



Overview Paper

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The EU as a global player: Financing EU's ambitions for 2014-2020

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In the coming months, negotiations on the EU budget for 2014-2020 will begin. Previous negotiations on the multi-financial perspectives tended to focus on the common agricultural policy and the structural and cohesion funds, relegating negotiations on Heading IV (the EU as a global player) as the last element of the bargain. The ambition of this seminar is precisely to move Heading IV to the forefront of the debate. A debate that is timely with the advent of the European External Action Service and the reconfiguration of EU's external relations system.

Climate change funding as well as our relations vis-à-vis strategic partners such as the BRICS and our neighbourhood need to be reconceptualised. This redefinition of EU's ambitions and instruments must also respect the EU's commitments to eradicate poverty, bring about aid effectiveness, organise a better division of labour as well as contribute to the achievement of the Millennium Development Goals (MDGs) beyond 2015. Limited funds call for increased flexibility of funds.

This seminar provides the opportunity to rethink EU's external action priorities and subsequent financial instruments in order to match its ambitions as a global player. The objective is to provide policy and financial recommendations as a starting point for future negotiations. It will gather policy-makers, experts and academics. The seminar will place under Chatham House rule, allowing for a free and open discussion.

1. Introduction: EU Foreign Policy Objectives in a Changing World

Heading IV (*the EU as a global player*) of the EU budget is a collection of instruments that are meant to translate EU priorities in the international arena. In 2003 the European Security Strategy was written to provide a common aim to EU external action. In an ideal world from this common goal, priorities should follow. In turn, these priorities should be matched accordingly with financial instruments. The previous decennia as well as the current one have shown that the budget of EU's external action has been initiated and composed on an ad hoc basis. It is the result of a constant struggle between policy priorities and budget instruments which lacks an overarching common strategy. Most probably the same dilemma will occur in the upcoming Financial Perspectives.

The current ad hoc system is very likely to be influenced by the creation of the European External Action Service (EEAS). The question is in which direction and to what extent? The new diplomatic service should provide the strategy needed and should identify the EU's foreign policy objectives for the next decade. In terms of development aid, horizontal issues like flexibility of instruments and funds, aid effectiveness, conditionality, division of labour will be addressed. These horizontal issues are of the utmost importance and should be taken into account in the negotiations; however they will

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not be at the forefront of the debate on the EU's external action. It will most probably be a vertical debate from the overall EU budget, to Heading IV, to the different instruments. This paper wants to put emphasis on an extra step that has to be made between Heading IV and the instruments, that of policy priorities which will provide a framework for the negotiations.

The EU's external action instruments are crucial with respect to the role it wants to play on the international stage. Recent developments point to the need to rethink strategically where and on what the EU wants to spend its money. At present, the BRICS countries are eligible for development aid and for neighbourhood funding. China receives EU development aid while it is a fierce competitor in Africa and is offering to buy Greek government bonds. The EU deals with regions like Latin America, that brings together emerging economies such as Chile, Argentina, and Brazil which are key economic partners. Therefore, there is a debate on whether such new "tigers" should benefit from EU development aid. Besides this, another question is whether it would not be wiser to diversify EU instruments and to revise the targets of cooperation by focusing on issues such as climate change, higher education, energy, or in other words global public goods (GPG's).^{2 3}

While the previous months have seen turf wars over posts, staff and other financial issues regarding the setting up of the EEAS, it is time to look ahead, to identify the priorities of EU's external action and to match the instruments accordingly. The paper explores policy priorities that are considered most relevant for the EU to play a role on the international stage (section 1). This should be seen in the light of the upcoming challenges of the EEAS and the role of alternative ways of funding provided by European financial institutions (section 2). Finally, the paper puts the debate on strategic policy priorities in the perspective of the future financial instruments. To do so, an overview of the next multi-annual financial framework (MFF) and of Heading IV and its instruments is provided (section 3).

2. Which priorities and ambitions for EU external action towards 2020?

Much criticism has been voiced on EU instruments. As discussed above, amongst other because there is a tendency for instruments to precede policy priorities.⁴ Also, the fact that the MFF is planned on a seven-year period constraints the swiftness and the flexibility of external action instruments that need to respond quickly to emergency situations and be competitive in a world where private donors are increasing. The revision of EU external aid instruments is an opportunity to set the EU's priorities in the world by 2020. But what are the EU's priorities for its external action? Possible relevant priorities for the redesigning of EU external action are suggested below: redefining its policy vis-à-vis EU's neighbours and the BRICS, while promoting 'climate change proof' policies in developing countries.

