The European Union’s next Multiannual Financial Framework: Prospects and Challenges for EU Development Cooperation

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Key messages:

With discussions on the next MFF under way and a Commission Communication to kick off formal negotiations due by early summer 2018, there is currently an opportunity to influence choices before the terms are officially set. Three fundamental questions need to be answered:

1. How much funding should go towards EU external action, which today falls mainly under Heading 4 (Global Europe) of the current MFF?
2. What should this money be spent on?
3. How should this money be managed – through what type of instruments, with what regulations, and by whom?

This paper addresses these interrelated questions. It begins by analysing the external and internal context and priorities for the EU from a development lens; examines why the current MFF is not fit to respond to this context; and presents a series of recommendations for a well-resourced and redesigned Heading 4, with a focus on development. These recommendations address the size and architecture of Heading 4, and propose reforms to the ways in which EU development cooperation is managed.

Introduction

Negotiations are under way on the European Union’s next Multiannual Financial Framework (MFF), that is, its seven-year budget that will come into force in 2021. The MFF will set the strategy, architecture, finances and instruments from 2021 onwards. It will shape the future of the EU’s external engagement, in particular the relevance, credibility and impact of the EU as a major player in international development.

The procedure process for setting the next MFF raises two important issues: the comparative advantage of a Europe-wide approach to external action; and Europe’s role in the future global development finance architecture. This time around, the budget negotiations will need to reconcile the interests and visions of both, reform-oriented and status quo-minded stakeholders, against a backdrop of intensifying talks over the UK’s departure from the EU, as well as a much more unstable and competitive...
global environment. Nevertheless, the next MFF could offer an opportunity for a significant shake-up of EU external action, including in the area of international development.

• Heading 4 should prioritise support for global public goods, fragile states and least developed countries (LDCs), as areas where the EU adds value and that are important for achieving core EU goals. The 2030 Agenda for Sustainable Development and the Paris Agreement are key points of orientation and legitimisation in this regard. As part of an overall expression of the commitment to taking the European Project further, member states should as a minimum commit to preserving the current overall level of external financing resources.

• Funds under Heading 4 should be managed through three pillars. One that focuses on national level development problems faced by all developing countries (e.g. education, health, governance), organised around geographic cooperation. One that addresses global development problems that require cross-border action (e.g. taxation, climate change, migration), organised around thematic cooperation. These grant-based instruments, which include non-financial cooperation (e.g. in-kind, technical assistance, etc.), should be complemented by the third pillar, the European Fund for Sustainable Development, offering blended finance.

• Steps should be taken to reinforce accountability relations within EU development policy, with a key focus on strengthening the role of the European Parliament, the requirements for blending and for delegated cooperation via member state organisations.

• Instruments under Heading 4 should be made more responsive, combining predictability with the possibility of fast-tracked decision-making where required. Including flexibility reserves in all instruments would facilitate this.

• The EU’s adaptability to changing contexts and to differences across countries and regions should be increased. A revised Heading 4 must provide a stronger programming and implementation role for EU Delegations, so as to preserve a key element of the EU’s complementary role in development cooperation relative to those of the member states.

• Off-budget initiatives should be closely harmonised with the MFF, aided by a reinforced Common Implementing Regulation and a reformed Financial Regulation. This contributes to ensuring that EU development policy remains an area for promoting European integration, as opposed to a ‘delivery channel’ for member states.

Section 1. Context for the new MFF

1.1 Changing context and new challenges

Since the current MFF (2014-2020) was first developed, the world has changed significantly. The EU is facing a range of new challenges – a world that has become multipolar, increased instability in the EU neighbourhood, slow economic recovery and greater inequality within Europe itself. This evolving landscape, coupled with the political pressures linked to the Syrian refugee situation and ongoing irregular migration into the EU, have shown how ill-prepared the current MFF is to respond to shocks.

It is critical that the external action budget of the next MFF is designed to respond effectively to these challenges and to future changes or shocks. A key challenge will be balancing the need for predictability and accountability with the need for flexibility and timely action – something that

1 The authors gratefully acknowledge comments on a draft version of this paper from Svea Koch (DIE), Bernardo Venturi (IAI), Tancrède Voituriez (IDDRI), James Mackie and Andrew Sherriff (ECDPM) and Simon Maxwell (ETTG Chair). The views expressed in this paper are those of the authors.
has proved difficult for the current MFF. Designing a budget that works for Europe requires looking carefully at global and European trend. And, on this basis, identifying external action priorities for the post-2020 period that are important for achieving EU’s goals and where the EU can add value. This will be even more challenging given that Brexit – the UK’s exit from the EU – is likely to produce a 10% to 13% loss to the overall EU budget. Other estimates consider that the net impact of Brexit will be smaller given that savings will arise from cancelling the UK rebate, and assuming that the UK will need to contribute to specific EU programmes if it wants to retain access to them.²

External trends

The global economic outlook for the period covered by the next MFF is mixed, with some troubling elements. Global growth reached a stronger-than-expected 3% in 2017 and is expected to edge upwards. However, an abrupt tightening of global financing conditions could derail this. Escalating trade restrictions and rising geopolitical tensions could dampen confidence and activity. Particularly worrying are longer-term challenges associated with subdued productivity and potential growth.³

Rising inequality and reduced labour income could undermine progress in human development and the accumulation of human capital; and generate instability. While positive trends in poverty reduction seem likely to continue in Asia, expectations are that sub-Saharan Africa will increasingly be left behind. The global neglect of environmental effects of dominant development models will become more visible and deeply felt in the years to come.

Certain challenges are likely to be particularly prominent in the coming decade. Fragility, conflict and instability remain deeply entrenched in some regions, blighting prospects for development. In an increasingly interconnected world, meanwhile, new forms of violence and insecurity are spreading rapidly. Climate change appears to continue unabated. Environmental and demographic stresses⁴ combined with rapidly rising urbanisation are creating a range of risks, including a bulge of disaffected people, multidimensional poverty, and huge slum populations. In addition, humanitarian needs are rising, driven primarily by conflict in the Middle East and Africa. The combination of increasing global interconnectedness and the multiple pressures listed above will continue to drive high levels of irregular and unsafe migration.

