The EU's Multi-Annual Financial Framework post-2013: Options for EU development cooperation

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The European Commission (EC) is the largest single multilateral donor of official development assistance (ODA) in the world – bigger than the World Bank and, with an annual disbursement of some €10 billion per year, on a par with the whole of the United Nations. But as negotiations around Europe's post-2013 multi-annual financial framework (MFF) begin, there are major questions around the comparative advantage of a Europe-wide approach, and the role of Europe in the future global aid architecture.

Hypothetically, if EU member states are to meet the pledges they have made for 2015 (0.7% of GNI for the EU-15, 0.33% for the EU-12), then aid will have to roughly double. Therefore, if the EC is to maintain its 'market share', its aid would also need to double and continue increasing throughout the period of the MFF. But what is this aid for? How does European aid adapt to a development landscape that is going through such rapid change?

This paper reviews this landscape and proposes and analyses options on:

1. rethinking priorities and assistance towards MICs and emerging economies;
2. ensuring enough flexibility to respond to unforeseen needs;
3. dealing with climate finance;
4. ensuring adequate long-term funding to strengthen security and development linkages;
5. budgetising or maintaining a separate European Development Fund.[1]

European Think-Tanks Group
June 2011

Overseas Development Institute
Deutsches Institut für Entwicklungspolitik
German Development Institute
FRIDE – A European Think Tank for Global Action
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Background

There are three key questions around the negotiations over the EU's multi-annual financial framework (MFF) post-2013. First, how much should be spent? Second, what should the money be spent on? And third, how should it be managed?

To date, agricultural and structural policies have taken the lion's share of expenditure (nearly 80%), whilst external action has taken up a mere 5.7%. However, the Lisbon Treaty and the new institutional structures, including the High Representative for Foreign Affairs and Security Policy, the European External Action Service (EEAS) and the EC's Directorate-General for Development and Co-operation (DG DevCo), coupled with the developments in the EU's neighbourhood, have offered new impetus for a more prominent role for the EU on the international stage.

Nevertheless, securing adequate funding for EU external action in general, and development cooperation in particular, will be key challenges. The draft budget for 2012 presented by the EC is a case in point. According to the EC's proposals, Heading 4 – the "EU as a global player" – will receive the smallest increase of 0.8% across all EU budget headings, while the average increase is 4.9%. Furthermore, the EC proposes a reduction of €88.5 million in the amount for the development cooperation instrument, mainly from geographical programmes for Asia and Latin America, and an increase of €100 million each for the two regions covered by the neighbourhood instrument, Eastern Europe and the Mediterranean.[2]

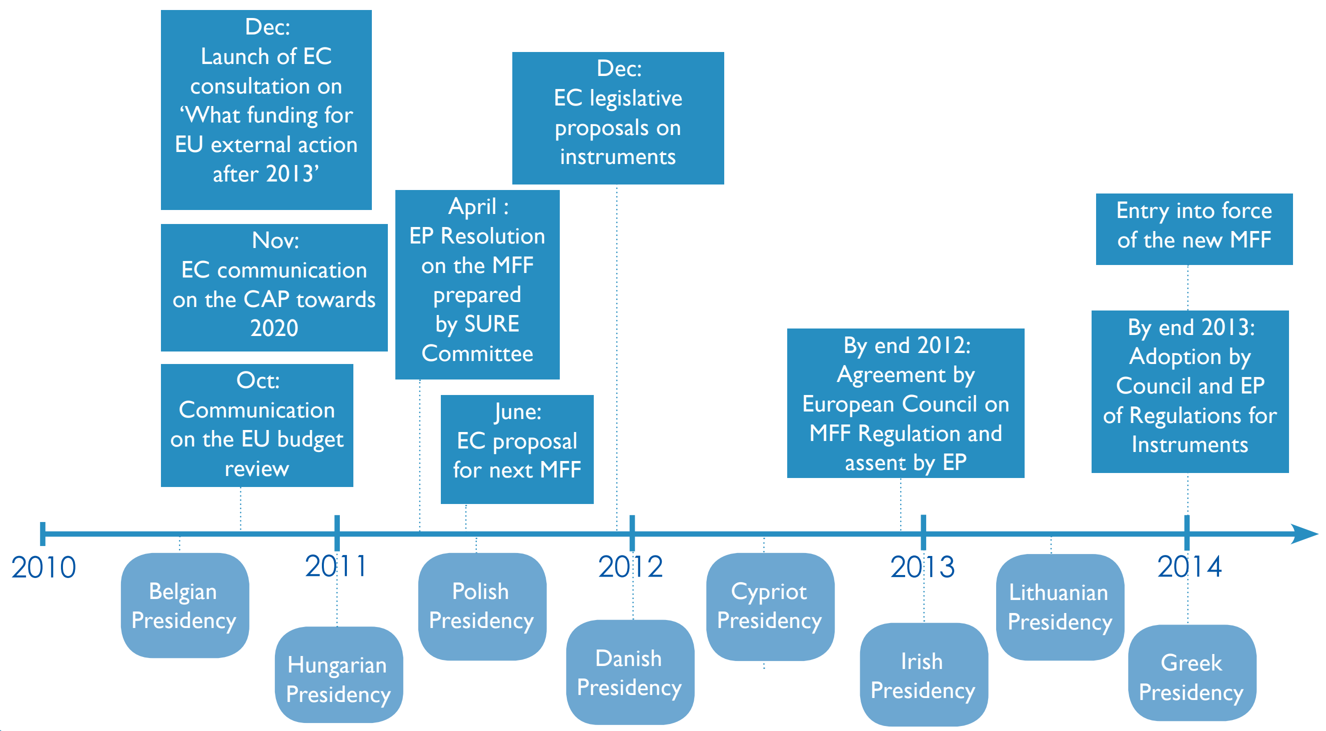
Beyond the finances, the MFF negotiations are also a critical process for identifying new priorities for EU external action and for defining the instruments needed to strengthen the EU as a global development actor accordingly. The EC has set itself the challenge of identifying a new strategic orientation by launching three public consultation processes[3] at the end of last year intended to modernise EU development policy with the aim of increasing its impact. The EC now faces the challenge of coordinating the outcomes of the consultations in a way that ensures their full reflection in the next financial framework.

