA to LDCs) (see OECD, 2018). With the migration agenda, the EU has a high interest in diverting funds to countries of origin or transition in its neighbourhood and Africa without having to worry about their poorness or classification status. It is thus in the EU’s own interest if

the policy debate does not focus as much on the EU's spending in MICs and on aid allocations according to country classifications since there appears little room to expand operations to MICs without moving away from the UN commitment.

These changing priorities of the EU and the immense focus on curbing migration and promoting stability also has a significant impact on the EU's approach towards political conditionality and the promotion of democracy more generally (Hackenesch, 2017). My research (conducted in 2013/14 and published in 2015) found a diversification of political conditionality in the EU (with objectives reaching beyond political governance to include issues of labour and environmental issues and forms of conditionality including positive as well as negative conditionality) and that political conditionality was also still high on the EU's agenda. One other finding was that the use of political conditionality also reached beyond development policy and was applied in EU foreign, security and trade policy. In 2018, these findings have to be put into a somewhat new perspective.

On the one hand, the EU continues to make use of different forms of political conditionality. Targeted sanctions in the EU's CFSP for example continue to be a frequently used measure. (In 2017, the EU had restrictive measures in place in 38 countries, ranging from North Korea and Russia to Sudan, Somalia, Syria, Iran and Iraq but also China, Haiti and Egypt). In development policy, Burundi was the latest prominent example where Art. 96 was invoked in 2016 and, due to insufficient results, direct financial assistance to the Burundian government was suspended. Additionally, Burundi is on the list of restrictive measures of the CFSP, including restrictions on admission and freezing of funds and economic resources of certain persons, entities and bodies. Also in trade policy, the EU's use of sustainable development chapters to promote labour and environmental rights has become an 'un-objectionable norm' (Van den Putte & Orbie, 2015). Even in EU internal policies, the issue of political conditionality has become more of an issue in particular regarding cohesion policy funds and concerns over the lack of adherence to European norms and values in countries such as Poland or Hungary (Selih, Bond, & Dolan, 2017).

On the other hand, there is no coherent and coordinated approach to the use of political conditionality and no concerted EU strategy in this respect. Generally, the Juncker Commission has laid great importance on a better coordinated EU Commission (through the invention of a Cluster System, an upgrading of the role of Vice-Presidents and regular meetings of Commissioners responsible for EU external policies). There is also greater emphasis on 'whole-of-EU' strategies, such as for instance the 2012 Comprehensive Approach (aimed at supporting the entire peacekeeping/peacebuilding/state-building process with different EU instruments and policies). There is an Action Plan on Human Rights and Democracy (2015-2019), aimed at fostering a more systematic and coordinated use of the EU's instruments "to prevent and address conflicts and crises, and further mainstream human rights in the external aspects of EU policies in order to ensure better policy coherence, in particular in the fields of migration, trade and investment, development cooperation and counter terrorism" (Council of the European Union, 2015, p. 3). And there

is the 2016 EU Global Strategy for the European Unions' Foreign and Security Policy, also aimed at fostering 'joined-up' action across external EU policies to promote the SDGs, migration and security and counter-terrorism (EEAS, 2016, p. 11).

While on paper this may sound promising, the fact that migration, counter-terrorism and stability issues feature highest on the EU's agenda also has important consequences for the EU's use of political conditionality, and its support to democracy and human rights more generally. One could also say that the EU is not pulling all its different instruments and forms of political conditionality together to promote human rights and democracy, but rather is subordinating all EU policies to the migration/stability agenda. Concerning the EU's development policy in Africa, for example, Castillejo (2017) finds a broader trend towards securitisation of development aid that includes diversion of aid allocation to promote the EU's migration agenda, also in ways that contradict the EU's development and human rights commitments, while abandoning aid effectiveness principles such as ownership and alignment. Others highlight that the EU's attempt to get African countries support in better controlling borders and migration flows has led to the uncritical propping up of governments without insisting on deeper reforms in the area of democratic governance or social development (Lucht, 2017; Raineri & Rossi, 2017). The external evaluations of the DCI and the EDF found that the EU is facing increasing difficulties in addressing fundamental issues of democracy and human rights in its policy dialogues with third countries. Also in its neighbourhood policy, the ENI mid-term evaluation confirms the difficult advancement of the EU's normative agenda, as it was found that there has been hardly any progress regarding EU fundamental values in its neighbourhood. This strategic use of policies and funds at the support of security and migration control and to the detriment of supporting human rights and democracy not only relates to development and neighbourhood policy, but also to other external policies of the EU. In its 2016 'Communication on establishing a new Partnership Framework with third countries under the European Agenda on Migration context', the Commission proposed to use not only development aid but also other policy areas and incentives such as visa liberalisation and trade policies as bargaining chips to get countries' support in stemming the flow of migrants.