Against this backdrop, the boundaries between external and internal challenges have been eroded and can no longer be politically sustained. All EU policies have a bearing on global sustainable development – whether internally or externally focused – and should therefore be considered for their contribution to the 2030 Agenda of which the EU is a principal proponent. The EU’s Global Strategy of 2016 and new Consensus on Development of 2017 recognise these increasingly blurred boundaries. However, the EU’s institutional and financial structures are currently not well equipped to respond to these overlapping issues and addressing this shortfall will be a key challenge for the new MFF.

Internal context

Recent years have been bruising for the EU and it is facing significant internal challenges that constrain its ability for effective external action. Populism within some EU member states is on the rise, often thriving on misrepresentation of and antagonism towards the EU and its policies. The EU continues to be mired in arguments on refugee redistribution quotas and associated political debates on what solidarity means in Europe. There have been, however, some recent signs of optimism and a renewed sense of direction within the EU, as seen in the unified approach to Brexit negotiations and progress on defence collaboration. Yet, a disconnect is growing between aspirations and

⁴ The world population is projected to increase by more than 1 billion people within the next 15 years.
expectations on the one hand, and action and delivery on the other.

Economic recovery in the EU is picking up but remains uneven. The structurally weaker economies are still suffering from the aftermath of austerity measures and are experiencing high unemployment and reduced public services. The tightening linked to the Growth and Stability Pact and the economic crisis alienated support for the EU in traditionally pro-EU member states. Moreover, inequalities between and within countries are rising as Europe’s social model comes under increasing pressure. This mix of factors has resulted in a sense of pessimism and disenfranchisement among many European citizens.

Increased terrorist attacks within Europe, in some cases connected to conflicts and instability in the European neighbourhood, have created a sense of insecurity and blurred the lines between external and internal security. While the EU has been very focused on its own troubled neighbourhood and proximate regions (with some arguing that this has led to conflicts elsewhere being overlooked), it has not been effective in promoting security and stability in its neighbourhood.

Irregular migration and the refugee crisis have become explosive issues. Europe’s political leaders have been under intense pressure to curb migration, while nationalist movements have exploited anti-migrant sentiment and the mounting dissatisfaction among Europeans whose living standards have been declining in the context of increasingly unequal societies. The Brexit vote epitomised this and called into question the value of the EU. The EU’s response to migration pressures has involved short-term measures such as trust funds, which are in part based on a flawed logic that aid stems migration, despite a mountain of evidence that this is not the case.

While populism is fuelled by Europe’s internal problems, it is important to recognise that it is also part of and supported by a wider global populist agenda that puts the national interest first and has an anti-globalisation political stance. These political developments could threaten the balance of power among Europe’s political groups, and by extension create new challenges for concluding the next MFF. If the majority in the current ‘grand coalition’ between the Socialists and Democrats and the European People’s Party in the European Parliament were to come to an end in March 2019, political power would have to be shared across multiple political groups and would also influence the composition of the European Commission.

1.2 Challenges and opportunities for the next MFF

Growing inconsistencies between the EU’s principles and practices have undermined the credibility of its values both at home and abroad. Some member states have flouted European standards on democracy and the rule of law, while the growing use of aid money in pursuit of European migration and security goals has raised criticisms that the EU is abandoning core development and human rights principles – for example, in its engagement on migration with countries such as Sudan. While the EU Global Strategy states that ‘interests and values go hand in hand’, in reality the EU and its member states are wrestling with the difficulty of balancing values and interests in its external action. As ECDPM points out, it is critical that within discussions over the next MFF ‘synergies and tensions between EU values and interests need to be discussed frankly and then addressed... in the context of a broader debate on a shared vision for EU foreign and development policy as a whole’.

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6 The European neighbourhood policy (ENP) governs the EU’s relations with 16 partner countries to Europe’s south and east. The ENP focuses on political, economic and security cooperation.
8 Several cases are discussed in Castillejo, C. (2017), ‘The EU Migration Partnership Framework: Time for a Rethink?’. Bonn: German Development Institute, Discussion Paper 28/2017
10 Bossuyt, J. et al. (2017), ‘Strategically financing an effective role for the EU in the world: First reflections on the next EU budget’. Maastricht: ECDPM
The EU policy context for external action is promising but requires further honing. While the Global Strategy and European Consensus on Development provide important framing for EU international cooperation, these are very broad and fail to provide a clear sense of priority and direction. The MFF offers an opportunity to further specify what the EU should concentrate on and to create the basis for a compelling political narrative for the added value of EU international cooperation in today’s world.

Across Europe there is growing pressure to justify development spending in terms of national interests, raising questions of how to prevent national interest objectives from compromising other objectives and principles. National interest objectives have always played a role but are now more explicitly framed in development policy as ‘mutual benefit’ strategies with the risk of widening the scope of what is legitimate in the name of nationally driven agendas.\(^1\)

While the combined aid of the EU and member states has seen a stable increase over the last five years, many European governments are making little progress on commitments to spend 0.7% of gross national income (GNI) on aid. Moreover, more than half of aid increases from member states in the last two years are the result of spending on areas that do not contribute to development outcomes in partner countries (e.g. in-donor country refugee costs, debt relief).\(^2\)

It is clear that the EU’s external action budget will shrink as a result of Brexit, along with the loss of British diplomatic, security and development assets; and the likelihood of increased aid fragmentation generally. This fact, combined with member states’ shift towards national interest-based aid spending, makes it even more important that the EU focuses its aid budget on a few key priorities that will deliver significant development benefits.

1.3 Priority areas and EU added value

Clearly there are numerous development challenges to be tackled within the coming budget period. However, it is important that the EU does not spread itself too widely. Instead the EU should focus on what is most important for achieving core priorities such as those outlined in the EU Global Strategy;\(^3\) in areas where it can add most value, especially in relation to member states; and how it fits within the new development landscape. It should also ensure that plans under the new MFF ‘correspond to the political ambition that the European Union sets itself for the future’ as a responsible global actor.\(^4\)

Recent research on trends in global development suggests that the international community’s growing priorities will be tackling the challenges of and the equitable provision of global public goods; reducing fragility; and supporting countries most in need, namely LDCs.\(^5\) In all these areas the EU has strong policy commitments, interests and comparative advantage. Moreover, both fragility and global problems such as climate change have significant implications for some of the immediate problems that the EU faces today – such as migration, or terrorism and extremism.\(^6\) These could be core priorities for EU external action in the next MFF.