This paper focuses primarily on 'what for' in relation to EU external action and 'how to' in relation to managing development assistance. It recognises that the answers to the questions of comparative advantage, and a clear intent of EU aspirations for the global stage, are both important preconditions for the design of development policy and instruments. EU comparative advantage in development cooperation is based on (1) economies of scale in funding instruments; (2) its range of policy responsibilities; (3) its specific experience of inter-state, supra-national integration; and (4) the fact that it is an international community based on agreed common principles, including poverty reduction, human rights, conflict prevention and the provision of global public goods, set out in a legally binding framework. Yet, development policy remains a shared competence and the extent to which member states support increased EU coordination and advocate for a stronger role and sufficient resources for EU development policy varies greatly. In 2008, Simon Maxwell of the Overseas Development Institute, wrote:

> *"With its particular mix of principles, policies and programmes, Europe has much unrealised potential. On the other hand, we should not be naive. European consensus is not universal and, where it exists, not easily achieved. National interests have not been subsumed, and for example shape the geographical distribution of aid. National differences of view still constrain policy, for example on the protection of European agriculture ... Nevertheless, the cards in Europe's hand look better by the day, and must encourage more ambitious play."*[4]

The timeline and process of the negotiations is shown in Figure 1.

Figure 1: The timeline and process of the MFF negotiations



The changing development landscape

The next MFF has to be designed against the backdrop of a development landscape that is changing rapidly. This is more so as external action instruments must not only respond to current events but, given their timeframe, also be far-sighted and flexible enough for EU development policy frameworks to respond to looming challenges.

The shifting international context and the increasingly heterogeneous development landscape have an impact on EU development policy considerations at two interlinked levels, at least. First the (re)emergence of new global economic powers – including Brazil, China, India, South Africa and Russia – as well as the increasing importance of the G20 as a global governance forum, has inevitable geopolitical ramifications. These shifts have brought about a 'multi-polar world' order with new demands for global decision-making. The increasingly global nature of development challenges – such as climate change and reducing carbon dioxide emissions, peace and stability, migration, financial stability, food security and communicable diseases – clearly indicate that solutions require new forms of international cooperation with the involvement of emerging and developing countries. Shifting wealth has also led to significant increases in south-south economic, trade and aid flows and to the proliferation of new actors in international development.

Secondly, changing patterns of growth have changed the nature of poverty. The graduation of five populous countries to middle-income status (China, India, Indonesia, Nigeria and Pakistan) means that more poor people now live in middle- than in low-income countries (LICs).[5] Even though this change is largely the result of the transition of these five countries, the trend is nevertheless important: according to the latest World Bank classifications, the number of LICs fell significantly from 63 to 40 between 2000 and 2009, and recent calculations estimate that the number of poor countries will be further reduced by 2025.[6] The dividing line between LICs and middle income countries (MICs), however, is fairly arbitrary (12 MICs are still Least Developed Countries as defined by the UN) and the graduation of a country to MIC status does not automatically mean less poverty or an end point to development. Poverty can, therefore, no longer be considered as a problem only for poor countries. It will, increasingly, have to be seen through the lens of inequality and distributional challenges.

These interlinked developments require an EU development policy that targets, increasingly, not only a single objective, but a portfolio of strategic objectives. This implies that EU development policy should not be limited to development assistance to solve national development challenges. Instead, it should become a global structural policy that contributes to global problem-solving for the benefit of development outcomes. It is crucial, therefore, to build new partnerships for global development based on mutual interest and the provision of global public goods with emerging economies and MICs. The policy challenge for the EU, therefore, is to find the correct balance in addressing poverty reduction objectives and activities whilst promoting strategic objectives in ways that deliver optimal outcomes, and in the mutual interests of the EU and partner countries.

Having gone through structural upheaval as a result of the Lisbon Treaty, notably with the merger of the posts of External Relations Commissioner and High Representative for CFSP, the establishment of the EEAS and the merger of the Commission's DG Development and EuropeAid into the new DG DevCo, the EU now needs to look outwards to adapt its objectives, instruments and strategies to this changing world. In doing so, the EU faces major choices. Decisions made in the short-term will have a direct effect, in the long-term, on the EU's ability to meet the challenges of globalisation and of a world in which the weight of individual European countries has been declining steadily and will decline further as countries such as Brazil, China and India gain in economic and political weight.

