Overseas Development Institute

Background Note

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The European Commission's legislative proposals for financing EU Development Cooperation

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In December 2011 the European Commission (EC) unveiled its package of legislative proposals on the EU's external action instruments for the period 2014-20 as part of the negotiations on the Multi-Annual Financial Framework (MFF), the EU's spending review. Six of these external action instruments are geographic, while three are thematic. All of these instruments – except the European Development Fund – form part of Heading 4 (Global Europe) under the EU budget.

This Background Note focuses on selected instruments of direct relevance to international development, and builds on a previous paper that considers financing of European development cooperation (Gavas, 2010). It reviews the proposals on three of the geographic instruments (the European Development Fund, the Development Cooperation Instrument, and the European Neighbourhood Instrument) and two of the thematic instruments (the European Instrument for Democracy and Human Rights, and the Instrument for Stability (IfS)).

The paper argues that it will be difficult to secure financing for external action in general, and for development cooperation in particular, as Member States appear intent on reducing the overall EU budget. Other challenges include rapid changes in the development landscape, and the need to find a balance between too much detail, and too little.

The paper discusses the EC's intention to reassess aid to countries that could fund their own development. It raises concerns about how the EC will work with these countries in the future to address global challenges, and concludes by highlighting important unanswered questions to be addressed during the MFF negotiations.

Background

The package of legislative proposals from the European Commission on the EU's external action instruments for the period 2014-20 contains six geographic and three thematic instruments, as detailed in Table 1 overleaf.

No significant changes have been proposed to the structure of the instruments in this round of the MFF. Only one of the instruments has been altered substantially: the Instrument for Cooperation with Industrialised Countries (ICI), which has been replaced by a Partnership Instrument. A new instrument for Greenland has been proposed to preserve close links between Greenland and the EU, in particular in relation to EU fishing rights and raw materials.

The legislative package for Heading 4 does not include:

- macro-financial assistance (€0.67 billion) managed by the Directorate General for Economic and Financial Affairs (DG ECFIN) and used in exceptional circumstances to grant macro-financial assistance in cooperation with the International Monetary Fund (IMF), mainly to neighbourhood countries. A framework regulation for this assistance was proposed by the EC in July 2011 and is already being co-decided by the Council and European Parliament
- the EU Guarantee Fund (€1.4 billion), backing lending operations by the European Investment Bank (EIB), managed by DG ECFIN
- Humanitarian Aid (€7.22 bn), the European Voluntary Humanitarian Aid Corps (€0.24 bn), and the Civil Protection Instrument (€0.24 bn) managed by the Directorate General for humanitarian affairs,

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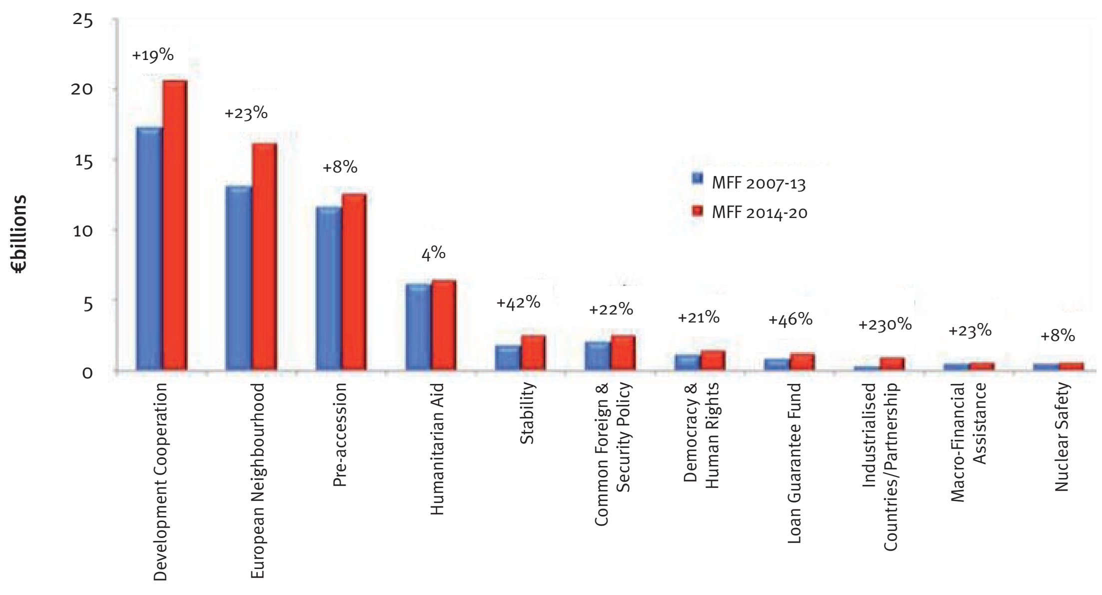
Table 1: European Commission proposals for external action instruments