Global public goods

Effective multilateral action is required to deliver global public goods, one of today’s greatest development challenges. Central among these is

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\(^{3,4}\) Concord (2017), Aid Watch 2017. ‘EU Aid Uncovered: How to Reach the Target on Time’. Brussels: Concord.

\(^{5,6}\) The EU Global Strategy identifies the following priorities: The Security of our Union; State and Societal Resilience to our East and South; An Integrated Approach to Conflicts; Cooperative Regional Orders; Global Governance for the 21st Century.


tackling climate change; others include resource scarcity, large-scale migration and population movement, public health crises, transnational crime, tax avoidance, and sources of global insecurity and violence. These are all represented in the 2030 Agenda and the Sustainable Development Goals (SDGs), an agenda that – at the EU’s insistence – is universal in nature and thus an anchor of EU internal and external policy and spending. Heading 4 directly supports developing country efforts in contributing to the provision of these global public goods. In comparison to the period during which the EU was a strong driver of the 2030 Agenda; cooperation between the EU development, social and environment communities has recently seen a relative decline, in part as a consequence of the political attention to migration. Looking forward, these communities should join forces to strengthen and promote a development policy narrative around the EU’s contribution to a long-term change process towards global sustainable development.

The EU is committed to promoting effective global governance and global public goods (e.g. in the Global Strategy, and the Development Consensus). These priorities need to be maintained and reflected in the next MFF in ways that take account of the increasingly challenging context for collective action. The combined political and economic weight of the EU 27 member states acting together across multiple global policy arenas, and within different multilateral spaces and structures, gives the EU a unique role in promoting global-level action to address global challenges. An example of this can be seen in the successful way that the EU worked with developing country partners at the 2015 Paris climate talks, or how it has collaborated with China on climate issues in the face of US disengagement. Such cooperation on the sustainable and equitable provision of global public goods will become a more important aspect of the EU’s contribution to global development.17

**Fragile states**

As strong progress is made in reducing extreme poverty in many regions, it is predicted that by 2030 the vast majority of the world’s extreme poor will be concentrated in fragile states, mainly in sub-Saharan Africa (SSA).18 This is in part due to the inclusive way that fragile states are defined, but also the increasing cross-border nature of conflicts and the more strongly pronounced influence of environmental degradation on fragility. Africa is also home to most LDCs and will continue to be so in the future; countries on this continent will either be categorised as an LDC or fragile state, or be neighboring one.19 Given that the ultimate goal of EU development assistance is the reduction and eradication of poverty,20 the EU should more decisively focus on addressing fragility and allocate resources to fragile contexts, countries in conflict and most in need, in line with its own commitments. This is also in the EU’s own security interests, particularly concerning all of Africa.

Addressing the challenge of fragility should be a priority for the next MFF, however, the question is how best the EU can add value on this issue. The EU is seeking to answer this as it develops an integrated approach to conflict, under the Global Strategy. The EU is unique as a donor in having delegations present in all fragile states; it can offer economies of scale, predictable and long-term financing that could be useful in addressing the long-term structural drivers of fragility, and reduced transaction costs and risk mitigation through pooling. Moreover, EU financing can provide a core around which member states can coalesce to increase critical mass and impact in fragile settings; and to improve working together. The EU can also bring diplomatic and military/policing resources to fragile contexts. Its strong institutional-level engagement with Africa makes it well placed for political engagement on issues related to fragility, although its record on this has been patchy. In addition, the comparative size

17 Klingebiel, S. (2017), ‘Transnational public goods provision: the increasing role of rising powers and the case of South Africa’. Third World Quarterly 38(6), (online first)
19 OECD Development Centre (2017), Beyond Shifting Wealth: Perspectives on Development Risks and Opportunities from the Global South. Paris: OECD
Graph 1: Rising poverty in fragile states is likely to end the global poverty reduction trend

Source: World Data Lab, 2017

Graphs 2 & 3: By 2030, more than 80% of the world’s poor will live in SSA and over 60% of extreme poverty will be in fragile countries, mostly in SSA.

Sources: European Commission, Shepherd, Samman, Gavas & Faure (2016); DFID staff projections (2014)
and capacity of the EU’s humanitarian finances and structures mean that it can play a critical role in meeting the humanitarian needs of those in fragile states.

Section 2. Analysis of the current MFF

This section examines the current MFF and highlights issues that will need to be taken into account for an effective future financial framework for European external action.

2.1 Financing EU external action

Most of the EU’s external action spending is under Heading 4. In the current MFF, this amounts to €66.3 billion for the 2014-2020 period, plus €30.5 billion under the off-budget 11th European Development Fund (EDF), the biggest external financial instrument (EFI). The envelope for external action represents 6.1% of the total EU MFF, the second smallest envelope after that of Heading 3 (Security and Citizenship). Smaller resources for initiatives outside the EU are also available under other policy areas, such as agriculture, trade, regional and urban policy, education and culture.

In 2016, the EU institutions were the fourth biggest bilateral aid donor after the US, Germany and the UK. EU institutions aid amounted to €15.7 billion in 2016, increasing by 27% on 2015 volumes and by 68% over the last 10 years. Most of EU external financing is eligible as official development assistance (ODA): in 2015 the share of ODA-eligible external funds amounted to 96%. Going forward, specifying a percentage for the budget that fulfils ODA criteria established by the OECD Development Assistance Committee (DAC) could improve accountability on development spending and signal EU commitment to the quantity and quality of ODA, including as a contribution for its member states to reach their 0.7% of GNI commitment.

The UK’s exit from the EU will leave a considerable funding gap in the EU’s development budget. The UK has been a contributor to the EU aid budget as well as to the off-budget EDF and humanitarian assistance through the European

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Graph 4: EU’s aid increased by 68% over the last decade

Source: net disbursements; authors’ calculations based on OECD DAC data

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21 Organisation for Economic Cooperation and Development Development Assistance Committee’s (OECD DAC) International Development Statistics. This includes only EU institutions, with the exclusion of member states.


