

# **BUDGETISING THE EUROPEAN DEVELOPMENT FUND**

## **A CONCORD Cotonou Working Group Response to the Commission Communication**

**January 2004**

The CONCORD Cotonou Working Group (CWG), one of the European Confederation of NGOs for Relief and Development's 9 thematic working groups, welcomes the Commission's initiative to launch a debate regarding budgetisation of the EDF through the publication of a Communication on this subject. The Commission's proposals for the incorporation of the EDF into the EU budget raises a number of concerns regarding the protection of funds and the fundamental principles underpinning the EU-ACP relationship. This paper explores some of those concerns and suggests that the key outcome should be a strengthened focus on poverty eradication as well as the safeguarding of the fundamental, innovative elements of the Cotonou Agreement.

### **Background**

On 8 October 2003, the European Commission issued a Communication '*Towards the full integration of cooperation with the ACP countries in the EU budget*' (COM(2003)590). The Commission puts forward its case for the incorporation of aid to ACP countries from the European Development Fund into the European Community budget (see appendix for main arguments). EC development assistance currently comes from two distinct sources:

- The annual European Community (EC) Budget which covers cooperation with developing countries in all geographic regions and countries with economies in transition (Category 4: External Actions).
- The European Development Fund (EDF) which covers cooperation with ACP countries under the Cotonou Agreement.

Different administrative rules and decision-making structures apply to these. Funds from the EU budget are administered in accordance with existing EU financial regulations. Funds from the EDF are administered in accordance with rules laid out in the Cotonou Agreement, which is the general framework for EU/ACP cooperation, and specifically in the EDF Regulations adopted by the Council. The EDF is inter-governmental and voluntary in its funding and managed by the European Commission, with the European Parliament granting the discharge.

### **The Context**

European Community aid appears increasingly dwarfed by other agendas, such as trade, foreign and security policies and the changing balances of power within the EU institutions. This has serious consequences for Community aid programming. The proposal to transfer EU development assistance funds for the ACP countries from the EDF into the EC budget must be understood in that context. The foreign policy imperative of funding investment in Europe's 'near abroad', middle-income countries on the Mediterranean and Eastern borders, has diverted scarce development resources away from low-income developing countries in the South. This trend is mirrored by the move of EU Member States' own national, bilateral official development assistance towards increased 'selectivity' and 'conditionality'. CONCORD has serious concerns about the potential for Community aid resources to lose their proper focus, namely tackling poverty.

## **CONCORD CWG position on EDF budgetisation**

EDF budgetisation raises concerns regarding the legal mechanisms and guarantees that would need to be put in place in the budget to ensure that EDF funds would be protected for the mainly low-income ACP countries in the budget cycle and to ensure that these funds do not get diverted to foreign policy initiatives. The EU cooperation budget under Heading 4 'External Actions' includes several non-poverty related budget lines, such as cooperation with industrialised countries, migration, the Common Foreign and Security Policy. The distribution of funds under Heading 4 is also strongly influenced by EU commitments in favour of highly political crises that are in the spotlight (Afghanistan, Iraq). It would need to be absolutely clear that the EDF element of the budget could not be reallocated, even in years when disbursement rates are low, to other category 4 priorities.

CONCORD CWG welcomes authoritative parliamentary scrutiny over all EU expenditure and believes that this is an important point of principle to keep in mind during these discussions. Budgetisation, under the right conditions, could increase the profile of the ACP in the political debates of the Union and improve the consistency and coherence of EU external policy as well as the control mechanisms on spending regarding the EDF. The following points aim to demonstrate that these outcomes are by no means a foregone conclusion and more clarity on how the EDF would be safeguarded for ACP countries is required.