Instrument	Proposed total budget 2014-20 (2011 prices)	Proposed total budget 2014-20 (current prices)	Coverage
European Development Fund (off budget)	€30.32 billion	€34.275 billion	Africa, Caribbean and Pacific
HEADING 4 (Global Europe)			
Geographic			
Development Cooperation Instrument	€20.597 billion	€23.295 billion	Asia, Central Asia, Latin America and the Middle East Two thematic programmes: 1. Global public goods and challenges 2. Civil society organisations and local authorities Pan-African programme
European Neighbourhood Instrument	€16.097 billion	€18.182 billion	Neighbouring countries in the eastern and southern Mediterranean
Pre-accession Instrument	€12.52 billion	€14.11 billion	Southern Balkans, Turkey and Iceland
Partnership Instrument	€1 billion	€1.131 billion	Global reach but with a focus on strategic partners and emerging economies
EU-Greenland Partnership	€0.193 billion	€0.218 billion	Greenland
Thematic			
European Instrument for Democracy and Human Rights	€1.4 billion	€1.578 billion	Human rights protection and promotion, democratisation, elections monitoring
Instrument for Stability	€2.51 billion	€2.829 billion	Crisis response, crisis preparedness, conflict prevention, global and trans-regional security threats
Nuclear Safety	€0.56 billion	€0.631 billion	All third countries, but priority for pre-accession and neighbouring countries

Figure 1: Comparison of current and future Heading 4 funding (€billions in December 2011 prices)



Source: European Commission.

(DG ECHO), for which proposals will come later, including the revision of the Humanitarian Aid regulation that was adopted in 1996
- the Common Foreign and Security Policy (€2.83 bn), an inter-governmental policy that supports non-military security-related actions.

The amount proposed in total for Heading 4 is €70 bn in 2011 prices (€79.014 bn in current prices).

Figure 1 compares the present and proposed future funding of Heading 4, both in 2011 prices. All instruments see an increase in funding. The Partnership Instrument (formerly the Industrialised Countries Instrument) sees the biggest increase, followed by the Loan Guarantee Fund for lending operations by the EIB, the Stability Instrument, the European Neighbourhood Instrument and the Democracy and Human Rights Instrument.

Most of the instruments are the result of a joint decision by the European Parliament and the Council. Only four instruments are governed solely by a Council decision: the European Development Fund, the EU-Greenland Partnership, the Common Foreign and Security Policy and the Civil Protection Instrument.

Finally, in order to simplify matters, the EC has also proposed a separate regulation with common rules and procedures for the implementation of all instruments for external action.

The European Development Fund (EDF)

The EC has proposed to maintain the European Development Fund (EDF) (the financial arm of the Cotonou Agreement between the EU and 78 countries of Africa, the Caribbean and the Pacific) outside the EU budget (EC, 2011a). The reasons given for this are: (1) this is the last EDF under the Cotonou Agreement which expires in 2020; and (2) it is unlikely that a consensus between the Member States in favour of ‘budgetising’ the EDF would have been found.

Views continue to diverge amongst the Member States, driven primarily by cost, on whether to keep the EDF separate or to integrate it into the EU budget.

An overall amount of €30.32 bn (in 2011 prices) has been proposed for the next seven-year budget, a 13% increase on the €26.93 bn (in 2011 prices) for the current six-year budget (2008-13). The overall amount will need to be agreed by all the Member States.