23 When the current MFF was agreed in 2013, the UK’s contribution represented around 15%. Growth patterns within the EU (as well as Croatia’s accession) have led to current estimations of the UK’s contribution to the budget to be within the 12% to 13% range.
Civil Protection and Humanitarian Aid Operations (ECHO). Additionally, the UK’s Department for International Development (DFID) provided limited bilateral funds through the EU trust funds to respond to the migration crisis. Brexit’s financial impact will depend on the broader negotiations and on the international roles that the UK and the EU carve out for themselves going forward. Discussions on Brexit and the future of the UK–EU relationship cannot be divorced from the discussions on the next MFF, as the outcome will determine the amount of money available for a post-2020 budget.

There have been huge rises in external finance flows to developing countries in recent decades. Large amounts of development finance now come from non-traditional sources, including commercial flows, Southern and non-DAC providers, climate finance funds, social impact investors, philanthropists and global funds as well as other less concessional flows. Yet international public finance is less than 1.5% of total resources for developing countries. Domestic public resources are by far the largest resource available to developing countries, although domestic capacity to mobilise resources varies significantly among countries. In the poorest countries, international resources still represent a large share of the resources available.

Recent years have seen a rise in the number of other providers of development resources beyond Western donors. As a consequence, the EU’s market share and influence as a donor is decreasing, forcing the EU to think more carefully about how to focus its funds and how to better leverage them. As other providers, such as China and progressively India, become more visible in the developing world, the EU will need to strategise and cooperate better in order to respond to the challenges this poses – whether in terms of competition for influence, cooperation for impact or to avoid a ‘race to the bottom’ in development standards. Aside from these large countries, a number of others have become providers, including as a prerequisite for EU membership. Better leveraging their resources, networks and influences could add value to EU action in development.

Despite the availability of new sources of finance, aid is still a fundamental source of scarce non-profit public funding, particularly in humanitarian settings, fragile states, countries with very limited domestic resources and in targeting

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**Graph 5: The development finance landscape is changing**

![Graph showing the development finance landscape](source)

*Source: based on Development Initiatives (2015), ‘Investments to End Poverty’ (several sources)*

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the extremely poor. However, what constitutes aid is changing. In 2014, the OECD DAC agreed changes to reporting standards on concessional loans that will be implemented from 2018 with potential implications for allocations. In 2016 the OECD DAC changed the ODA reporting directives to include a broader range of peace and security expenditure and a greater share of support for private sector actors working in developing countries. It also committed to reviewing the rules on in-donor refugee costs, which have recently taken up an increasing share of many EU member states’ aid budgets.

The 2017 OECD-DAC High Level Meeting agreed some principles for blended finance and made progress in some of the above areas that needed clarification. There has been concern that the ODA reporting reforms increase donors’ ability to spend aid on activities that do not have a development impact in partner countries, as required by the ODA definition, and might unfairly represent donors’ efforts in global development.25 In parallel, discussions on a measure for Total Official Support for Sustainable Development are ongoing within an international task force.26

It seems likely that there will continue to be a strong demand for humanitarian financing during the period of the next MFF. The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) predicts that $22.5 billion will be required to meet humanitarian needs around the world this year, a dramatic rise from just $7.9 billion in 2011.27 Financing has not kept pace with this rising need and the gap between the humanitarian finances required and those provided has grown rapidly in the last decade; according to OCHA in 2017 only half the finance required for world humanitarian needs was provided. The EU, together with its member states, is currently the world’s leading humanitarian aid donor. ECHO was allocated €7.1 billion for the seven years of the last MFF (there is also an EU Emergency Aid Reserve to respond to unforeseen events and major crises). It is important that the EU continues to make humanitarian financing a significant priority and that the current regulation through which this finance is provided is maintained in the next MFF.

2.2 EU values and interests

A major tension that will be reflected in the future MFF negotiations is the balance between EU values and interests in external action, especially with a broader and more complex development agenda that extends beyond aid to encompass a range of global challenges including climate change, trade, global food security, financial crises and regional security. The primary objective of EU development cooperation as spelled out in the Lisbon Treaty – reducing and, in the long term, eradicating poverty28 – coexists with other drivers that span from curbing irregular migration to promoting peace, from tackling climate change to dismantling terrorist networks. This is reflected in the framing of Heading 4 and its instruments, including their legal basis.

In budgetary terms, this has translated into stretching limited resources to achieve short-term aims on domestic migration and security. While both themes are relevant for development, their current framing and the subsequent use of funds earmarked for development for other purposes could potentially erode development effectiveness principles and jeopardise the Lisbon Treaty’s original objectives. Curbing irregular migration and ensuring the security of EU citizens are legitimate EU interests but the extent to which development and humanitarian assistance should be used for these purposes and whether they can succeed remains debatable.

Beyond catering to development and EU interests, EFIs are tasked with promoting EU values

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28 As set out in Article 208 of the Lisbon Treaty.
such as democracy, human rights, the rule of law, civilian peace-building and gender equality abroad. Nevertheless, the recent mid-term reviews of the EFIs show that these values are increasingly difficult to promote on the ground. For instance, the external evaluations of the Development Cooperation Instrument (DCI) and the EDF noted that the EU is facing difficulties addressing fundamental issues of democracy and human rights in its policy dialogues with third countries.29 The DCI evaluation adds that Delegations find it challenging to address controversial human rights-related issues in a meaningful way.30 The European Neighbourhood Instrument (ENI) evaluation confirms the difficulties involved in advancing the EU agenda, stating that there has been limited progress in promoting fundamental EU values in the neighbourhood.31

The difficulties with delivering the EU human rights agenda arise from a number of internal and external factors. These span from the EU’s own poor record on upholding these values internally to Europe’s diminishing influence in an international environment where governments have become more reluctant to engage.32 The EU has become more pragmatic in promoting its values, acting primarily when its own interests are not at risk.33 At the same time, the 2030 Agenda, the new European Consensus on Development and the Communication on a renewed partnership with African, Caribbean and Pacific countries seek to mainstream human rights approaches.34 The budget implications of mainstreaming human rights in geographical programming are significant, given that existing instruments such as the European Instrument for Development and Human Rights (EIDHR) have come under pressure in the current framework.