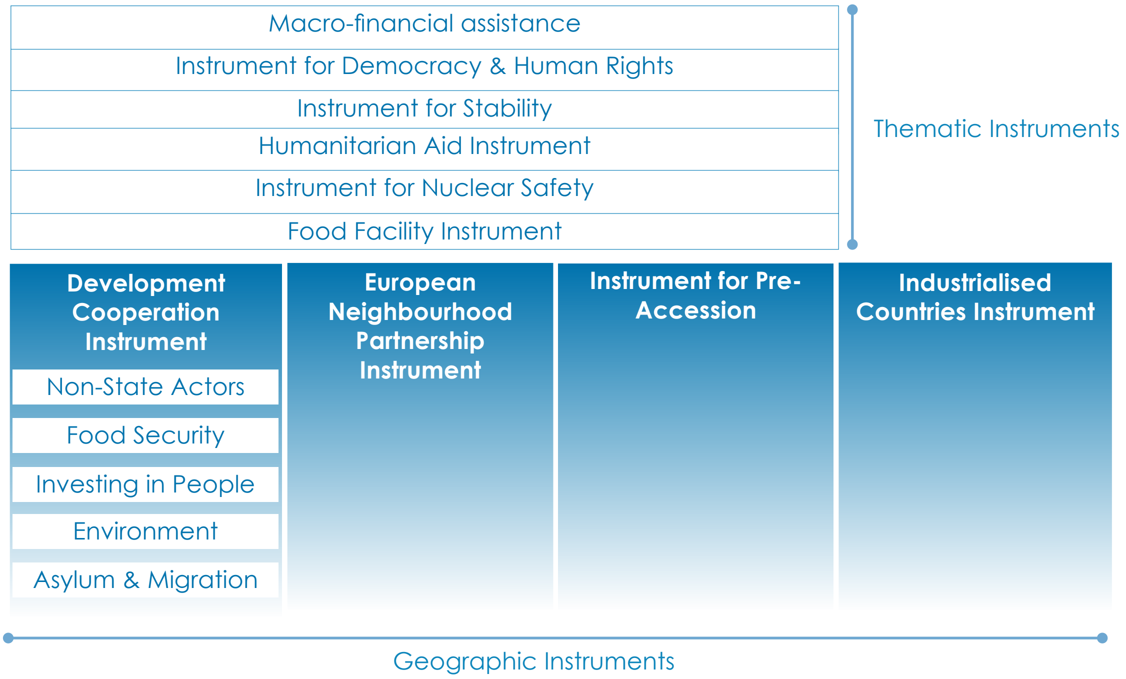
The present: Budget Heading 4, 'The EU as a Global Player'

The current EU Budget Heading 4 (The EU as a Global Player) represents around 5.7% of the total EU budget (approximately €56 billion for 2007-2013). Figure 2 (p.4) shows the EU's external action instruments and programmes. Four geographic instruments are complemented with six thematic instruments, which prioritise the list of EU global objectives. Programming under the geographic instruments is a joint exercise with partner countries, conducted at country level and aligned to national priorities and national development strategies. This approach emphasises country ownership of development strategies. Unlike the geographic instruments, which are, in principle, supposed to be based on shared analyses of local needs and conditions and joint response strategies, the thematic instruments are based on the EU's own strategy objectives and global priorities. They mix ODA with non-ODA funds.

Separate instruments focus on development cooperation in Asia, Latin America, the Gulf region and South Africa (the Development Cooperation Instrument – DCI), and the European neighbourhood area including the Russian Federation, Eastern Europe, the Middle East and North Africa (the European Neighbourhood and Partnership Instrument - ENPI). The European Development Fund (EDF), which finances cooperation with 79 African, Caribbean and Pacific (ACP) countries, is a separate inter-governmental agreement of the member states, based on voluntary contributions, and accounts for around 30% of total EC aid.

The DCI contains a set of cross-cutting thematic programmes that apply to all developing countries (including the ACP countries that are funded by the EDF, and the ENPI countries). Although the thematic programmes are not based on joint analyses of the priorities of developing countries, they must be consistent with the overall objectives, principles and policy prescriptions of the DCI. Whereas geographic instruments focus mostly on intra-government development cooperation, non-state actors are the principal beneficiaries of thematic programmes.

Figure 2: EU budget external action instruments and programmes



The Common Foreign and Security Policy (CFSP), which accounts for around 3% of the total external action budget, is an inter-governmental policy. Funding decisions are taken by the Council rather than the EC.

Challenges and options

The next MFF brings with it a set of opportunities to improve the current framework and address some of the key challenges with the current EU external actions budget. The biggest challenge, however, will be to identify the right priorities for EU external action based on comparative advantage and to design the instruments and programmes to reflect those priorities. Other significant challenges identified include:

1. rethinking priorities and assistance towards MICs and emerging economies
2. ensuring enough flexibility to respond to unforeseen needs
3. dealing with climate finance
4. ensuring adequate long-term funding to strengthen security and development linkages
5. budgetising or maintaining a separate European Development Fund.