### **MARGINALISATION AND MODERNISATION**

- 1. "Modernisation" should not result in weakening the strong focus and content of the Cotonou Agreement or the EDF and rendering it similar to other less ambitious agreements.**

The Commission argues that EDF budgetisation will be a measure to ensure that cooperation with the ACP will not be marginalised and relations will be modernised. However, EDF budgetisation will not necessarily solve the issue of marginalisation. The problem lies with the institutional architecture of the EU which is effectively sidelining the development perspective. There has been a serious cutting down of the administration for development cooperation (DG DEV) in the Commission and a serious reduction in the involvement of the DG in policy making which is limited to the ACP countries.

Cooperation with the ACP is the most advanced form of cooperation between the EU and developing countries and sets an important example for cooperation between the EU and other regions. Cooperation with other regions is not as advanced in terms of specificity of development objectives, namely poverty eradication, quality of partnership, ownership and participation and in terms of institutions (i.e. the ACP-EU Joint Parliamentary Assembly, ACP-EU Joint Council of Ministers, ACP Secretariat ...). Furthermore, under agreements with non-ACP regions and countries, non-development related activities are being funded within these programmes related to migration and the anti-terrorism clauses and actions in third countries to support EU security issues. At present, the EDF offers the most secure and viable long-term structure for development cooperation although concerns have recently been expressed by the European Parliament and NGOs regarding the undertaking to use the EDF, including programmable aid, for military peace keeping activities of the African Union which do not fall within the Official Development Assistance DAC criteria. The fact that the Peace Facility was created in response to an initiative and request from the Africa Union and not from the ACP group and that it is not legally

possible to raise part of the funds from the EU-Mediterranean cooperation instrument (MEDA) represents a major concern regarding present and future governance of the EDF.

#### AID QUANTITY AND QUALITY

### **2. A binding commitment should be made to maintain the level of resources for ACP countries and poverty focus of the EDF.**

How will the Commission ensure that the strong focus of the EDF on low-income countries (which is weak in the EC budget) is maintained following budgetisation? How will funds for the mainly low-income ACP countries be protected or ringfenced in the budget cycle? Within the EU budget there is flexibility in shifting commitments from one region to another. How will the Budgetary Authority protect the EDF once it is included in the budget? The EU budget is skewed towards middle-income countries, while low-income countries such as India and Bangladesh receive only token amounts. Attempts in the past by the European Commission to allocate more funds to low income countries have been thwarted in favour of other regions, and in particular, the 'near abroad' and countries under the spotlight. Budgetisation would make the funds earmarked for ACP countries more vulnerable to capture by other Union foreign policy objectives unless they were specifically earmarked for the ACP. This should be the subject of an inter-institutional agreement prior to the eventual budgetisation of the EDF.

The above trend is likely to be exacerbated by the enlargement of 10 countries from Central and Eastern Europe, which might have little interest in development cooperation with Africa, and perhaps even less of an interest in the Caribbean and Pacific regions. In the period 1999-2001, only 5% of Czech ODA and 0.5% of Slovak ODA was directed to Africa<sup>1</sup>. Given that the accession countries have subscribed to the 'acquis communautaire', and cooperation with the ACP countries through the EDF, they have accepted the need to contribute to the EDF but their commitment will be highly influenced by the attitude and commitment of the current EU Member States towards aid to the ACP.

The principle of annuality and the present re-allocation procedures of the EC budget through transfers represent a real challenge in this respect as there is a serious risk that the disbursement rate will become a more important factor than the quality of actions supported in the management of EC aid to the ACP. Increasing disbursement will require political will and additional human resources if this large sum of money is to be disbursed efficiently.

The consequences of EDF budgetisation should be fully integrated into any discussion regarding the future level of the EU's own resources. The incorporation of the EDF into the EC budget, will necessitate an equivalent increase in Member State contribution to the EU's own resources. A binding commitment is needed from the budgetary authority for the entire period of the new Multi-annual Financial Framework to maintain the present level of EDF funding.