As the gap between EU ambitions and its actual practice grows, the discussions on the next MFF could provide an opportunity to clarify the weight and place of EU values in external action.35 If the EU is to fulfil its aspirations to become a global responsible player, Heading 4 needs to be resourced accordingly. Along with this, better forms of engagement on the EU values agenda need to be found that include but go well beyond financial incentives. This agenda becomes all the more important if the US under a Trump Presidency continues to downplay values in its international cooperation. This leaves a clear opportunity for global leadership from the EU.

2.3 Increasing flexibility in EU international cooperation

The 2017 report on the mid-term review of the EFIs argues that, while they were fit for the EU objectives prevailing in 2014 and congruent with partner countries’ needs, their ability to address unforeseen events and emerging priorities was limited.36 Different forms of flexibility have been created to improve responsiveness, for example, through the establishment of ad-hoc trust funds for Syria, Africa, Colombia and the Facility for Refugees in Turkey to address the root causes of migration. Other measures included a change in financial regulations that allows shifts in unused funds between headings and years.37

34 Para. 18 of the Agenda 2030 ‘[…] we reaffirm our commitment to international law and emphasize that the Agenda is to be implemented in a manner that is consistent with the rights and obligations of States under international law’. Para. 16 of the New Consensus 16: ‘The EU and its Member States will implement a rights-based approach to development cooperation, encompassing all human rights. […]’ and Part 3 of the Communication Joint Communication to the European Parliament and The Council, A renewed partnership with the countries of Africa, the Caribbean and the Pacific: ‘The future partnership should be based on a shared strong commitment to promote and respect democratic principles, the rule of law, universal human rights and fundamental freedoms for all; respect for human dignity and the principles of equality and solidarity; and good governance’.
The EU Global Strategy called for reforming EU development policy, by making it more responsive to the EU’s own interests and to increase its flexibility. Flexibility is generally understood as the ability to respond swiftly to unforeseen events, but different actors conceive it in different ways.\(^{38}\) The discussions on the next MFF propose flexibility as the cornerstone of a seven-year framework that can respond to ever-changing demands. However, flexibility should not be seen as a panacea for all current deficiencies in the EU budget as flexibility also involves trade-offs, including on:

- the long- and short-term needs of partner countries;
- development objectives and other aims;
- the promotion of EU values versus domestic interests;
- ease of management and accountability.

In a context of limited resources, choices will necessarily be made, as the use of flexibility under Heading 4 seems to have reached its limits.

The current MFF saw a greater reliance on the use of dedicated trust funds, which the EU was mandated to set up and manage as part of the institutional reforms under the Lisbon Treaty. The most prominent initiative has concerned the Emergency Trust Fund for Africa that was launched at the Valletta Summit of November 2015. Since that Trust Fund drew on reserves of the EDF as well as other EFIs, its creation was legitimised by the ability to crowd in additional resources, which in this case were provided by EU member states and two non-member countries (Norway and Switzerland). Although the use of trust funds in EU external action is a recent phenomenon, earlier budget periods also included the use of reserves to set up dedicated facilities in order to use the resources more flexibly over established periods. The limited crowding-in effects of the trust funds, the absence of standardised procedures for managing them, and the limited democratic control of the European Parliament, have made several stakeholders reluctant to use them further at the current scale.

Both the European Commission and the European External Action Service (EEAS) have an interest in more flexibility as a means to simplify management, rationalise instruments and reduce negotiation margins for other EU institutions. Those who seek more political control over resources champion flexibility as a means of shifting funds towards emerging priorities and EU interests as the need arises.\(^{39}\) In practice, flexibility can be achieved through different means, for example, fewer instruments, larger financial envelopes within instruments and looser regulations.

2.4 The Heading 4 architecture

The latest mid-term review of the EFIs by the European Commission and the EEAS took stock of a number of innovations introduced in Heading 4 under the current MFF. These include a dedicated envelope for cooperation with the African Union under the DCI, revisions to the instrument contributing to Stability and Peace (IcSP) and a stronger focus on more advanced developing countries under the Partnership Instrument.\(^{40}\) The report and the accompanying independent evaluations considered the existing EFIs to be fit for purpose to address the objectives defined when they were created in 2014, and broadly in line with partner countries’ needs. The evaluations were conducted at a time when programmes were still under way, thus it was too early to assess outcomes and impact. As a result the mid-term review could not go further than detecting positive general trends in relation to the instruments’ objectives.

\(^{38}\) For example: the agility to move resources between budget headings, the potential to leverage additional resources, and the ability to (re)orient funds to certain types of partners. Bossuyt, J., Sherriff, A., Tollenaere, M. de, Veron, P., Sayós Monràs, M., Di Ciommo, M. (2017), op. cit.


With three more years to go under the current MFF and with limited available resources, options for leveraging flexibility are largely exhausted. Implementation weaknesses need to be addressed so as to better exploit synergies across instruments, reduce emerging gaps for cooperation with non-state actors and middle-income countries, and improve responsiveness to unforeseen events, to which the EU has largely reacted through ‘innovative and ad-hoc mechanisms’. 41 The European Commission’s mid-term review acknowledged the role of the EU Delegations in relation to donor coordination, thus implicitly highlighting their limited role in the newly created mechanisms, even though the Delegations are a key facet of the EU’s development cooperation system.

To differing degrees, all staff working documents and independent evaluations that fed into the mid-term review converge on the fact that some reforms are needed and that choices will need to be made in the next MFF regarding the overall package of instruments, flexibility, simplification and working with different actors and means of implementation. The current discussion of a single instrument for Heading 4 aims to address concerns especially around flexibility and simplification. Its scope and design could improve Heading 4 performance, but other actions at the programming and implementation level will be essential to make other necessary steps in that direction. 42

A key innovation of the current MFF concerned a Common Implementing Regulation (CIR), which set out common criteria for how all EFIs are programmed, implemented and evaluated. Key process management aspects of the CIR were also incorporated into the implementing regulation for the 11th EDF, as another step towards harmonising the rules and procedures between the latter and other EFIs. Aspects covered by the regulation range from result-oriented planning and reporting, standardised procedures, consultation of civil society organisations, as well as international aid effectiveness commitments such as the untying of aid. The mid-term review noted that the CIR had been key to the simplification agenda by having prevented divergences as well as facilitating the interpretation of the various EFIs. The report however noted that the CIR’s effect on simplification had been limited since the real simplification agenda pursued since 2014 by the European Commission was at the level of the Financial Regulation and its contractual templates. 43 In other words, ensuring common guidelines for implementing EU development cooperation goes some way, but the real gains are to be made in reforming the rules for how the financing of interventions are agreed and carried through. All in all, in the run-up to negotiating the next generation of EFIs and Heading 4, there needs to be a discussion on how the overall architecture – including the new mechanisms – can be guided by common norms, standards and financial rules.