1. Rethinking priorities and assistance towards MICs and emerging economies

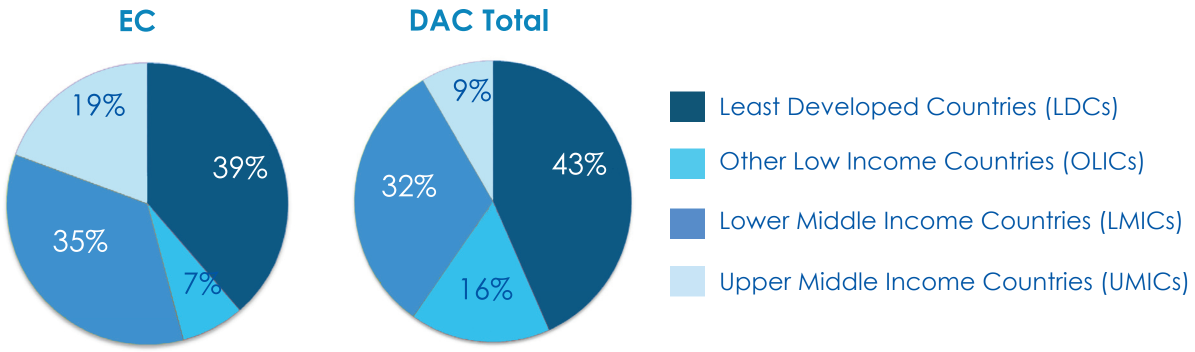
Against the backdrop of a development landscape that is changing so rapidly, the need for differentiation has become central to the debate on how to design external action instruments. Differentiation translates roughly into the idea that EU development programming should better target and calibrate partner engagements. This includes accommodating strategically-oriented policy objectives alongside a strictly poverty reduction remit (as enshrined in the Lisbon Treaty and the European Consensus on Development), whilst being flexible enough to take account of differing country contexts. In other words, the argument is that development cooperation with more advanced countries should shift from a focus on poverty reduction to one of the promotion of mutual interests.

The DCI does not allow for a more elaborate policy-mix. According to the DCI Regulation, ODA must account for 100% of the geographical programmes and 90% of the thematic programmes. This makes it difficult for the EC to fund economic activities and activities of mutual interest, especially in middle income countries (MICs). The limitations of this approach have become visible, particularly during the mid-term review when the EC highlighted this legislative gap and proposed to amend the regulation of the Instrument for Industrialised Countries (ICI) to extend its coverage to DCI countries in order to fund activities going beyond ODA.

At the heart of this debate is the question of how to best engage with emerging economies and MICs, and the extent to which they should continue to receive EU aid. This debate is of particular relevance for EU development cooperation, as one of the most frequent criticisms raised is the EU's above-average funding in MICs, interpreted by many as aid that is poorly targeted at poverty reduction. It is also a particular issue in relation to the DCI, as only nine out of 48 DCI countries are low income countries (LICs) at present. Any decision taken will, therefore, have huge implications for development cooperation financed from the EU budget.

As figure 3 shows, in 2009, the EC allocated 54% of its aid budget (including the EDF) to MICs (the OECD Development Assistance Committee – DAC – average was 41%) and 46% to LICs. The DAC average in 2009 was 59%. However, the sub-categories reveal that spending in least developed countries (LDCs) differs only slightly from the DAC average (39% for the

Figure 3: Comparison of aid flows by income group: EC and DAC total for 2009



EC and 43% for the DAC average), whilst the biggest contrast relates to spending in upper middle income countries (UMICs) (19% for the EC and 9% for the DAC average). Much of the funding for MICs is related to neighbourhood policy and pre-accession assistance.

The distinction between poverty reduction and mutual interest objectives may be less clear-cut than the debate sometimes suggests. In some contexts, the two appear to be melded increasingly, amidst the shifting global geostrategic realities as well as changes in some specific regional contexts. The reality of Africa's sub-regional powerhouses, Nigeria and South Africa, are a case in point. Both are MICs in need of, and eminently qualified for, poverty reduction and economic assistance – but also envisaged or engaged as vital partners in strategic and economic terms. Beyond spill-over effects in their regions, they contribute to EU energy security and broader regional objectives. The EU's persistence in forging a more strategic development cooperative partnership with Nigeria, the 2007 South Africa – EU Strategic Partnership and the recent admission of South Africa into the BRIC group (formerly Brazil, Russia, India and China), highlights the melding of poverty reduction and wider geopolitical objectives within a changing regional context.

The need to reshape EU cooperation with MICs and the introduction of a new instrument for 'global partnerships' (replacing the ICI) have been amongst the most discussed issues in the run-up to the negotiations. In its official position in the public consultation process, the Netherlands, for instance, argues for a new instrument for MICs and for an end to development programmes aimed at poverty reduction in the group of 'rapidly emerging MICs'. The European Parliament's Special Committee on the Policy Challenges and Budgetary Resources for a Sustainable European Union after 2013 (SURE), also favours a new instrument for 'emerging world powers', emphasising that it should promote activities of mutual interest. In turn, the Committee argues that ODA allocations to these countries should decrease.

On the other hand, the European Parliament's Development Committee, acknowledging the 'need for non-ODA cooperation with many developing countries for the provision of 'global public goods', maintains that aid for MICs is still justified and should be targeted at the neediest populations in these countries.

So, while there seems to be agreement on the need for greater differentiation, the EU still has to decide on the exact reconfiguration of its instrument framework.

The options

There are two options.

- Replace the ICI with an instrument for global partnerships and the provision of global public goods. This would allow EU development policy to pursue a systematic set of objectives and reflect the reorientation of development cooperation towards global structural policy. The focus of the instrument would be on tackling regional and global problems and on the provision of global public goods, leaving the DCI to focus on poverty reduction. Decisions would need to be taken on whether or not emerging economies and MICs would remain eligible for the DCI, and thus, for traditional development cooperation targeted at poverty reduction; and which countries would be eligible for the new instrument.

