Background Note

November 2012

Replenishing the 11th European Development Fund

By Mikaela Gavas

The EU is negotiating its budget for 2014 to 2020. Although not part of the EU budget itself, the negotiations on 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 (ACP) and the Overseas Countries and Territories (OCTs) form an important part of the broader budget debate. This Background Note analyses the proposals by the European Commission (EC) for the 11th EDF (2014-2020) and reviews the current state of play on the the design of future funding to the ACP.

Background

With a normal term of six years, the EDF lays out EU assistance to both individual countries and regions as a whole. It is an inter-governmental agreement of the EU Member States, based on their direct contributions. Consequently, the management of the EDF and its resources differ from those for the EU budget, where the European Parliament makes the decisions together with the European Council.

The EU is coming to the end of its 10th EDF, which runs for six years from 2008 to2013 with a budget of €22.7 billion. This represents about 30% of EU spending on development cooperation aid, with the remainder coming directly from the EU budget. Negotiations are underway for the 11th EDF, which, as proposed, would cover a seven-year period from 2014 to 2020. This one-year extension allows the end of the 11th EDF to coincide with the expiration of the Cotonou Partnership Agreement in 2020 and the EU budget period.

In June 2011, the European Commission made five proposals that would determine the direction of the EDF (European Commission, 2011a). It proposed:

- maintaining the EDF as a separate fund outside the main budget – the Multi-Annual Financial Framework (MFF)
- increasing the overall amount of the EDF from €26.93 billion to €30.32 billion, a 13% increase (in 2011 prices)
- further aligning the Member States' EDF 'contribution key' with the key used for the EU budget (based on GNI per capita)
- improving the democratic scrutiny of the EDF
- increasing the support/administrative expenditure of the EC from 2% to 5%.

The European Council and ACP-EU Council of Ministers are expected to agree on the overall amount of financial assistance available under the 11th EDF by the end of 2012. In an unprecedented move, the European Parliament, which has limited powers in relation to the EDF (it merely grants the discharge), is preparing an 'own initiative report' on the 11th EDF. The report is expected to be adopted in March 2013.

Maintaining the EDF outside the MFF

The reasons given by the EC for the maintenance of the EDF outside the MFF are, first, because this is the last EDF under the Cotonou Agreement, which expires in 2020 and, second, because it is unlikely that a consensus between the Member States in favour of 'budgetising' the EDF would have been found for the next budget period (2014-2020). Rather, the EC intends to propose the integration of funding for the ACP into the main EU budget in

2021 – irrespective of whether the EDF continues beyond the lifetime of the Cotonou Agreement.

In early 2012, in a reversal of previous positions, a number of EU Member States, including Finland, France, Germany, Italy, the Netherlands, Sweden and the UK, began advocating for the EDF to be incorporated into the main EU budget – not in 2021 as previously discussed, but as early as 2014, when the new MFF comes into force. Behind the rethink was the policy adopted by some Member States of 'zero growth' in EU spending. The objective was to bring all spending proposed by the EC as 'outside the MFF', including the EDF, back into the EU budget and freeze payments, year on year from actual payments in 2013.

Most recently, it would seem that budgetisation has, once again, been put on the back burner. According to the Negotiating Box drawn up by the Presidency, the Member States are now in agreement that the EDF should not be budgetised.

Nevertheless, with the adoption of the 10th EDF Regulation by the Council, administrative alignment of the EDF and the EU budget is almost complete. The proposed regulation for implementing the EDF is intended to align closely with the common implementing regulation for the EU budget's external actions instruments. With the EC's proposal of an EDF contribution key that is similar to the EU budget contribution key, if accepted, replenishment would also be a step towards alignment. Some refer to this as 'silent' or 'informal' budgetisation. However, there are a number of concerns that would need to be addressed if the EDF were to be budgetised.

First, there are concerns that budgetisation would result in an overall reduction in funds for the ACP. It is, however, possible to ring-fence funds for the ACP by including the EDF as a financial protocol, or an annex, to the EU budget, given that it covers contractual arrangements with third parties.