The EU thus seems to be facing a conflict between norms and interests in its external policies, and severe difficulties in delivering on its human rights agenda. This, in turn, is mainly driven by the migration agenda of the EU but also by other internal as well as external factors, reaching from the EU's own poor record on upholding these values within the Union to the diminishing international clout of the EU and its Member States in a much more competitive international environment. As a result, this tension between norms and interests is mostly solved by putting the latter first – or, put differently, the EU only promotes its norms more forcefully when its interests are not put at risk. Without having clear numbers or statistical findings on the effects on the use of political conditionality, it is clear that this more strategic approach severely undermines the EU's legitimacy as a normative actor.

However, even though the migration agenda seems to dominate the EU's entire foreign policy agenda – particularly in the EU's neighbourhood and Africa – there are other countries and regions where stability and migration play less of a role. However these regions, for example Asia or Latin America, have never featured high on the EU's governance-support agenda (Hackenesch, 2017) while political conditionality has also played less of a role in these countries. Yet, they feature high on the EU's commercial-interest agenda and the EU has concluded, or is still negotiating, a number of free-trade agreements in these regions. But even here, research has found that the EU lays less emphasis on the implementation of the sustainable development chapters and issues of labour rights than on the economic side of the agreement (Orbie et al., 2017).

Looking at the issue of differentiation and political conditionality 'beyond aid' together, it becomes apparent that the EU's agenda has taken on different dynamics in the last two years (that is, after the period covered by the research in this thesis) largely driven by the migration agenda and the more strategic use of development policy and external policies more generally. While there are a number of other issues that would have to be included in the analysis for a more holistic picture (such as climate change, environmental, health, research, and knowledge transfer policies) it seems that the EU is currently absorbed with handling the migration and other internal crises. These changing political priorities have also led to a more realist and strategic approach in EU external action, overshadowing some of its more normative aspirations. It also has led to a situation in which issues of sustainable development receive little political attention beyond the group of its direct supporters (mainly the development and environment communities). This is also mirrored by the very slow and cautious implementation of the 2030 Agenda and the SDGs in Europe's internal and external policies (see Bergmann, Hackenesch, Keijzer, & Koch, 2018).

### **3. FURTHER RESEARCH**

What are the implications of the findings of this thesis for further research regarding both issues of EU development policy and aid effectiveness, and the EU's transition to a global development agenda and becoming a more assertive global actor?

Where aid effectiveness and a better understanding EU development policy more generally is concerned, first of all the political economy of the EU and in particular of Member States needs to be put at the focus of research much more prominently than it has been in the past. In research areas such as EU coordination and harmonisation, EU actorness, EU collective action, Europeanisation in development policy and so on, a closer look at the role and political economy of Member States should feature much more prominently. This also implies that Member States should not be treated as unitary actors and only analysed in interests groups or cleavages but rather that they should be unpacked from within – opening the black box of interest groups, 'veto players' and incentives and political costs that influence Member States positions and preferences (and which can change over time). This would also include more research on the

relationship between party politics and development, the role of public opinion, the influence wielded by civil society on decision-making in EU development policy, the role of different institutional set-ups, but also a focus on horizontal Europeanisation and general tendencies across Member States. This way, the ‘non-ideal’ outcomes mainly related to the implementation of EU-wide and international agreements can be better understood. While this PhD thesis mostly focused on interests and cost-benefit analysis of the various actors in the EU development-policy system, further research could also more strongly take account of the role of ideas and ideational politics as part of political economy analysis (see e.g. Rodrik, 2014; Campbell, 1998). Such an approach would focus more strongly on an analysis of changing ideas within development and within member states and EU institutions that might contribute to ‘non-ideal outcomes’ in EU development policy (such as the demise of the aid effectiveness agenda). These changing ideas of how to do development ‘right’ might not only be attributed to individuals but also to different institutions and changing political situations within member states.

Further theorizing EU development policy also needs to receive greater attention as its complexity cannot be used as an excuse for mostly analysing it in a descriptive manner. The various different actors and institutions and their relationships, the drivers, interests and ideas of these different actors and the influencing factors that shape policy decisions need to be better understood and explained. This relates, for example, to the weak implementation of EU-wide and international agreements as well as to the tendencies of disintegration in EU development policy and the lack of closer coordination and harmonisation, which can only be understood if linked to a more thorough theoretical analysis. Even in the absence of a grand theory on EU development policy, existing theories in studies on the EU, international relations, political and social science and economics can be adapted and used to explain and understand the EU development policy system.