Given the divergence of countries across and within income categories, a predefined allocation of countries to one of the two instruments would lead to undue reductionism. It would overlook complementarities between poverty reduction and mutual interests and neglects the need for a more elaborate policy-mix. Excluding MICs from the DCI would fail to recognise the heterogeneity of the group, the fact that MICs are critical for the achievement of the Millennium Development Goals (MDGs) and that the type and volume of assistance should not be determined solely by the income status of a country but by its individual needs to end poverty and to achieve wider human and social development. Despite calls for a reduction in ODA for MICs and emerging economies, it would be a mistake to set an ODA benchmark in the regulation of the new instrument since much funding for global public goods is, in fact, ODA-eligible. This set-up would separate funding directed towards poverty alleviation and funding for global public goods, a distinction for which there have been repeated calls: "*For reasons of both effective aid and adequate provision of global public goods, there is an urgent need to create a separate, complementary international component of the allocation branch*"[7].

Amend the DCI Regulation to allow for greater flexibility. In order to allow for greater differentiation and the promotion of mutual interests, the DCI's focus on poverty reduction and the achievement of the MDGs, and the 100% ODA benchmark for the geographic programmes, would need to be revised. While this would create more flexibility to pursue other objectives alongside a strict poverty reduction remit, it would run the risk of diverting funds away from poverty reduction objectives. The European Parliament has kept a particularly watchful eye on compliance of the DCI Regulation and has repeatedly stressed that poverty reduction and the achievement of the MDGs must remain the prime objective of the instrument.

Beyond the revision of instruments, the reorientation of assistance to MICs would need to be accompanied by greater attention to the issue of coherence. On the one hand, the need for increasing coordination and coherence of different DGs in the EC and the EEAS becomes imperative, as the lines between traditional development objectives and other strategic objectives continue to blur. On the other, the broadening of objectives creates new challenges of reconciling activities and programmes. It is therefore important that the more traditional development objectives of the DCI are not undermined by the strategic interests of the EU.

2. Ensuring enough flexibility to respond to unforeseen needs

According to the UK Department for International Development's Humanitarian Emergency Response Review in 2011:

"All current trends suggest that more people – particularly in developing countries – will be affected by humanitarian emergencies in the coming decades. Not only will they become more frequent, they will also be increasingly unpredictable and complex."

The practice of a long-term multi-annual financial framework, introduced by the EU in 1988, allows for budgetary discipline, better planning and greater predictability. However, at the same time, the risk is less flexibility, i.e. limited room for manoeuvre for rapid response to changing circumstances and unforeseen needs.

A number of instruments are available to address unforeseen events that are outside the expenditure ceilings agreed in the financial framework, as shown in Table 1.

Reacting to unforeseen humanitarian needs has proved a particular challenge under the current budget structure for two reasons: (1) The Emergency Aid reserve (approximately €200 million per annum), and the Humanitarian Aid Instrument (approximately €800 million per annum) managed by DG ECHO has not had sufficient resources to meet humanitarian needs, such as the Haiti earthquake, or global crises, such as soaring food prices; (2) EU rules do not allow transfers between budgetary headings.

In order to cushion the impact of shocks, such as soaring food prices, and protect critical spending categories, so as to sustain growth, the EC has put in place various shock absorbing schemes, most recently the FLEX, V-FLEX and Food Facility Instrument. According to a study undertaken by the Overseas Development Institute, assuming that the EDF will not be budgetised and that some €22 billion will be secured for the EDF, at least €1.1 billion or 5% will need to be reserved for a shock facility and more could be pooled from EU member states.[8]

The options

Greater flexibility between headings and between instruments for unspent or unallocated funds, should not only increase the amounts available for emergencies and crises, but also lead to less cumbersome and faster decision-making procedures. This will, however, require a step-change as at present unspent EU funds usually flow back to national treasuries or are not drawn upon at all.

One option on the table is merging the Flexibility Instrument and the Emergency Aid Reserve. However, this raises the question of whether the merged instrument would fall within Heading 4, focused on specific emergency aid needs, or remain a general flexibility instrument for the entire budget, applicable to unforeseen EU needs.

Table 1: Budget instruments outside EU expenditure ceilings

1. The EU solidarity fund (maximum €1 billion per year in current prices), created in 2002 to provide rapid financial support in the event of major disasters.
2. The Flexibility Instrument (maximum €200 million per year in current prices), intended to allow the financing of clearly identified expenditure that could not be financed within the limits of the ceilings available for one or more other headings. This instrument has been used intensively in the past, notably as an indirect means to raise the ceiling for external actions.
3. The Emergency Aid Reserve (maximum €1,744 million for the whole period, at current prices), to provide a rapid response to the specific aid requirements of non-member countries following events that could not be foreseen when the budget was established, chiefly for humanitarian operations.
4. The European Globalisation Adjustment Fund (maximum €500 million per year in current prices) mobilised by using unused appropriations from the previous year. The fund is intended to enable the Community to provide support for workers made redundant as a result of major structural changes in world trade patterns where these redundancies have a significant adverse impact on the regional or local economy.
5. An amount of €564 million for the whole period (at current prices) is foreseen for administrative expenditure.

A further option is an increase in the size of the Emergency Aid Reserve. However, the risk is that this happens at the expense of other expenditure under Heading 4.