Second, the European Parliament would be placed automatically into a co-decision role on all important decisions related to the EDF, such as: the transfer of funds from national envelopes to intra-ACP funding; the distribution of funds between national, regional and all ACP levels; the establishment of all ACP facilities; and the re-allocation of funds after mid-term reviews. The result would be democratic control and scrutiny by the European Parliament and, therefore, a greater level of transparency and accountability. At the same time, co-decision would inevitably reduce the discretionary power of the Member States and the EC and might result in micro-management by the European Parliament. This might, in turn, result in greater delays in disbursement.

Third, the co-management by the EU and the ACP that is a key asset of the arrangement, together with the joint decision-making processes in EU-ACP financial cooperation, including joint programming, joint assessments and joint solutions when problems arise, would be lost. However, theoretically, the principle of co-management could be extended to all cooperation agreements between the EU and third countries financed by the EU budget.

Fourth, while the EU budget is established on an annual basis by the Budgetary Authority (the Council and the European Parliament), the EDF is established for a six-year period (seven years for the next period, 2014-2020) with the contributions being provided by the Member States as they are needed. Under the annual budget process, the level of commitments and disbursements that are possible are defined both by the terms of the MFF and the budget adopted for the year.

This principle of 'annuality' poses a risk to the predictability of EDF funding. Unused commitments would be lost at the end of the year and the disbursement rate would, therefore, become a more important factor than the quality of actions supported in the management of aid to the ACP. For structural funds under the EU budget, it has been possible to arrange for the transfer of unused funds from the previous year to the next year, increasing the corresponding ceilings for expenditure. With such an arrangement, the specific character of the EDF could be matched with the annuality of the budget.

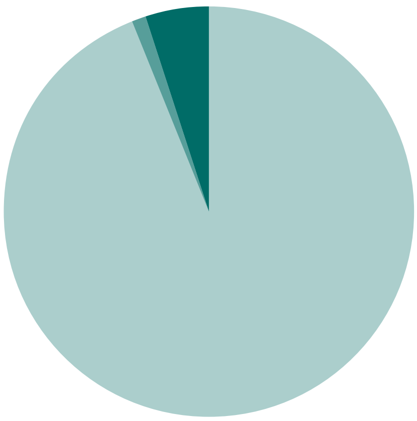
Increasing the overall amount of the EDF

The EC proposal for the 11th EDF is an overall amount of €30.32 billion over a seven-year period (2014 to 2020) in 2011 prices and €34.28 billion in current prices. The EC proposes annually committed funds of €4.90 billion for the 11th EDF, compared to €3.76 billion per year for the 10th EDF in current prices. This represents a 30% increase from the 10th to the 11th EDF. However, in 2011 prices, the increase from the 10th to the 11th EDF is 13%.

The overall figure is broken down between funding allocated to the ACP, funding allocated to the OCTs and funding allocated to the EC for support expenditure (administrative costs), as shown in figure 1.

Nevertheless, the Member States have given a clear indication that the EDF, 'like all the other headings of MFF and instruments outside MFF, will also need to be subject to reduction efforts.'[1]

Figure 1. Proposed funding allocations for the 11th EDF



€32.218bn	94%	allocated to the ACP
€0.343bn	1%	allocated to OCTs
€1.714bn	5%	allocated to the EC for support expenditure

Source: Author's construct. Figures from the European Commission Communication on the 11th European Development Fund, 7 December 2011

Behind this lies the policy adopted by some Member States of 'zero growth', with EU spending frozen at 2013 levels. This would mean that the amount available for the 11th EDF in 2013 prices would be €29.7 billion for the seven-year period (Kilnes, 2012).

The proposed amount for ACP countries is divided as follows:

- €27.658 billion (86%) to the national and regional indicative programmes
- €3.960 billion (12%) to intra-ACP and intra-regional cooperation
- €0.600 billion (2%) to Investment Facilities

The EC proposes an increase in the share for the national and regional indicative programmes from 81% under the 10th EDF to 86% under the 11th EDF. Regarding intra-ACP and intra-regional cooperation, the proposal is to maintain the same share in the 10th EDF at 12%. This envelope would be used in part to finance the new shock-absorbing scheme foreseen by the second revision of the Cotonou Agreement to deal with exogenous shocks that have a cross-country dimension.