The EC has also proposed a new 'contribution key' that brings the EDF key closer to the key for the EU budget contribution. Table 2 (overleaf) compares the current contribution per Member State with the EC’s proposed contribution. Without exception, the EU-12 would see quite substantial increases in their contribution shares. Poland’s share, for example, would rise from 1.3% to 2.17%, an increase of 67%. Lithuania would see an increase of 50%. Austria, Denmark, France, Italy, Luxembourg and the UK, however, would see slight decreases in their contribution shares.

In its June 2011 Communication on the Multi-Annual Financial Framework (EC, 2011b), the EC had proposed extending powers of scrutiny of the EDF to the European Parliament, by ‘bringing it into line with the DCI’ (i.e. granting the European Parliament informal powers of scrutiny over the EDF, as it has formally over the DCI). The EC now seems to have dropped this proposal: it does not feature in the legislative proposal for the new EDF.

The Development Cooperation Instrument (DCI)

The EC has proposed a 19% increase in the Development Cooperation Instrument (DCI) in real terms, from €17.25 bn to €20.6 bn in 2011 prices (EC, 2011c). As in the current MFF, the proposed ratio is around 40% for thematic programmes and around 60% for geographic programmes (Latin America, Asia, Central Asia, the Middle East and South Africa). Also carried over from the current DCI is the proposal to give geographic programmes 100% eligibility for ODA, with 10% flexibility for the thematic programmes to cover non-ODA expenditure.

Five current thematic programmes (Non-State Actors, Food Security, Investing in People, Environment, Asylum and Migration) all feature in the proposals for the new DCI, with some modifications, mostly in name and grouping. Food security, investing in people (changed to human development), environment (with climate change added) and migration (with asylum deleted), with the new addition of energy, are now all grouped under the thematic programme for Global Public Goods and Challenges. Two benchmarks have been set: 25% of the funding from the programme for Global Public Goods and Challenges must go to climate change and environmental objectives; and 20% of funding must go to social inclusion and human development. Non-State Actors (changed to Civil Society Organisations and Local Authorities) has been separated into a stand-alone programme, and a new pan-African programme has been created to support the objectives of the Joint Africa-EU Strategy.

There are three important innovations with the new Instrument:
- **Simplification of the programming process**, with fewer documents and less control by the legislative authorities. Country strategy papers will be superseded by national development

Table 2: A comparison of the 10th EDF and proposed 11th EDF contributions

	10th EDF Contribution Key	Proposed 11th EDF Contribution Key	Change in Contribution Share
Austria	2.41%	2.36%	-2%
Belgium	0.14%	0.22%	57%
Czech Republic	0.51%	0.83%	63%
Denmark	2%	1.97%	-2%
Germany	20.5%	20.54%	0%
Estonia	0.05%	0.08%	60%
Ireland	0.91%	0.95%	4%
Greece	1.47%	1.57%	7%
Spain	7.85%	8.06%	3%
Finland	1.47%	1.51%	3%
France	19.55%	17.83%	-9%
Italy	12.86%	12.62%	-2%
Cyprus	0.09%	0.12%	33%
Latvia	0.07%	0.11%	57%
Lithuania	0.12%	0.18%	50%
Luxembourg	0.27%	0.26%	-4%
Hungary	0.55%	0.69%	25%
Malta	0.03%	0.04%	33%
The Netherlands	4.85%	4.85%	0%
Poland	1.3%	2.17%	67%
Portugal	1.15%	1.20%	4%
Romania	0.37%	0.72%	95%
Slovenia	0.18%	0.23%	28%
Slovak Republic	0.21%	0.38%	81%
Sweden	2.74%	2.94%	7%
United Kingdom	14.82%	14.33%	-3%

plans where they exist. Programming will consist of regional and thematic multi-annual indicative programmes. In contrast to current practice, and in order to streamline the process and avoid micro-management, the European Parliament will not have a formal role in the programming process. Instead, the EC proposes consulting an advisory committee of Member States.

- **Flexibility to respond to evolving situations in partner countries**. The cooperation priorities for each geographic and thematic programme will be placed in the annexes of the regulation, together with the lists of countries eligible for the different programmes. All annexes will be subject to reviews and modifications throughout the course of the MFF through 'delegated acts'. This means that the EC will have to request the consent of the Member States and the European Parliament before implementing any changes. Crucially, however, there will be no legislative process.