There is an interesting lesson that could be carried over from the EDF to the EU budget. The B Envelope of the EDF sets aside an amount of money per country to cover unforeseen needs, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The specific amount is decided at country level together with the partner country. The main ethos of this approach could work for the geographic instruments in Heading 4. Incorporating contingency flexibility within the instrument (for example, a 5% margin) could increase flexibility without risking predictability.

3. Dealing with climate finance

Like development cooperation, climate change is a shared policy area, with the EC and the member states having their own budgets, policies and programmes. Coherence is ensured, however, through the Climate and Energy Package which was converted into binding European law in 2009. The Package comprises legislation on an EU-wide cap on emissions covered by the European Emissions Trading System (ETS), binding national limitation targets for 2020 on emissions not covered by the ETS as well as binding national targets for renewable energy.

Europe's contribution to international climate finance is an important element of its climate change actions at an international scale but this area of climate policy is not governed by the Climate and Energy Package, it is part of development policy governed by the EC and the member states separately. Still, the EU is a key player on Fast Start Funding with the EC and member states contributing more than €2 billion between 2010 and 2012. As most of this comes from ODA budgets, it is not necessarily all new and additional funding. By 2020, the EU has committed to making an appropriate contribution to 'new and additional' climate finance of $100 billion per annum, as agreed in the Copenhagen Accord, but it has not yet specified what share of this will be public money nor what is meant by 'additionality'. Current funding of climate-relevant projects in the EU budget for external actions is about €400 million per year in the period 2007 to 2013. Decisions will be required on the design of delivery mechanisms and financial instruments in the EU budget to deliver climate finance to developing countries.

The key question for the EC is what role it actually wants to play in climate financing. On the one hand, it could act as a coordinator and facilitator of member states' strategies, responses and definitions. On the other, it could play an active role in financing climate actions, or, at least, in ensuring that European contributions through bilateral, multilateral and global channels are adequate and predictable. Or it could straddle both roles, as it does in development cooperation. The value added of EU spending and the division of labour between the EC and the member states will continue to be important criteria for the direction of funds and for judgements about the scale of resources required. The extent to which the EC should focus on climate issues in a particular country needs to be based on what member states are already doing in that country and what additional benefit the EC can bring.

The EC and member states will need to ensure that increases in the budget for climate finance will not be to the detriment of traditional ODA. In any event, the EU will need to agree on a joint definition of additionality sooner rather than later, include a transition period of three to five years for its implementation and require Member States to report transparently on climate funding on the basis of agreed criteria. While there will be some calls for the EC to make use of the funds established under the United Nations Framework Convention on Climate Change (UNFCCC) and other initiatives, there will also be pressure to find a 'European' solution.

The options

The EC has put forward two complementary approaches to climate-related finance from the EU budget.

- Mainstream climate change into geographical programmes. This would increase climate finance in the EU budget and ensure aid effectiveness principles are respected. Additional climate-specific funding could also be channelled via climate windows under a number of existing or new investment facilities and could include a mix of grants and loans as appropriate.

- Maintain a thematic approach through the Environment and Sustainable Management of Natural Resources Programme (ENRTP) of the DCI and increase its amount. This would help to bridge the financing gap between fast start climate finance (2010-2012) and the longer term commitment of contributing towards the $100 billion.

A third option is the creation of a separate climate action instrument under Heading 4. This would help generate enhanced political priority for climate goals. Agreement on its funding could be made a binding element of the Climate and Energy Package.

A decision will also need to be taken on whether, and to what extent, EU support to the global Green Climate Fund (GCF) is best channelled through the EU budget or directly from Member States' budgets.

Although a challenge, the approach of mainstreaming climate change requirements in EU programming has strong support from most stakeholders. At the same time, however, mainstreaming will require considerable strengthening of key elements, particularly transparency, effectiveness and delivery. Mainstreaming would need to be made more explicit, with the establishment of clear criteria, targets, indicators and monitoring systems and with concrete provisions to ring-fence dedicated funding that targets climate change mitigation and adaptation measures directly. In addition to mainstreaming, the thematic approach through the ENRTP would ensure greater visibility, transparency and flexibility in terms of delivery.

A separate instrument would ensure stronger political visibility of climate change objectives and would be a complementary instrument to an effective mainstreaming approach. However, it would entail a concentration in the management of funds at EU level and could create coordination problems in implementation.

In addition to scaling up the support for climate change measures in the next MFF, existing spending in other areas needs to be scrutinised and amended to ensure that it is not counter-productive to climate mitigation efforts.

4. Ensuring adequate long-term funding to strengthen security and development linkages

Europe has a clear interest in long-term stability in Africa, Asia and the Middle East. Yet, this is a long-term process that requires political commitment and reliable financial support.

The EU has created several financial instruments to fund foreign policy initiatives in different policy spheres, including security, crisis response, democracy and human rights, energy cooperation, nuclear safety and mainstream development cooperation. The negotiations around the next MFF provide an opportunity to reconsider the more specific issue of how the EU should finance stability and peace and security operations in the framework of its global development policy and external action. EU officials themselves have expressed hope that the process of negotiating the new MFF will prompt EU institutions and member states to further develop joint political strategies towards fragile states and those in transition (for example, through the joint Country Strategy Papers).