The EC also concludes that there is no need to replenish the Investment Facility (7% of the 10th EDF), as sufficient funding is already available from reflows from the 9th and 10th EDF allocations and the revolving nature of the Facility. However, an increased allocation is proposed for grants to finance interest rate subsidies and project-related technical assistance, to address what the EC sees as the insufficient level of funding under the 10th EDF, to increase the scale of current activities and to allow other types of blending mechanisms.

The EC's new development strategy, the Agenda for Change, signals a change in direction with respect to aid allocation. It emphasises targeting resources 'where they are needed most to address poverty reduction and where they could have the greatest impact' and announces that 'grant-based aid should not feature in geographic cooperation with more advanced developing countries' (European Commission, 2011b). Differentiation will, therefore, be applied at three levels:

- eligibility of development assistance, or graduation
- levels of assistance
- mix of policies and instruments (Herbert, 2012).

It is at the first of these levels where the policy of differentiation is new. Never before has the EC proposed aid graduation. The test run for this policy is the Development Cooperation Instrument (DCI) under the EU budget, where the EC is proposing to cut bilateral aid to 19 countries from 2014. Seventeen of these are upper-middle-income countries (UMICs) and although the remaining two are lower-middle-income countries (LMICs), their GDP is larger than the threshold of 1% of global GDP. This could, potentially, release some €3 billion, or 25% of the geographic envelope, for investment elsewhere. The European Parliament is disputing this on the grounds that some of the 19 countries still face 'enormous poverty and inequality challenges'.[2] With emphasis on the Human Development Index, the European Parliament's formula results in Colombia, Ecuador and Peru being put back on the list of aid recipients.

It is highly improbable that the EC will apply this policy of 'graduation' to the ACP group. The financial gain of cutting bilateral aid to UMICs or countries with a share greater than 1% of global GDP (of which there are 21 in the ACP group), would be small – no more than 5% of the geographic envelope. And the political battle that would result would be enormous. Nevertheless, it is likely that the EC will continue to apply 'differentiation of aid volumes' in the 11th EDF, as it has done in previous EDFs, by increasing the weight of income criteria in the aid allocation model to ensure funds are directed to low-income countries and least developed countries.

Aligning the EDF 'contribution key' with the key used for the EU budget

The EC proposes the further alignment of Member States' EDF contribution key with the key used for the EU budget to smooth the transition towards a budgetised EDF post-2020. The October Presidency Negotiating Box for the MFF puts forward three options for the EDF contribution key:

- the Commission's proposal for the 11th EDF
- the 10th EDF contribution key, or
- the GNI-based contribution key financing the 2012 budget.

Table 1 compares the 10th EDF contribution share per Member State with the EC's proposed contribution for the 11th EDF, drawing on figures from the 29 October 2012 Multi-Annual Financial Framework (2014-2020) - Negotiating Box.[3] For the EU-15, there is very small variation in the proposed contribution shares from the 10th to the 11th EDF. Belgium, Denmark, France, Italy, Luxembourg, the Netherlands and the UK would see a decrease in their shares. Without exception, the EU-12 would see quite substantial increases in their shares, with the biggest share increases for Romania (95%), the Slovak Republic (81%), Estonia (80%), Latvia (71%) the Czech Republic (57%), Bulgaria (57%) and Poland (55%). In real terms, Poland's contribution would increase from around €350 million to over €600 million. With a static share, Germany's contribution in real terms would increase from €5,521 million to €6,240 million.

However, there is still substantial variation in the contribution keys for the EDF and the EU budget. Figure 2 compares the proposed contribution shares for the EU-15 for the 11th EDF and for the 2012 EU budget. If the EDF contribution key were to be aligned to the GNI-based contribution key for the 2012 EU budget, then Finland, Germany, Greece, Ireland, Portugal, Spain and Sweden would all contribute slightly less to the EDF. In the same vein, with complete alignment, the EU-12 would, without exception, have to increase their contributions to the 11th EDF (Figure 3).