2.1 The Neighbourhood: which sphere of influence for the EU?

The EU is directly responsible for its own sphere of influence, the EU's Eastern and Southern neighbourhood. The ambition was to bring stability, good governance and promote a "ring of well governed countries".⁵ The European Neighbourhood Policy Instrument (ENPI) was created to accompany targeted reforms, even though it was clear that the EU was promising "everything but the institutions". These reforms however are very difficult to measure and as a result have difficulties to come into practice. An example of this is the implementation of cross-border projects (CBC) under the European Neighbourhood Policy (ENP) which lack effectiveness and in some cases added value.⁶ This can partly be explained by the ENP being rather vague, but also because 'the primary (and somewhat indistinct) 'carrot' the EU is offering is greater access to the EU in various forms'.⁷

² European Commission (2009a), *Communication on The European Union and Latin America: Global Players in Partnership*.

³ Dearden, S. (2010), *The Challenges Facing EU Development Policy*, p. 10.

⁴ Sohet, K. (2004), *Financial Perspectives 2007-2013 and EU as a global actor*.

⁵ Council Secretariat (2003), *A Secure Europe in a Better World: European Security Strategy*.

⁶ Agence Europe (2010a), *Commission considers how to improve cross-border cooperation with eastern and southern neighbours: Debate in EP*.

⁷ Holden, P. (2009), *In search of structural power: EU Aid Policy as a Global Political Instrument*, p. 175.

EU aid has not brought about a democratic system in countries such as Morocco, Egypt or Tunisia in the South, and Belarus and Russia in the East. Reforms have focused on free market economy but not on further democratisation in these countries. EU aid and the carrot of greater access to the EU will stimulate the economy and thus growth in a large regional area.⁸ But those regimes have shown an ability to adapt themselves to liberal market and to co-opt elites' loyalties for their regime. Some of them are also *rentier* economies (Libya or Algeria), with natural resources which are important in the eyes of the EU and turn them in key energetic partners.

Besides the above-mentioned issues, there is a debate on revising regional groupings, especially concerning the EU's Southern neighbours. The latter are subject to overlapping policy frameworks: the ENP and the Union for the Mediterranean which involves countries from the Western Balkans, Mauritania and Monaco, as well as the series of advanced status granted to Morocco and Jordan. Is this fragmentation of policy frameworks still appropriate for the EU's policy towards its Southern neighbours? This duplication of frameworks demonstrate the confusion of EU's policy towards the region. Is it about democratising the region, acting as a normative power that enforces conditionality, or is it rather about securing our own stability and security? Maybe the two are not completely mutually exclusive, but what should be then the 'third way'? And how is it possible to translate it in efficient instruments?

2.2 Strategic instruments for EU's strategic partners?

The EU also needs to reconsider its priorities vis-à-vis the so-called "strategic partners" like the BRICS. Such emerging economies are nowadays themselves 'emerging donors', contributing to the MDG efforts of developing countries via triangular cooperation. It is reported that governments of developing and transition economies received about \$ 9.6 billion of assistance in 2008 by the non-traditional (non-DAC)⁹ donor countries. It includes South-South financial and trade co-operation, exploring innovative sources of financing and collaborating on combating corruption and tax evasion.¹⁰

These 'emerging donors' are often referred to as the BRICS: Brazil, Russia, India, China, South Africa. In addition one can also think of Middle East and Organisation of the Petroleum Exporting Countries (OPEC) countries. These countries focus more on trade than on actual development aid. The most notable development is the involvement of China in Africa. Accordingly, 10% of Chinese Foreign Direct Investment and 50% of Chinese development assistance goes to Africa. This means that China is in the process of topping off all other countries by becoming the biggest donor in Africa.¹¹ In addition, there are risks to South-South cooperation towards low income countries (LICs) and middle income countries (MICs): they prejudice their debt situation by borrowing on inappropriate terms; they use low-conditionality aid to postpone necessary adjustment; they waste resources on unproductive investments.¹²

In this context, it is legitimate to wonder whether the EU priorities should still be governed by post-colonial relationships, as for instance between Spain, Portugal and Latin America, the UK and the Commonwealth or France and the ACP countries. In fact, development aid to some regions of the world like Latin America is questionable since no Latin American country is scaled into the group of Least Developed Countries (LDCs) or LICs.¹³ Besides this, Brazil is becoming an important player. While BRICS are first and foremost EU trading partners, they are also 'strategic partners' and they are 'competing' donors what may lead a new form of territorial competition.¹⁴ In table 1 beneath, one can see the payments to the BRICS in 2009 and also to other 'emerging powers'.