#### PARTNERSHIP, OWNERSHIP AND PARTICIPATION

### **3. The fundamental innovative principles of partnership, ownership and participation enshrined in the Cotonou Agreement should be safeguarded as fundamental elements of any strategy aimed at poverty eradication.**

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<sup>1</sup> Development Strategies IDC, "The Consequences of Enlargement for Development Policy," September 2003

How will the Cotonou Agreement's fundamental principles of equality between partners and ownership of a country's development strategy by the country itself be preserved in the event of budgetisation? In its Communication the Commission heralds the principles of ownership and partnership of the Cotonou Agreement. However, the Communication does not examine the impact of EDF budgetisation on the joint ACP-EU institutions and on ACP-EU political dialogue. On the basis of these principles, discussions with the ACP countries need to be held on the desirability of EDF budgetisation, possible conditions and potential scenarios. How will the EC ensure that the political commitments to the Cotonou Agreement are well reflected in the way the budgetised resources are managed and allocated? Current experience with other agreements shows clearly that the responsibility of the partner governments in aid management and allocation is substantially lower than under the EDF. What consequences will the budgetisation of the EDF have on ownership and partnership?

Furthermore, how will the principle of the participation of non-state actors in political decision-making through dialogue with governments on EU aid be enhanced in situations where government responsibility of aid management is weakened? Generally, civil society participation in EC development policy is strongest under the Cotonou Agreement in which it has been granted a legal basis and an extremely important benchmark of civil society participation is through the Country Strategy Paper process and the Mid-Term Reviews.

## **Focusing on poverty reduction in the Financial Perspectives**

### **Creating a sub-heading for EC development cooperation**

The most effective way of tackling the problems of the lack of democratic control, lack of visibility, lack of coherence between regions and budget lines and ensuring a single approach to funding development cooperation in line with the EU's Barcelona and Monterrey commitments is at the level of the Financial Perspectives, the negotiations on the new Multi-annual Financial Framework. One way in which this might be achieved would be through the creation of two sub-headings within Heading 4 (External Actions): one for EC development cooperation to all developing countries and another sub-heading for security and foreign policy related issues, such as the Common Foreign and Security Policy. Separation between the two sub-headings would be based on the OECD definition of Official Development Assistance (ODA) and its classification of developing countries. The advantages of this structure are numerous:

1. It would ensure visibility of the Union's external assistance and make it easier to monitor financial contributions and their use;
2. It would be clearly in line with EU commitments from Monterrey and Barcelona (harmonisation, increasing the level of funding available).
3. It would give the European Parliament a role in controlling all development resources, enhancing accountability and transparency.
4. Since sub-headings are largely subject to the same procedures as headings the budgetary authorities would be consulted before transfers of resources between priorities could be carried out.
5. It would allow the Commission to operate with one single system and one set of procedures for all EU external assistance to developing countries.

6. It would ensure and strengthen coherence between the EU's development policy and other external policies thereby reconciling with the aims of the new EU Constitutional Treaty.

If a solution to the annuality of the EU budget can be found then a balance between sound management, flexibility and speedy disbursement versus predictability, quality and multi-annuality could be found.

Such a structure would not only improve ACP-EU cooperation and keep it at the forefront of international cooperation, but would also base the allocation of European development assistance on firmer and more objective grounds. It would ensure that decisions about policy priorities are fully informed by related resource requirements and enable accurate comparisons with other donors. This could then be followed up by a more rational organizational structure in the Commission. There may be other structures that could achieve this outcome equally well and CONCORD would welcome the opportunity to contribute to ongoing discussions in this area.