Turning towards aid effectiveness and further research, one can easily see the immense reduction in research efforts invested into analysing the effectiveness of aid over the last decade. Traditional questions of the macroeconomic effects of aid as well as on the donor-recipient relationship have been superseded by a greater focus on the new Southern donors (Woods, 2008; Chin & Quadir, 2012; Rowlands, 2013; Walz & Ramachandran, 2011) and related topics such as South-South cooperation (Quadir, 2013; Chaturvedi, Fues, & Sidiropoulos, 2012; Gerado & Grimm, 2016), the resulting reform pressure on aid and development policy due to global trends (Severino & Ray, 2009; Kharas et al., 2011; Mawdsley et al., 2014) and new fashions in aid modalities such as results-based aid (Janus & Keijzer, 2015; Klingebiel, 2016). In this context, it is assumed that aid plays a lesser role in many developing country contexts and that more focus should thus be given to non-aid policies, non-traditional development actors, and emerging donors and their different business models. While all of these research interests are very relevant, it also seems that a number of more traditional aid effectiveness-related questions should still be addressed: How has the non-adherence to the Paris principles changed the donor-recipient relationship? Has a focus on

traditional, low-risk aid emerged and how can the current aid portfolio of European donors be best described? Are developing countries now more in the driver's seat over their priorities due to the greater variety in development partners? What is the role of aid in differing country contexts and where can it arguably have greatest impact?

Moving to research on the EU's global development agenda, many open research questions remain to be addressed in further research. From a development cooperation perspective and concerning the EU's engagement with MICs, the findings of my thesis clearly reveal the need for more research in the area of multi-dimensional country classification systems as the MIC classification is too limited to base policy decisions on. They also underline the need to further analyse the EU's engagement with MICs, the status quo of actual cooperation and further potential to engage more actively on global issues and to form alliances for the implementation of the SDGs. We also know very little about how Member States and the EU coordinate their engagement in MICs, how well these strategies are aligned and the extent to which the EU is considered an attractive partner by MICs. At the same time, it is crucial to shift the analysis and further research beyond development cooperation alone and analyse the EU's engagement with MICs from an integrated perspective, including all different EU external policies that play a role and the extent to which the EU horizontally (EU Institutions) and vertically (with Member States) coordinates cooperation across policies and issue areas. In the absence of an EU-wide strategy for the engagement with MICs, an interesting research area would also be to analyse the differences in the EU's engagement with MICs across regions and continents, to see whether the heterogeneity of this group of countries is also reflected in diverse EU policies and strategies. Too often, the development research community stays in its 'niche' focusing mainly on development cooperation without reaching out to and including research on foreign and security policy, trade, migration and climate policies in an integrated manner.

For political conditionality 'beyond aid' and further research, the fifth paper (Koch, 2015) has already listed relevant further research areas that relate to the need for integrated research approaches across disciplines, a stronger focus on the coherence of political conditionality, and research that examines different EU mechanisms and policies jointly. Additionally, the issue of conflict of interests between the EU's migration and security agenda and its promotion of human rights through political conditionality could be more deeply analysed by empirical research. This relates to specific country cases where the EU did not apply political conditionality due to other strategic interests, to a more thorough understanding of the interplay and interests of different institutions at the EU-level and the role of Member States.

Those two areas (EU engagement with MICs and political conditionality 'beyond aid') are only two of a large variety of issues that arise when moving 'beyond aid' and towards a global development agenda. Yet, they seem to reveal important tendencies that should be taken up by further research more generally: this relates to the need of the development research community to reach out to and integrate other areas of research that engage with the EU's internal and external engagement; it relates to questions of how fit

for purpose the EU institutions are for integrated policy responses; to questions of how well the EU and Member States coordinate their strategies across policy and issue areas.

#### 4. IMPLICATIONS FOR THE POLICY LEVEL

When looking more specifically at the policy level, a number of implications of my research can be highlighted. With regards to challenges *within* EU development policy, the results of my research show that the EU collectively needs to invest much more in ensuring compliance with EU-wide and international development agreements than in setting them up or shaping them only. The non-binding nature of these agreements has so far led to very low compliance and few mechanisms that the EU could deploy to foster stronger implementation and compliance by Member States. Turning non-binding agreements into binding ones is unlikely to happen in the near future due to the resistance of Member States, but what does seem possible is a more thorough analysis before agreements are signed. This should include an analysis of what is technically and politically feasible for Member States and the EU collectively. How political commitment can be turned into compliance and behavioral change must thus feature much more explicitly in discussions and decisions about agreements. This includes a reflection about necessary incentives at the political, institutional and individual level and responsibility for progress at the highest political rather than at a technical level. In addition, a more thorough analysis of the political feasibility relates to International and European agreements and conducts, but also to the follow-up of Communications from the Commission and Council Conclusions on joint working programmes and commitments.