Democratic oversight

The European Parliament has consistently sought a greater role in the mid-term review of the EU's external instruments, including for the EDF. In its Communication on 'A Budget for Europe 2020', the EC proposes bringing the EDF in line with the DCI (European Commission, 2011c). In practice, this means that the European Parliament would be granted a similar role in ACP Country and Regional Strategy Papers and Multi-annual Indicative Programmes as it currently has in the DCI.

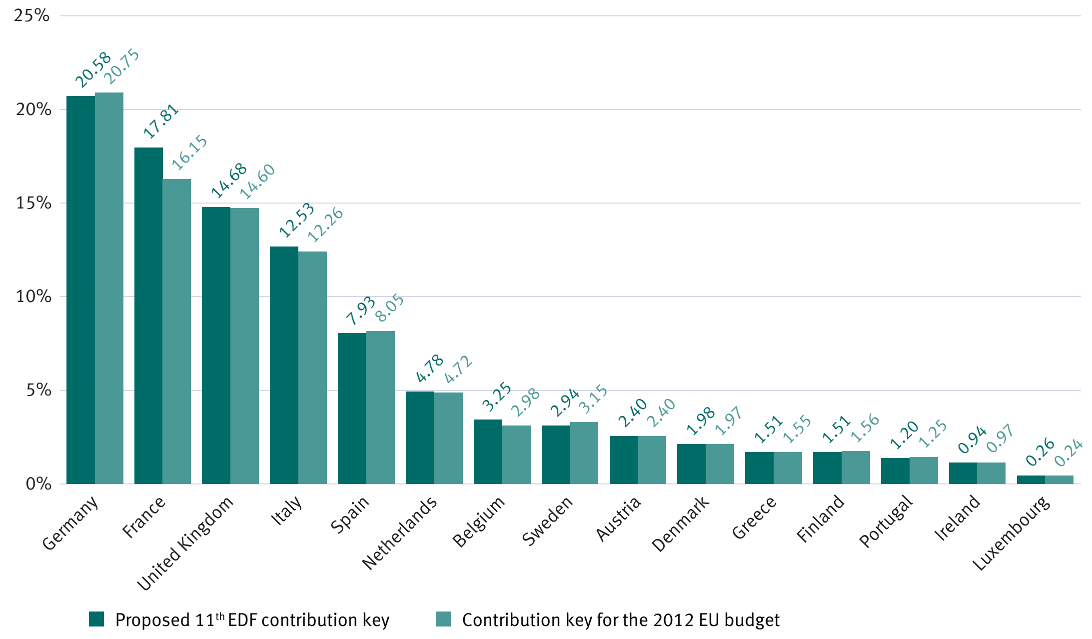
In 2007, with the introduction of the new DCI, the European Parliament was granted the right to monitor the application of the DCI in the form of Country and Regional Strategy Papers and Multi-annual Indicative Programmes. There was, however, no legal basis for this, which inhibited the Parliament's ability to criticise and hold the EC to account on the core principles and provisions in the DCI. With Article 290 of the Lisbon Treaty, responsibility for these elements is to be delegated to the EC. This means that the EC would take responsibility for acts delegated to it under the