- **Differentiated development partnerships, with more advanced countries no longer eligible to receive aid**. All countries that represent more than 1% of the world's GDP or are upper-middle-income countries according to the OECD Development Assistance Committee, are in principle, excluded from receiving bilateral aid. This means that, as of 1 January 2014, 19 countries will no longer be eligible for EC bilateral aid. The EC will 'save' around €2 bn (or 10% of the proposed DCI budget) that will benefit instead other poor countries as well as regional programmes and investment facilities which blend loans and grants. The 19 countries will continue to be eligible for aid under regional programmes such as the investment facilities, or trade related cooperation under the thematic programmes and instruments and the Partnership Instrument. The countries affected are: Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, India, Indonesia, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay.

The European Neighbourhood Instrument (ENI)

The EC has proposed a 23% increase in the European Neighbourhood Instrument (ENI) in real terms, from €13.07 bn to €16.1 bn, in 2011 prices (EC, 2011d). The European Neighbourhood Policy covers 16 partners to the East and South of the EU's borders: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, the Republic of Moldova, Morocco, the occupied Palestinian territory, Syria, Tunisia and Ukraine.

A new vision was outlined in May 2011 in a joint communication of the High Representative of the EU for Foreign Affairs and Security Policy, and the European Commission ('A new response to a changing neighbourhood') and in the Council conclusions adopted of June 2011. The new approach calls for greater support to partners committed to building democratic societies and undertaking reforms, in line with the 'more for more' and 'mutual accountability' principles.

The 'more for more' principle provides for a much higher level of differentiation among partners, in line with their commitment to jointly agreed values and objectives, and in particular to democracy and shared prosperity. Financial incentives for the most ambitious reformers are an important aspect of the new approach. In contrast to the DCI, all neighbouring countries will continue to be eligible for bilateral cooperation, but its form and amount will reflect the level of ambition of the country's partnership with the EU, its progress in building deep and sustainable democracy, its progress in implementing agreed reform objectives, the country's needs and capacities, and the potential impact of EU support. In this case, differentiation will be based more on political, rather than economic, criteria.

Support will include increased funding for social and economic development, larger programmes for institution-building, greater market access, increased EIB financing in support of investments, and greater facilitation of mobility (visa facilitation and migration management). The EU will reconsider or even reduce funding for countries where no reform has taken place.

The horizontal (thematic) instruments

Two horizontal instruments are important from a development perspective:
- the European Instrument for Democracy and Human Rights (EIDHR)
- the Instrument for Stability (IfS).

The focus and objectives of both instruments remain unchanged. The EIDHR will continue to promote democracy and human rights and to strengthen the role of civil society (EC, 2011e), whilst the IfS will continue to focus on crisis response and preparedness as well as long-term capacity-building (EC, 2011f). The proposed change to the IfS allows for increased flexibility in its implementation.

Civil society will continue to be the main implementing partner for the EIDHR. The aim is to support civil society to become an effective force for political reform and defence of human rights. There will be a renewed focus on addressing the situation in challenging or emergency situations where human rights and fundamental freedoms are most at risk. The EC has proposed a 21% real-terms increase in the EIDHR.

The EC has proposed a 42% increase in the IfS, which addresses needs that cannot be tackled by any of the other instruments. These are:
- urgent crisis response
- global or trans-regional problems that exceed the scope of a geographic instrument
- activities that go beyond ODA-eligibility criteria (for example, counter-terrorism)
- non-country specific activities (for example. projects to develop international standards or policies in the field of conflict prevention and peace-building).

The IfS has been streamlined to increase its flexibility so that it can respond more effectively and rapidly to peace and security challenges. In practice, this will continue to make it possible to extend and re-conduct exceptional assistance measures in response to crises and protracted conflicts; and it will give the Commission the flexibility to approve initial response measures rapidly.

The timeline

The legislative proposals outlined above will now go through a lengthy process of joint decision-making between the European Parliament and the European Council. The European Parliament's Development Committee will take the lead on the Development Cooperation Instrument while the Foreign Affairs Committee will take the lead on the Pre-accession, European Neighbourhood, Democracy and Human Rights and the Stability Instruments.