This problem of low compliance with international agreements and EU-wide strategies becomes only more complex when moving beyond development policy. Integrated EU strategies such as the 2012 comprehensive approach or the 2016 global strategy not only require the compliance and active implementation of one actor but of several DGs, the EEAS and related institutions. This becomes even more complex when global commitments such as the 2030 Agenda are concerned, where not only EU institutions require to be coordinated but also Member States ‘buy-in’ and support is needed. The question of whether the EU has the right institutional set-up in place becomes very relevant in this respect, and also the question of leadership. Where could and should questions of global development be located? Who gets the mandate to coordinate all the different actors and who holds whom to account? Is the centre of gravity still the Council of the European Union? And how much own initiative and responsibility should the Commission and its President develop? Put differently, if Member States do not make global sustainable development and the 2030 Agenda a priority, how much urging and initiative can we expect from the Commission’s side? At the moment, questions of global development tend to be put forward by individual actors (such as DG DEVCO and DG Environment at EU-level and respective ministries at member state-level) without much ‘buy-in’ from other external and internal DGs and ministries. So, despite the fact that, officially, Vice-Presidents Timmermans and Mogherini are responsible for

coordinating the EU's response it is still a niche topic without the necessary support at a higher political level. The same holds true for most Member States, where the 2030 Agenda has remained in the development and environment niche so far and at the same time, little appetite exists for an EU-coordinated approach to the implementation of the SDGs in Europe.

For EU development policymakers and the wider development community, these questions also ultimately boil down to the role and place they envisage for development policy vis-à-vis other EU internal and external policies. Promoting global development ultimately requires 'whole-of-EU' approaches and close interaction of EU internal and external policies. Yet, advocating for better integrated approaches and for putting EU development policy at the heart of EU external action comes at the risk of a more short-term oriented use of funds and a subordination to foreign policy and security interests. On the other hand, promoting an EU development policy that remains a largely separated policy area (for the sake of keeping its development focus) risks marginalizing the policy field and would come at the detriment of greater coherence and coordination. The way forward seems to be to promote a strong EU development policy that is not dominated by other strategic interests of the EU, but one which is adamant regarding a few key principles: this relates as much to the necessity to acknowledge that 'traditional' principles such as ownership and alignment are crucial if aid is to be effective and should not be sacrificed to a more short-term and strategically oriented EU development policy. It also relates to research findings that unanimously underline the flawed logic behind an approach that expects aid – as the main driver – to stem migration flows. Rather than shielding EU development policy from other policy areas or to completely surrendering it to security and migration purposes, a vision for EU development policy should be developed that promotes the universality of development challenges and puts sustainable global development at the heart of its engagement with other EU policy areas.



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## **SAMENVATTING (SUMMARY IN DUTCH)**

Dit doctoraat behandelt de uitdagingen 'binnen' en 'van' het Europese Ontwikkelingsbeleid in de periode 2005-2015. Tijdens deze periode verschoven de uitdagingen binnen de EU van hulpeffectiviteit naar bredere bezorgdheden, met name hoe het EU ontwikkelingsbeleid hervormd en geïntegreerd moest worden in het EU buitenlands beleid om zo het hoofd te bieden aan globale uitdagingen. Deze thesis toont aan dat zowel interne als externe factoren in deze evolutie een rol hebben gespeeld. Gebruik makend van Politieke Economie Analyse kwam in dit onderzoek naar voor dat de EU, collectief, de Verklaring van Parijs niet kon naleven of realiseren. Het voorbeeld van Budgetsteun (als de meest prominente hulpmodaliteit die de principes van de Parijsverklaring best belichaamt) toont heel duidelijk aan dat de binnenlandse politieke dynamieken van de lidstaten in grote mate effectieve hulp tegenwerken ten voordele van hulpvormen die relatief risico-loos zijn, maar wel zichtbaar zijn en een korte termijn perspectief hanteren. Drie hoofdstukken in deze thesis analyseren de politieke dynamieken binnen lidstaten en de interactiepatronen en structuren die het ontwikkelingsbeleid van de EU hebben beïnvloed, en die mede geleid hebben tot een zwakke implementatie van de Parijsverklaring. Maar, de hulpeffectiviteitsagenda heeft niet enkel aan belang verloren door de EU's intern gebrek aan capaciteit en door de lidstaten hun interne politieke dynamieken. Er zijn ook de drastische globale veranderingen op politiek en economisch vlak die om dringende antwoorden, aanpassingen en hervormingen vroegen van de EU op politiek, institutioneel en beleidsvlak. Twee hoofdstukken in deze thesis bestuderen de globale trends (meestal gerelateerd aan de veranderende geografie van rijkdom, armoede en macht) vanuit verschillende perspectieven, daarbij de implicaties analyserend voor de EU, als donor en als globale actor. Meer specifiek analyseren deze hoofdstukken de samenwerking tussen de EU en de midden-inkomenslanden en de implicaties van de globale trends op het concept van EU politieke conditionaliteiten in andere beleidsdomeinen buiten ontwikkelingshulp.



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