Table 1: A comparison of contribution keys: 10th and proposed 11th EDF

	10th EDF contribution key	Proposed 11th EDF contribution key	Change in contribution share
Austria	2.41%	2.4%	0%
Belgium	3.53%	3.25 %	-8%
Bulgaria	0.14%	0.22%	57%
Cyprus	0.09%	0.11%	22%
Czech Rep.	0.51%	0.8%	57%
Denmark	2%	1.98%	-1%
Estonia	0.05%	0.09%	80%
Finland	1.47%	1.51%	3%
France	19.55%	17.81%	-9%
Germany	20.5%	20.58%	0%
Greece	1.47%	1.51%	3%
Hungary	0.55%	0.61%	11%
Ireland	0.91%	0.94%	3%
Italy	12.86%	12.53%	-3%
Latvia	0.07%	0.12%	71%
Lithuania	0.12%	0.18%	50%
Luxembourg	0.27%	0.26%	-4%
Malta	0.03%	0.04%	33%
Netherlands	4.85%	4.78%	-1%
Poland	1.3%	2.01%	55%
Portugal	1.15%	1.20%	4%
Romania	0.37%	0.72%	95%
Slovak Rep.	0.21%	0.38%	81%
Slovenia	0.18%	0.22%	22%
Spain	7.85%	7.93%	1%
Sweden	2.74%	2.94%	7%
United Kingdom	14.82%	14.68%	-1%

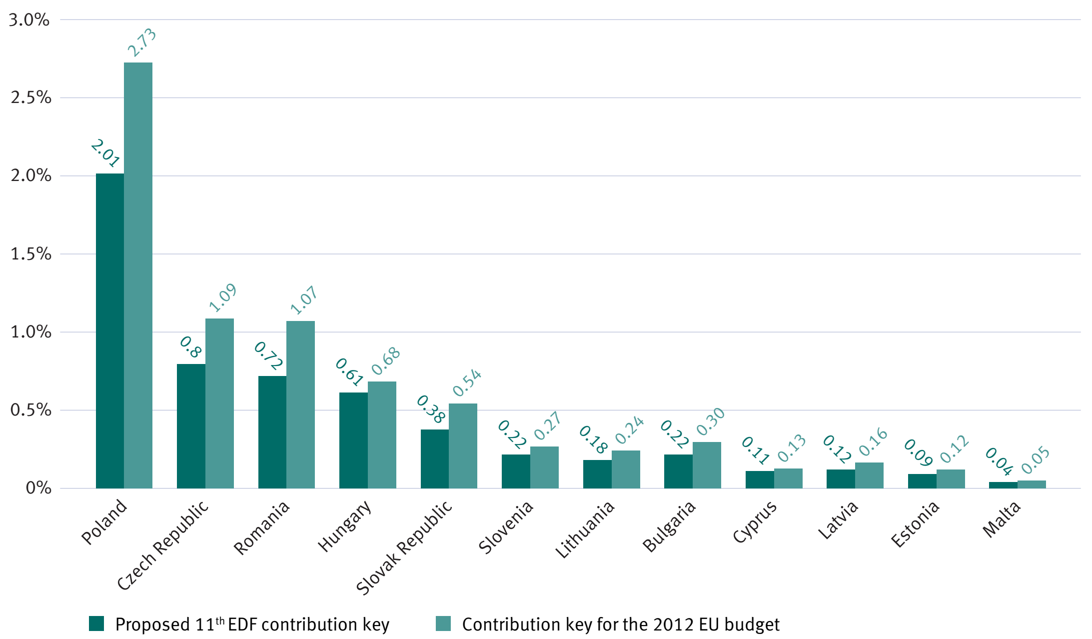
Source: 29 October 2012 Multi-Annual Financial Framework (2014-2020) – Cypriot Presidency Negotiating Box

Figure 2: A comparison of the proposed 11th EDF contribution key and GNI-based key for 2012 EU Budget for the EU-15



Source: Author's construct. Figures from 29 October 2012 Multi-Annual Financial Framework (2014-2020) – Cypriot Presidency Negotiating Box

Figure 3: A comparison of the proposed 11th EDF contribution key and GNI-based key for 2012 for the EU-12



Source: Author's construct. Figures from 29 October 2012 Multi-Annual Financial Framework (2014-2020) – Cypriot Presidency Negotiating Box joint control of the European Parliament and the Council, giving both institutions the opportunity to oppose or revoke the delegated act (Hardacre and Kaeding, 2011). In February 2011, under the authority of Article 290, the European Parliament adopted amendments to the DCI that would give it the same legislative and control powers as the Council. They were largely ignored by both the Council and the EC.