This is particularly relevant, given the remaining doubts about coherence in the EU's external action and the feasibility of the 'whole of government/system approach' amid persisting uncertainties about how to sequence and prioritise the security-development linkage in practice. However, simply streamlining the EU's foreign policy instruments is not necessarily the best way to improve coherence and consistency. Current arrangements to finance EU peace and security policy are quite flexible with three 'standing' instruments to fund operations (Table 2), plus the ad-hoc Athena instrument which finances the common costs of EU military operations. Combining the instruments would be difficult legally and, given the different objectives of the instruments, of dubious value in terms of efficiency gains. A better approach would be to build the EU's capacity to address security and development linkages by strengthening the existing instruments, in particular the Instrument for Stability (IfS) and the African Peace Facility (APF).

The EU started to adapt its external action instruments to situations of crisis only relatively recently, notably by introducing the IfS in 2007. The IfS was created to enable the EU to act faster and more flexibly in times of political crisis or natural disaster and to re-establish the conditions necessary for the implementation of programmes funded by the EU's long-term development instruments.

The democracy protests and escalating civil conflict in the Middle East and North Africa have raised questions about the extent to which the EU is currently prepared to respond to situations of political upheaval, instability and sudden regime change on a regional scale. The 'Arab Spring' necessitates not only the redefinition of the EU's Neighbourhood policy but also a rethink of the allocation of resources to the IfS. The EU is considering IfS projects to support post-crisis capacity building in Egypt and Tunisia, and there is a distinct possibility that similar initiatives will be necessary when the fighting stops in Syria, Libya and Yemen. Current levels of funding are unlikely to be adequate to meet these new challenges.

The uneasy relationship between development and security goals is highlighted by uncertainty about the future of the APF. Since 2004, when the instrument was created in response to a request by African heads of state, the APF has become invaluable for supporting African Union (AU)-led peace and security operations (PSOs) and, therefore, for establishing the necessary conditions conditions for socio-economic development in Africa. It is an innovative instrument in that it is used, in part, to pay the expenses of AU soldiers in the field, a function that is widely seen as an essential component of the shared AU/EU strategy for peace and security in Africa.[9] However, under the EU Treaties the EU budget cannot finance military operations, hence the temporary arrangement to use the EDF to finance the APF.

While pragmatic, the APF does not sit comfortably alongside the EDF's raison d'être – to eradicate poverty in ACP countries – and there are tensions around the APF's ODA-compatibility. The main issue with the APF is its capacity: in its present form it is unlikely to be able to meet demand. Expanding the AMISOM mission to Somalia for example, would require more soldiers and more money for a mission that does not, at present, secure all of Mogadishu. It is likely that new AU missions may be required in the next few years: in South Sudan the high risk of ethnic conflict complicates the challenge of building a new country virtually from scratch, while in Côte d'Ivoire an ECOWAS mission is a possibility following the disputed 2010 elections. Libya could also be a candidate for an AU mission.

The options

In addition to making a greater investment in the IfS, there appear to be three options for ensuring long-term funding support for PSOs in Africa and elsewhere:

- Retain the status quo and continue to finance the APF from the EDF. If the EDF is not budgetised in the upcoming MFF, the status quo could be maintained until 2020. If the EDF is budgetised, the legal issue of whether PSOs can be funded from the EU's budget will become acute. In any event, if more peace and security operations were to be financed from the EDF, this option would inevitably involve trade-offs with development programmes. This could call into question the independence of development aid and the principle that crisis management and security should not be funded by development instruments.

Table 2: EU Peace and Security Financial Instruments

Instrument	Africa Peace Facility	Instrument for Stability	Common Foreign & Security Policy
Responsible EU institution	EEAS/European Commission	EEAS/European Commission	EU Council
Source	EDF	EU budget heading IV	EU budget heaing IV
Purpose	Financing AU-led peace-building in Africa, creating conditions for development	Financing measures establishing conditions for implementing development policy	Financing operational costs of CFSP except military costs
Actors financed	Military/Civilian	Civilian	Civilian
Budget 2007-2013	€ 470 million	€ 2,062 million	€ 1,980 million

- Finance the APF from the EU budget, possibly through combining it with the IfS or the CFSP instrument. The Lisbon Treaty may open up possibilities for a new peace-building instrument financed by the EU budget. This would need further clarification by the EU Council, and an amendment to the Lisbon Treaty may be required. An advantage of financing the APF from the EU budget is that the instrument would probably be eligible for contributions from EU aid from the ENPI and DCI and would, therefore, become deployable more widely. On the other hand, integrating the APF into either the IfS or the CFSP would put further pressure on funding the already competing priorities of Heading 4. Finally, the special character of the IfS as a civilian instrument would need to be protected.

Some EU officials and experts have suggested that extending the CFSP instrument to cover PSOs in Africa may be the best option. However, the CFSP instrument is for financing the foreign and security policy of the EU and is, in general, deployed with European interests in mind. It is not, therefore, easily compatible with the APF's objectives and guiding principles, particularly that of the AU's ownership of African peace and security architecture. In any case, the limited size of the instrument is already a constraint on funding the actions envisaged in the CFSP policy framework.

- Create a new instrument outside the EU budget to finance peace and security operations. A new instrument would not be limited by existing fiscal ceilings or competing priorities under the external relations budget. Should EU member states choose to do so, they could create a larger fund that could support more substantial operations. A separate EU peace and security fund could help to build solidarity between EU and AU member states and improve the predictability of funding for AU peace and security operations. It could also potentially be used in other parts of the world in support of UN-mandated operations. However, this option would be very difficult to realise as it would require a fresh round of intra-EU negotiations over who should contribute what, and why this instrument in particular should be financed outside the normal EU budget.