## **Recommendations regarding the Commission's proposals**

In the current discussion on the future of EC Development and Foreign Affairs policies and awaiting further information from the Commission on the conditions and practicalities of EDF budgetisation, the CONCORD CWG would make the following recommendations:

- ❑ **The new EU Treaty sets the objective of poverty eradication as the overarching aim of EU cooperation with developing countries;**
- ❑ **The new EU Treaty reflects the principles of ownership, partnership and participation as fundamental elements of any strategy aimed at poverty eradication;**
- ❑ **The new EU Treaty includes the principle of coherence of all Union policies that have an impact on development;**
- ❑ **On the basis of the OECD definition of Official Development Assistance (ODA) and classification of developing countries, the EU establishes a clear, transparent and consistent framework for its Development Policy Area in the EC budget that includes all EU aid instruments to all developing countries. A separate sub-heading for Development Cooperation should be created within Heading 4 in the Financial Perspectives;**
- ❑ **Allocation criteria for the EC development cooperation budget, including but not limited to ACP countries reflecting a poverty focus, are agreed by the Budget Authority and the Commission, and a monitoring mechanism is established on allocation and disbursement;**
- ❑ **The principles on partnership in the Cotonou Agreement are not watered down in the review of the Agreement.**

- ❑ A process of negotiation is launched with the ACP, both at governmental and civil society levels, on the impact and desirability of EDF budgetisation;
- ❑ The opinion of the Joint Parliamentary Assembly is respected. Although the JPA could not have a formal role vis à vis the EC Budget similar to that of the European Parliament, it could no doubt serve as a useful additional sounding board from which MEPs could draw inspiration in their budget scrutiny work;
- ❑ Legal guarantees are given in the decision on EDF budgetisation and the new Financial Perspectives that the resources for ACP countries will not diminish during the period covered by the Cotonou Agreement (until 2020);
- ❑ Funds are protected for the ACP countries in the budget cycle beyond the N+3 formula, decommitted funds must be used in support of the Cotonou Agreement objectives.
- ❑ A transitional period is introduced following incorporation of the EDF into the next financial perspective that ensures that the backlog as incorporated into the current spending period, will not be lost even if it remains unspent more than three years after allocation.

## **APPENDIX:**

### **The Commission Communication**

The Commission sets out a number of arguments in its Communication outlining the benefits of EDF budgetisation:

#### **a. Efficiency**

One set of administrative rules and decision-making structures will reduce the administrative burden on Commission staff and on recipient countries, which presently receive resources from the Community according to different rules. Budgetisation would entail:

- ❑ Unified procedures
- ❑ Coherent management and the facilitation of devolved management by ACP Delegations
- ❑ Rationalisation of comitology between the Commission and the Member States
- ❑ Simplification of reporting and accounting requirements
- ❑ The removal of duplication in financial decisions, legal commitments, payments

#### **b. Effectiveness**

Annual discussions on the budget by the Council and the European Parliament have become the main forum for debate on the substance of development policy, the political priorities of the Union and their resource implications. Budgetisation would improve the effectiveness of EC aid to ACP countries through:

- ❑ Budgetary discipline
- ❑ Yearly assessments and yearly authorisation by the Council and the European Parliament
- ❑ The rapid availability of funds without the need to wait for ratification of a financial protocol by 25 Member States and two thirds of the ACP

- ❑ Faster response to evolving needs and priorities and more flexible reallocation mechanisms
- ❑ Regularised patterns of commitments
- ❑ Easily identifiable build-up of unspent funds
- ❑ The facilitation of regional cooperation between ACP and non-ACP developing countries which would increase synergy
- ❑ Long-term planning in the financial perspectives

#### **c. Transparency**

One budget including all external aid expenditures will provide a more accurate and global picture of external assistance and development policy in terms of size and geographical repartition. Budgetisation would lead to:

- ❑ Budgetary unity and universality
- ❑ An overall commitment to poverty eradication easier to track
- ❑ Coherent and comparable presentation of budgets
- ❑ Consistent decision-making

#### **d. Legitimacy**

Despite its political importance and financial scale, the EDF is currently the only expenditure that is not subject to authorisation by the European Parliament, yet the Treaty specifies the co-decision procedure for development policy. European Parliamentary scrutiny would:

- ❑ Strengthen public legitimacy of the EU's external assistance
- ❑ Strengthen the legitimacy of cooperation with ACP partners