### 2.5 EU aid to LDCs and fragile states

The Agenda for Change adopted in 2011 introduced the principle of differentiation in EU development policy. It stated that EU bilateral cooperation should focus on countries most in need, including LDCs and fragile states. 44 The new European Consensus on Development restates the principle and approaches differentiation as the tailoring of development cooperation modalities and tools to third countries’ specificities in capacities, needs and performance. 45 It also reiterates the EU commitment to allocating 0.2%

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of its ODA as a proportion of its gross national income to LDCs.

There appears to be little room to expand resources to middle-income countries that are neither fragile nor LDCs without moving away from this longstanding commitment to LDCs, also reiterated in the 2030 Agenda. Even with the differentiation principle in place, LDCs and fragile states received lower shares of EU institutions’ ODA than other country groups, in particular as a result of high allocations to the neighbourhood. LDCs received between 23% and 25% of EU institutions’ ODA bilateral disbursements over the period 2011 to 2016. Fragile and extremely fragile countries, of which some are also LDCs, scored better as they received between 30% and 34% of EU bilateral aid.

EU institutions’ bilateral ODA is highly concentrated: in 2016, Turkey was by far the largest recipient with 21% of the total for bilateral assistance (€3 billion). The top 10 recipients together received 47% of bilateral EU aid. In the last three years, the only LDCs among the top 10 recipients were Afghanistan, Mali, Niger and Ethiopia. Other recurrent top recipients include Morocco, Tunisia, Ukraine, Serbia and Palestine.

An analysis of the data available from the Directorate for International Cooperation and Development (DEVCO) shows that from 2012

Graph 6: EU aid to LDCs is small in comparison to other income categories

Source: gross disbursements; country categories are those applied by the DAC; authors’ calculations based on OECD DAC data. DAC country categories: LDC = least-developed countries; LMIC = lower middle-income countries; UMIC = upper middle-income countries; OLIC = other low-income countries

46 Countries that are classified as middle-income but are, at the same time, considered LDCs, fragile or extremely fragile are: Angola, Bangladesh, Bhutan, Cambodia, Djibouti, Guatemala, Honduras, Iraq, Kiribati, Laos, Lesotho, Mauritania, Myanmar, Pakistan, Palestine, Papua New Guinea, Sao Tome and Principe, Solomon Islands, Sudan, Swaziland, Syria, Tajikistan, Timor-Leste, Tuvalu, Vanuatu, Venezuela, Yemen and Zambia. Categorisation based on the UN list of LDCs and on the OECD DAC States of Fragility 2016 report’s framework. The latter defines fragility as ‘the combination of exposure to risk and insufficient coping capacity of the state, system and/or communities to manage, absorb or mitigate those risks. Fragility can lead to negative outcomes including violence, the breakdown of institutions, displacement, humanitarian crises or other emergencies’. See: http://www.oecd.org/dac/conflict-fragility-resilience/listofstateoffragilityreports.htm
47 The OECD DAC defines bilateral aid as aid earmarked to countries, regions or specific programmes by donors. Multilateral aid consists of unearmarked funding for multilateral organisations that these organisations can use for autonomously defined purposes, in the limit of their mandate. Both types of aid can be disbursed through multiple channels. EU institutions’ bilateral aid is by far the largest component of its contributions.
to 2015, on average the EDF targeted most of its resources (75%) to LDCs and 53% to fragile contexts. The EIDHR allocated an average of 35% of its resources to LDCs and of 30% to fragile countries. Humanitarian assistance (ECHO) focused 56% of funding to LDCs and 17% to fragile contexts.

Graph 7 and 8: EU’s allocation to LDCs and fragile countries vary by instrument

Other instruments privileged allocations to middle-income countries, in particular to the neighbourhood. This is the case for both the ENI and the Instrument for Pre-Accession (IPA), both instruments where differentiation does not apply and which focus on these regions. Other EFIs such as the DCI and the IcSP have more balanced allocations.

Source: authors’ calculation based on DEVCO Annual Reports (2011 to 2016). Others include the INSC, Food Facility and non-specified instruments. DAC country categories: LDC = least-developed countries; LMIC = low middle-income countries; UMIC = upper middle-income countries; OLIC = other low-income countries

50 The total share is above 100% because the two categories overlap.
51 Income country categories and other categorisations overlap so that a middle-income country can also be fragile or an LDC.
52 Under these instruments LDCs receive on average respectively 27% (DCI), 35% (IcSP) and 36% (EIDHR) of the total instrument envelope.
2.6 EU aid to global public goods

Global challenges such as climate change, the environment, health or peace and security have both internal and external dimensions. Yet currently, apart from limited exceptions, instruments and programmes either target domestic action (i.e. within the EU’s borders) or international action. An ongoing discussion aims to better structure the MFF along the SDGs, but it is early to outline potential outcomes for the future budget.

Climate action is one of the European Commission’s priorities, with a benchmark of 20% of current MFF expenditure for climate-related initiatives. This cuts across several EU policy areas from internal cohesion policy to research and innovation and including external action. The EU is broadly on track to achieve this target for the overall budget. Data show that ODA climate-relevant allocations are increasing, but they perform below the average of the overall EU budget in relative terms. The share of climate-relevant EU institutions’ ODA rose from 9.5% to 25.4% between 2014 and 2016, whereas overall budget shares increased from 13.6% to 20.9% over the same period.

In absolute terms, EU institutions’ ODA earmarked as climate-relevant for mitigation, adaptation or for both objectives increased from €1.9 billion to €5.4 billion between 2012 and 2016. The share of resources earmarked for adaptation increased both in volumes and relative terms: from 20% up to 39% (€2.1 billion) in 2016. Additional resources go to adaptation through initiatives that are earmarked as relevant for both mitigation and adaptation.