This process of scrutiny is carried out by working groups in the European Parliament, which exchange information with the EC. After the assessment of the strategy papers, the European Parliament may decide to vote on a resolution when it concludes that the EC has gone beyond the objectives laid out in the financial regulation. In such cases, the EC must either change the proposed actions or justify why they do indeed serve development objectives.

The 2007-2013 round of programming for the DCI provided an array of examples of how resources allocated to development cooperation were brought to light by the European Parliament as promoting objectives other than poverty eradication. These included the initial draft Country Strategy Papers (CSPs) for Bangladesh and the Philippines (European Parliament Committee on Development, 2006a and 2006b), which made explicit reference to the objective of fighting terrorism. Another project shown to have a dubious link to poverty eradication was the Special Measure 2007 for Iraq. This selected, as one area for intervention, a feasibility study for the Akkas gas field, with the overall objective of studying the conditions for exploration of the field and linking its output to the Syrian gas pipeline network (European Parliament, 2007). Nevertheless, only one quarter of Parliament's requests for the withdrawal or modification of a draft measure (three of 12) were taken into account during the last programming process in 2009 (Van Hecken, 2010).

In their July 2012 report on the geographic and thematic instruments for external action, the European Parliament's Foreign Affairs Committee emphasised that it is essential that Parliament and the Council delegate power to the EC to prepare all the strategic programming documents.[4] This, they argue, would allow flexibility while ensuring democratic legitimacy and transparency, as Parliament and the Council would retain control over the documents.

Support expenditure

The EC has proposed an increase in the proportion of administrative expenditure of the EDF from the current 2% to 5% on the basis that 5% reflects the real support expenditure that is needed for programming and implementing the EDF. This includes the costs associated with the devolution of aid implementation and with enhanced monitoring.

Delays and bottlenecks in the disbursement of EDF funds continue to hamper performance, despite recent improvements. For the period 2011-2012, the EC was forced to return around €1 billion to the Member States, having been unable to disburse the funds. Problems of staff resources, lack of specific expertise in key areas and overall capacity have been cited as challenges. The OECD DAC Peer Review of EU aid in 2012 recommended 'greater investment in expertise and knowledge management to help the EU institutions, especially EuropeAid, to implement programmes more effectively, improve their reputation and convince Member States of the real added value of their role' (OECD DAC, 2012). This, however, is going to be a hard line to sell, with administration costs being slashed across the Member States. On the one hand, the Member States are going to want to see improvements in disbursement performance before agreeing to an increase in support expenditure; on the other, severe capacity constraints will make it hard to improve the disbursement rate.

Conclusion

While a budget of €34.275 billion for the 11th EDF is substantial, it will be spread over 78 countries and seven years. In 2011 prices, the proposed amount is €30.319 billion, which represents a 13% increase from the 10th to the 11th EDF.

As the negotiations on the 11th EDF progress, Member States will also need to keep an eye on the programming process. Since ratification of the EDF financing instrument requires approval of EU Member State Parliaments and two thirds of the ACP, it takes a considerable amount of time for the EDF to enter into force. This matters, given the 'use it or lose it' approach, by which National Indicative Programme/ Regional Indica-tive Programme funds need to be legally committed by an end date under the various country and regional programmes. If ratification is a long drawn-out process, the delay will have real implications for the annual level of EU funding nominally made available to finance ACP-EU cooperation activities.

The EC proposes aligning Member States' contribution keys under the 11th EDF with the keys used for the EU budget, in order to pave the way for funding to the ACP and OCT regions to be integrated into the EU budget post-2020. However, even though the EC proposal would result in stronger alignment to the current EU budget key, the two contribution keys still differ quite substantially, as do the levels of Member States contributions.

With 78 countries in the ACP group, it would be a huge undertaking by the European Parliament to scrutinise every single strategy paper in the same manner as was done under the DCI. Furthermore, given the contractual nature of the Cotonou Agreement, as well as the overall poverty-focused track record of the CSPs, such a significant investment would offer little return.