In the Council, a 'friends of the presidency' group has been established and will work through each policy area.

However, no policy area will be able to be finalised before an agreement is reached on the overall budget. The legislative acts have to be adopted before the end of 2013.

The proposed Council decisions for the EDF and cooperation with Greenland will be discussed by the Member States and adopted by the Council. In 2012, the EC will table further proposals on the implementing rules and programming guidelines for the EDF.

Challenges

The EC has proposed a 25% increase for Heading 4, and a 13% increase for the EDF. Increases have been proposed for all the external action instruments.

Nevertheless, securing the financing for EU external action in general, and development cooperation in particular, will be key challenges, particularly as Member States appear intent on reducing the overall EU budget. It is notable that the EC proposes to increase the DCI by 19%, but the EDF by only 13%. The EDF is outside the budget, and therefore perhaps easier to increase, given fiscal stringency. There are, of course, major questions around the comparative advantage of EC development cooperation, the answers to which are preconditions for decisions on levels of funding and the design of policies and instruments. One thing is clear, however: as aid from Member States inches its way slowly towards the internationally agreed 0.7% target of GNI, aid from the European Community will need to increase – and continue to increase – throughout the period of the MFF if it is to maintain is current market share of ODA (currently around 18% of the EU total).

Beyond the finances, the budget for external action will need to be designed against the backdrop of a development landscape that is changing rapidly. EU external action instruments will not only have to respond to current events but, given their seven-year timeframe, they will also need to be far-sighted and flexible enough to respond to looming and unpredictable challenges. Overall, the package of legislative proposals attempts to do this through: simplification of the programming process; flexibility of allocation, programming and implementation; concentration of activities and spending; and overcoming overlaps of instruments.

Getting the right balance between enough and too much detail, however, has proved to be a challenge for the EC. The DCI regulation is particularly thin on detail. No information has been provided on how the EC intends to implement a policy that is framed in the Agenda for Change. The Agenda espouses greater sectoral concentration at country level, with aid focused on two broad priorities (governance and inclusive and sustainable growth) and no more than three sectors at country level. Yet, there is no mention of how the sector priorities will be implemented, how climate change will be mainstreamed, or how the EC will work with the private sector. The EC risks restricting itself by setting spending benchmarks for aid spending. Such benchmarks reduce flexibility in responding to country needs and impose arbitrary goals.

The EC is moving in the right direction with its intention to reassess aid to countries that seem wealthy enough to fund their own development. The list of criteria to determine aid allocation is given, including income per capita, the Human Development Index, the Economic Vulnerability Index, aid dependency, economic growth and foreign direct investment.

However, the 19 countries that the EC proposes to graduate from aid are on the list because they are upper-middle-income countries or, in the case of India and Indonesia, each shares more than 1% of the global Gross National Income (GNI). The 1% of global GNI cut-off point seems rather arbitrary, as does the formula for deciding eligibility. Despite the list, South Africa, an upper-middle-income country, will continue to be a key recipient of EC aid. And the African, Caribbean and Pacific (ACP) group of countries will also be exempt from the process, illustrating the importance of political factors in such decision-making.

Overall, it seems that the EC uses income status of a country as the basis for the decision, yet this fails to recognise that aggregates say little about the capacity of a country to address poverty. Furthermore, in some cases, joint phasing-out strategies focused on the common objective of fighting poverty and inequality will be needed.

The proposal to cut aid to influential emerging countries presupposes that the Commission has developed a strategy to find new ways to work with them to address global challenges. However, the focus of the Partnership Instrument is clearly on cooperation with EU strategic partners to promote mutual interests and give the 'Europe 2020' strategy a global reach, rather than on tackling regional and global problems and the provision of global public goods (where emerging countries are key). Apart from climate change, the main focus of the instrument is on growth, finance and trade. Tackling global challenges is left mainly to the thematic programme under the DCI.

There are still many unanswered questions. For example, how can values such as 'policy coherence for development' be made a central feature of the debate on how the budget should be managed? How can climate finance be managed within the EU budget, and will such finance be additional to ensure that it does not divert resources from other development priorities? It is cucial that answers to these questions emerge as the negotiations proceed.

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References and useful resources

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Useful resources:

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