5. Budgetising or maintaining a separate European Development Fund

The long-standing debate on incorporating the EDF into the EU budget ('EDF budgetisation') has once again resurfaced as part of the discussions on the new MFF. With the elimination of references to the EDF from the Cotonou Partnership Agreement and the EU Treaties, the door is now wide open to allow for EDF budgetisation. This means that the decision to incorporate the EDF into the EU budget can now be made by a unilateral decision of the Council.

While the EC and the European Parliament have been proponents of budgetisation in the past, EU member states' views diverge. The same goes for development NGOs, and the ACP has expressed opposition to EDF budgetisation repeatedly.

Various arguments are provided in favour of the integration of the EDF in the budget. The EC has maintained consistently that budgetising the EDF would result in simplified procedures and increased effectiveness and efficiency of EC aid. The European Parliament has tended to favour budgetisation as it would give the Parliament a crucial role in overseeing the management and use of EC aid to the ACP, given that it has no say over funding outside the EU budget. Other actors have argued that an all-ACP geographic strategy has become redundant, as aid programming takes place at a regional and national level including the three regional strategies for Africa, the Caribbean and the Pacific, and the strategies for sub-regions of Africa.

Others provide arguments against budgetisation of the EDF. An argument cited by some member states is the extra cost it would entail to them. For some member states (such as the UK, Germany and Spain), it would entail an increase in their share of EU funding for the ACP as it became based on a percentage of Gross National Income (GNI) rather than on voluntary contributions.

Some member states do not favour budgetisation as they have more influence on EDF decision-making than on EU budget-financed development cooperation, given the differences in how the EDF Committee operates compared to the ordinary comitology procedure. Predictability and quality of funding is cited as another argument against, given the annual nature of the budget process, which poses a risk that the disbursement rate will become a more important factor than the quality of actions. It has also been pointed out that EDF budgetisation may endanger the application of the principle of joint management, as a result of EU budgetary procedures.

The biggest risk that has been identified by a broad range of stakeholders with EDF budgetisation is that, in the absence of a clear commitment from the member states to increase the overall budget to safeguard EDF resources, the overall resources to ACP countries, and development cooperation at large, would reduce.

The options

There are two options.

- Maintain the EDF as a separate inter-governmental fund alongside the EU budget, thereby limiting the risk of reduced levels of funding for the ACP and development cooperation at large. Budgetisation post-2020, following the expiry of the Cotonou Agreement would still form part of the current negotiations.
- Create a separate instrument for the ACP in the EU budget or integrate funding for the ACP in the DCI, thereby giving the European Parliament a stronger oversight role. An agreement could be sought to uphold the total spending for the ACP. An annex could be added to the Cotonou Partnership Agreement indicating a financial commitment, as is currently the case for Annex 1b that specifies funding from the 10th EDF for 2008-2013. The mutual accountability mechanisms that characterise the EDF, including oversight by a joint Council of Ministers and joint Parliamentary Assembly, as well as arbitration procedures, could be built into the budgetary instruments servicing the ACP. This could also include a continuation of the EU and ACP joint sign off on country and regional strategy papers and indicative programmes, which is currently a unique feature of the EDF.

Beyond the technical and financial arguments, EDF budgetisation in 2013, seven years before the expiry of the Cotonou Partnership Agreement, will bring with it a much higher political cost compared to budgetisation post-2020, in terms of the diplomatic signal it would send to the ACP. This underlines that any future decision taken on budgetisation should be guided by a vision of the future of EU-ACP relations, rather than being seen as purely financial or technical considerations.

Conclusions

As highlighted in this paper, if the EC wants to maintain its position as the largest multilateral donor in the world, it will undoubtedly need to start focusing on specialising in areas of comparative advantage of Community action, where member states cannot, bilaterally, make a difference.

At the same time, the EC will also need to ensure that it has the right mechanisms to respond to a changing development landscape, to current and emerging global challenges and to project its areas of comparative advantage.

In particular, the EC, the member states and the European Parliament will need to decide whether:

- an instrument for global partnerships and the provision of global public goods, alongside the DCI, would allow EU development policy to pursue a systematic set of objectives and reflect the reorientation of development cooperation towards global structural policy, shifting its focus towards global problem-solving for the benefit of development outcomes; and whether a flexible instrument framework would take into account the complementarities between poverty reduction and mutual interests in a way that allows for decision-making at partner country level and with partner country governments;

- to institute greater flexibility between Headings and between instruments to lessen cumbersome procedures and ensure faster decision-making and swifter action in responding to unforeseen humanitarian needs; and whether to incorporate contingency flexibility within an instrument to increase flexibility without risking predictability;

- to mainstream climate change requirements in EU geographic programmes coupled with the maintenance of a thematic approach through the ENRTP to ensure greater visibility, transparency and flexibility in terms of delivery. At the same time, the EU will need to agree on a joint definition of additionality and require member states to report transparently on climate funding on the basis of agreed criteria.

- streamlining the EU's foreign policy instruments is the best way to improve coherence, consistency and the predictability of funding and whether a better approach would be to build the EU's capacity to address security and development linkages through strengthening the existing instruments and potentially through creating a new fund outside the EU budget for financing peace and security operations in Africa and elsewhere.

- a move to budgetise the EDF in 2013, seven years before the expiry of the Cotonou Agreement, would warrant the much higher political cost compared to budgetisation post-2020, particularly in the absence of an in-depth discussion on the future of EU-ACP relations.

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