The EC's proposed increase in administrative expenditure of the EDF from the current 2% to 5% is going to be difficult to sell. Reducing administrative costs through joint programming could be one solution. However, the mid-term review of the EDF found that only 4% of the countries in the study (three countries) had used joint programming. It is clear, therefore, that coherent and joined-up working by the EU and its Member States remains, at best, a work in progress.

Written by Mikaela Gavas, ODI Research Associate (m.gavas.ra@odi.org.uk).

References and endnotes

References

European Commission (2011a) 'Preparation of the Multi-Annual Financial Framework regarding the financing of EU cooperation for African, Caribbean and Pacific States and Overseas Countries and Territories for the 2014-2020 period (11th European Development Fund)'. Communication COM(2011)837 final. Brussels: European Commission. Available at: http://ec.europa.eu/europeaid/how/finance/documents/comm_european_development_fund_en.pdf

European Commission (2011b) 'Increasing the impact of EU Development Policy: An Agenda for Change'. Communication (COM(2011), 637 final. Brussels: European Commission.

European Commission (2011c) 'A Budget for Europe 2020'. Communication COM(2011) 500 final, p 21. Brussels: European Commission.

European Parliament Committee on Development (2006a) 'Abstract - Bangladesh, Report on the Assessment of Draft Country and Regional Strategy Papers/Indicative Programmes. Brussels: European Parliament. Available at: http://www.asia-programming.eu/wcm/dmdocuments/DEVE%20conclusions%20 Bangladesh.pdf

European Parliament Committee on Development (2006b) 'Abstract – Philippines' Report on the Assessment of Draft Country and Regional Strategy Papers/Indicative Programmes. Brussels: European Parliament. Available at: http://www.asia-programming.eu/wcm/dmdocuments/DEVE%20conclusions%20Philippines.pdf

European Parliament (2007), 'Resolution of 25 October 2007 on the draft Commission decision establishing a Special Measure 2007 for Iraq', Official Journal of the European Union, P6_TA (2007)0481, Brussels, 25 October 2007, Art. 1.

Hardacre, A. and Kaeding, M. (2011) 'Delegated & Implementing Acts - The New Comitology', EIPA Essential Guide, 4th edition, December 2011. Maastricht: European Institute of Public Administration

Herbert, S. (2012) 'Reassessing aid to middle income countries: the implications of the European Commission's policy of differentiation for developing countries', ODI Working Paper 349. London: Overseas Development Institute. Available at: http://www.odi.org.uk/publications/6658-aid-middle-income-countries-european-commission-differentiation

Kilnes, U. (2012) 'Billions less for development? Analysing drivers and consequences of possible 'zero growth' scenarios for the 11th European Development Fund 2014-2020', ECDPM Briefing Note No. 35. Maastricht: European Centre for Development Policy Management.

OECD DAC (2012) European Union Peer Review. Paris: Development Assistance Committee of the Organisation for Economic Co-operation and Development. Available at: http://www.oecd.org/dac/peerreviewsofdacmembers/50155818.pdf

Van Hecken, G (2010) 'The role of the European Parliament in Development', lecture, Bruges, for the Secretariat of the European Parliament Committee on Development, 9 April 2010.

Endnotes

1. http://www.cy2012.eu/index.php/en file/7iV7gepKq3D2nxXo9+AUZw
2. http://www.europarl.europa.eu/news/en/pressroom/content/20120917IPR51498/html/EU-development-aid-must-take-social-inequalities-into-account-say-MEPs
3. http://www.cy2012.eu/index.php/en/file/7iV7gepKq3D2nxXo9+AUZw
4. http://www.europarl.europa.eu/news/en/pressroom/content/20120709IPR48494/html/EU-foreign-policy-spending-must-be-better-targeted-and-scrutinised-by-Parliament

UKaid from the British people

This material has been funded by UK Aid from the UK Government, however the views expressed do not necessarily reflect the UK Government's official policies.

Overseas Development Institute, 203 Blackfriars Road, London SE1 8NJ, Tel: +44 (0)20 7922 0300, Email: publications@odi.org.uk. This and other ODI Background Notes are available from www.odi.org.uk.

 ISSN 1756-7610.