Political commitment to climate change has been high. As the US presidency announced the withdrawal from the Paris Agreement, European members joined forces to restate their commitment to the United Nations Framework Convention on Climate Change (UNFCCC) process. It will be important to ensure that this commitment remains strong among both EU institutions and member states on mitigation and adaptation financing, the latter being historically lower than mitigation.

Graph 9: EU’s aid to climate change is on the rise

Source: ODA commitments, authors’ calculations based on OECD DAC Creditor Reporting System data

53 European Council Conclusions (2013), on the multiannual financial framework (EUCO 37/13) 8 February 2013. Para.10, p.6
The EU Court of Auditors highlights that the European Commission manages its climate funds rather well in comparison with member states. However, European countries need to coordinate better given that 95% of climate finance occurs at national level. Although there is a high level of coordination within the EU27 on common positions for international climate negotiations, coordination on climate finance is still weak. In the case of the negotiations for the next MFF, the EU and its member states have the opportunity to lead by example and strengthen their commitments to tackling climate change.

2.7 Building on the strengths of the EU as a global actor

European policy commitments captured in the EU Global Strategy and the new Consensus on Development, and in international engagements such as the Paris Agreement and the 2030 Agenda pave the way for a more ambitious EU external action and development policy. If the EU is to meet its ambitions and fulfil its expectations to become a stronger global player, negotiations for the next MFF are a starting point to address current shortcomings and build on its strengths.

The EFIs mid-term review and the Coherence report mention several of these. The perception of the EU as a more neutral global actor in comparison to member states, the scale and long-term perspective of its financing all make the EU a desirable partner. Notwithstanding the challenges, the EU remains a key reference and a vital source of funding on democracy and human rights – for example, for many activists and civil society organisations in the neighbourhood. The DCI Global Public Goods and Challenges (GPGC) programme and the Partnership Instrument articulate well external and internal policy objectives and try to work across the institutional boundaries of the different EU Directorate Generals. The IcSP has been able to adapt with speed and flexibility to unstable contexts and to different partners.

Graph 10: EU’s aid commitments to climate-related initiatives increased after the 20% climate benchmark

Source: ODA commitments, authors’ calculations based on OECD DAC CRS data

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Section 3. Conclusions and recommendations

There is broad recognition that today’s development challenges have evolved dramatically since the period when the current MFF was negotiated, from 2011 to 2013. But the ensuing call for change needs to be reconciled with the strong path dependence in the MFF negotiation process that militates against the emergence of radical new ideas on the nature and structure of the framework.\(^{56}\)

Some degree of realism should not be an excuse for accepting the status quo, but rather should prompt proposals for reforming Heading 4 that work ‘with the grain’ of the MFF process itself. The legitimacy and overarching narrative of Heading 4 needs to guide the availability of adequate financial resources, thus reversing the approach seen in the last negotiation round when the main drive was to preserve available resources. This time a stronger narrative based on the 2030 Agenda and the Paris Agreement should reposition Heading 4 as a key element of European integration as well as representing Europe’s own sustainable development trajectory. The EU’s development, social and environment communities should join forces in this aim. This new drive towards stronger concerted action should go beyond recent steps forward on EU defence and on Brexit negotiations. It should instead be guided by the growing realisation that the EU needs to define a strong role for itself in the global arena if it is to defend its citizens’ interests in the face of globalisation, and its political and socioeconomic model in a more competitive multipolar world. Opportunities should be explored for a stronger common path on international development and for wider external action that go beyond a short-term approach to security and migration.

In view of the challenges ahead, and as part of their overall commitment to taking the European project further, member states should, as a minimum, commit to preserving the present level of external financing resources under the next MFF (close to €100 billion). In addition, a concerted effort needs to be made to deliver greater accountability, responsiveness and effectiveness. The amount is in line with the recent European Commission Communication on the next MFF, which also proposes to significantly simplify and streamline instruments.\(^{57}\)

Recommendations on the architecture for development policy in Heading 4

As previously discussed, the current MFF includes instruments that pursue both values and interests. They are hybrid constellations of ‘geographic cooperation’ – with a stronger role for Delegations in pursuit of developing countries’ own priorities – and of ‘thematic cooperation’ on EU predetermined priorities, with a stronger managerial role for the EU’s headquarters in Brussels. The fact that instruments such as the DCI and EDF are faced with having to reconcile both equally relevant rationales

The following categorisation would address this fundamental issue.\(^{58}\)

<table>
<thead>
<tr>
<th>National development problems: issues that all countries – rich and poor – individually face (education, health, good governance)</th>
<th>Global development problems: issues that affect everyone and require collective action (taxation, climate change, migration)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rationale: cooperation emphasising poverty reduction in line with country priorities, ownership and alignment</td>
<td>Rationale: promotion of mutual benefits for global sustainable development to the EU and third countries</td>
</tr>
<tr>
<td>Dominant EU approach: geographic cooperation</td>
<td>Dominant EU approach: thematic cooperation</td>
</tr>
<tr>
<td>Current EU Instruments: EDF, DCI, ENI</td>
<td>Current EU Instruments: DCI thematic, Partnership Instrument, EIDHR, IcSP</td>
</tr>
</tbody>
</table>


\(^{58}\) This typology was first presented by the then IDS Director Lawrence Haddad: http://www.developmenthorizons.com/2013/08/development-research-shape-of-things-to.html
complicates their identity and communication as defining features of EU development policy.

As per the above rationale, the following overall architecture could facilitate further discussion on rearranging the architecture of Heading 4 in line with the ongoing policy discussion on creating a single instrument. In addition, current humanitarian financing mechanisms must be maintained and adequately resourced during the next budget period, given that the current high levels of humanitarian need look to set to continue.

The diagram below illustrates a possible outcome that is at one end of the spectrum of possibilities. The new ‘Instrument in support of national development’ and the new ‘Instrument for global sustainable development’ would respectively cater to national and global development problems and be largely based on the use of grants and other forms of cooperation (e.g.: in-kind, technical cooperation, twinning, scholarships etc.) whereas the European Fund for Sustainable Development would deploy blended finance.

However, there are other aspects that need to be addressed, including the preference by some member states to retain a distinct legal instrument for the neighbourhood; the fact that scrutiny of EFIs is divided between two European Parliament committees; the future of EU Trust Funds; the Council’s intention to consider budgetising the EDF; as well as the financing of cooperation with Overseas Countries and Territories.

Given this, it is unlikely that a single instrument will be created. Rather than the current mix of development narratives and geographic ring-fencing, a future architecture should best relate distinct instruments to distinct development narratives. This would go a long way towards the significant simplification and streamlining that the EU envisages.

Diagram 1: Possible architecture of Heading 4

<table>
<thead>
<tr>
<th>On-budget</th>
<th>Off-budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instrument in support of national development strategies</td>
<td>Instrument for global sustainable development</td>
</tr>
<tr>
<td>Humanitarian and civil protection instruments</td>
<td>European Fund for Sustainable Development</td>
</tr>
<tr>
<td>European Peace Facility</td>
<td></td>
</tr>
</tbody>
</table>

Common implementing Regulation (CIR) for on- and off-budget cooperation under Heading 4

59 This representation excludes the Humanitarian Aid Instrument, which would remain an independent instrument under the next MFF.
60 Blended finance entails a combination of: (1) investment grant and interest rate subsidy; (2) technical assistance; (3) risk capital; and (4) guarantees. See: https://ec.europa.eu/europeaid/sites/devco/files/leaflet-eu-blending-10.2841-748965-20150710_en.pdf
61 In a strict legal sense, an EU Regulation cannot govern off-budget instruments operating under inter-governmental structures. However, given that largely the same actors are involved, and in view of the longstanding debate on European Parliament scrutiny over off-budget instruments, the CIR could include language through which the actors involved commit to apply the same implementing rules to off-budget initiatives. These include the ones shown in the diagram, but for instance also trust funds.
62 Beyond these more institutional aspects, it should be noted that some of the EU’s priorities that are promoted through thematic cooperation do not address global cooperation problems per se, as identified under the 2030 Agenda, but rather directly cater to EU interests as advanced under other policy areas such as migration management and external border management.
Regardless of the option chosen, the new instruments should continue to specify the percentage of the total budget for which actions should be designed to fulfil ODA criteria established by the OECD DAC. This would reflect the EU’s continuing collective commitment to improve both the quantity and quality of global ODA, as committed to in the Addis Ababa Action Agenda as well as in the 2017 New Consensus on Development.

Four propositions for reforming EU development cooperation

In addition to the above recommendations on the architecture, four propositions are presented to reform the ways in which Heading 4 is used and governed. They aim to provide the means towards making more concrete and operational the high-level vision on the future of EU development policy as set out in the new EU Consensus on Development.

1) Strengthening accountability in EU development cooperation: Parliamentary scrutiny as a key element of accountability needs to be reinforced under the next MFF, as well as adjusted to new forms and approaches that move away from direct grants.

At the start of the current MFF, roughly one third of total EU ODA was located outside the MFF in the 11th EDF. In addition, while the off-budget EDF was outside the European Parliament’s scrutiny role from the outset, the current MFF period saw a more general worsening of democratic control and scrutiny of development spending. This was a consequence of the choice to draw heavily on the EDF’s long-term reserve to finance migration-related investments in Africa and due to the marginal involvement of the European Parliament in setting up the Emergency Trust Fund for Africa and the EU’s External Investment Plan. To strengthen accountability, we would propose that the European Parliament concentrate scrutiny of the EFIs in a single committee.

2) Responsive instruments: The EFIs should be made more responsive, combining predictability with the possibility of fast-tracked decision-making when required.

Current policy debates on the need for making the instruments more flexible have produced various competing interpretations of what flexibility may mean in practice. Key in these considerations should be the EU Treaty’s requirement for the member states and the EU to complement each other’s actions in the field of development policy. Discussions on flexibility should focus on how to ensure a more responsive Heading 4, building on the EU’s added value and based on proposals presented in the recent EFIs mid-term reviews. This should be with predictable and structured approaches to programming funds, but also with the possibility to engage in ‘fast-tracked decision-making’ when required and supported by all EU institutions. In order to prepare for the use of such fast-tracked approaches, the new EFIs need to have inbuilt reserves that, like the humanitarian aid reserves, are exempt from the European Parliament’s ‘annuality’ requirement, can accumulate and need to be spent within the entire MFF period.

3) Countering centralisation tendencies: The key comparative advantage provided by the EU’s dense network of well-resourced EU Delegations needs to be strengthened under the next MFF.

A key comparative advantage of the EU in the field of development cooperation concerns its global presence, backed up by an extensive network of Delegations. Recent changes in EU development policy, namely the Lisbon Treaty’s requirement for the EEAS and DEVCO to jointly determine programming decisions, have had the unintended effect of centralising decision-making on EU development cooperation. This affected established programming practices under the geographic EFIs. The role of the Delegations declined further as a result of the establishment of new initiatives including the Trust Fund for Africa and the External Investment Plan, for which decisions are taken in Brussels-based management boards. These trends have eroded the vital role of Delegations in mediating the EU’s interests and those of its partner countries and regional organisations. For these reasons, the next MFF needs to be accompanied by a dedicated
review and subsequent further devolution of development cooperation management to the Delegations. This reform is long overdue, given that the last reform was introduced more than 15 years ago, and in view of the possibilities created under the new Treaty.63

4) Common financing and implementation rules: The rulebook for EU development policy needs to be updated so as to enable efficient implementation and value for money.

Any discussion on the next MFF should start from a priority to build a budget that is both straightforward to communicate and politically legitimate. Creating large funds outside the MFF mainly for the purpose of maximising resources flies in the face of this, and in fact, is not common practice in any of the other MFF headings.

This does not mean that there is no case for accommodating certain funds and initiatives outside the budget—for example, the Africa Peace Facility supports activities that cannot be financed from the budget for legal reasons. Trust funds that attract contributions from third countries and that have a clear transparent intervention logic have a legitimate role and place outside the MFF. Such off-budget initiatives should however, as much as possible, be integrated in the MFF, and be subject to the Common Implementing Regulation. These common rules, which currently only apply to the instruments within the budget, need to apply equally to on- and off-budget instruments and initiatives.

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