⁸ Debrat, J.-M. (2009), *European Development Policy: A Response to the Crisis Affecting Globalisation*, p. 6.

⁹ Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD)

¹⁰ United Nations MDG Gap Task Force (2010), *The Global Partnership for Development at a Critical Juncture*.

¹¹ Debrat, J.-M. (2009), *European Development Policy: A Response to the Crisis Affecting Globalisation*, p. 2.

¹² Manning, R. (2006), *Will "Emerging" Donors Change the Face of International Cooperation?*.

¹³ OECD (2009), *DAC List of ODA Recipients*.

¹⁴ Debrat, J.-M. (2009), *European Development Policy: A Response to the Crisis Affecting Globalisation*, p. 2.

Table 1. ODA Disbursements to BRICS and other 'emerging powers'¹⁵

Countries	2009 (in million euros)
Brazil	13,58
Russia	62,91
India	75,57
China	32,11
South Africa	110,12
Mexico	10,05
Argentina	16,20
Indonesia	81,46
Total	402

Seen through the eyes of a novice it could lead to a surprise to learn that they are also EU development aid recipients. Nonetheless, while funds the EU invests have scarcely led to democratic reforms, they have opened up markets. This is also the case for investments and development aid towards the “emerging donors”.

Does it make sense nowadays to provide development aid to those countries? This is a debatable issue given the huge social inequalities in those countries themselves. The strategic partner documents acknowledge the special status of the BRICS and others, but in terms of external action instruments they are considered as developing countries. Why not engage strategic partners with a focused strategic partner instrument?

2.3 ‘Climate Change proofing’ EU’s external action

Another relevant policy priority is the ambition to make EU external action ‘climate change proof’. Developing countries are those who are the least affecting climate change, but its first victims as well. Water scarcity, loss of biodiversity, floods and droughts are amongst the various plagues that hit developing countries frequently. In 2009 during the Copenhagen Summit, the EU committed to make available €7.2 billion for the next three years to assist developing countries adapting to climate change and moving to low-carbon strategies.¹⁶ The issue is considered as crucial for the EU’s credibility in future negotiations on climate change with developing countries.¹⁷

Acknowledging that climate is a global public good, the EU has undergone to integrate this issue in its development aid and political dialogue with Africa for instance via the Africa EU Climate Change Partnership.¹⁸ One of the current development aid instruments is the Global Climate Change Alliance (GCCA) which provides €60 million for 2008-2010.¹⁹ This instrument is meant to strengthen efforts such as integrating climate change in the poverty reduction efforts. However, funding is much below what is needed and/or expected.²⁰

Two problems have been identified regarding climate change in the EU’s external action. Firstly, how to channel climate financing for adaptation to the LDCs and small island development states and Secondly, how to convince the less vulnerable developing countries (i.e. BRICS) to contribute to the

¹⁵ European Commission (2010a), *Annual Report 2010 on the European Union's development and external assistance policies and their implementation in 2009*, p. 176-179.

¹⁶ European Commission (2010a), *Annual Report 2010 on the European Union's development and external assistance policies and their implementation in 2009*, p. 8.

¹⁷ Schaik, L. van (2010), *The Dutch and European contribution to International Climate Policy: building blocks for a viable strategy*.

¹⁸ Seters, J. van and S. Wolff (2010), *European Development Cooperation. Brokering environmental knowledge beyond Lisbon*.

¹⁹ For 2008-2010 €50 million has been earmarked, plus a intra-ACP funding of €40 million under the 10th EDF. See Van Seters, J. and S. Wolff (2010).

²⁰ DIE, ECDPM, FRIDE and ODI, (2010), *New Challenges, New Beginnings - Next Steps in European Development Cooperation*, p. 50.

global emission reduction effort?²¹ The second problem is well known, especially in relation to the negotiations in the United Nations Framework Convention on Climate Change (UNFCCC). The first problem is as relevant for the LDCs and small island development states as it is for the BRICS. Similarly, the international Clean Development Mechanism (CDM) can be used by Annex I countries (i.a. EU member States) and EU companies. These companies have to be eligible to participate in the European emissions trading scheme (ETS) first.²² It remains to be seen however whether the ETS revenues are as high as estimated and if they are going to be spent on (international) climate policies.

Ideally, a well-functioning climate policy could coincide with the aim of poverty reduction by means of engaging in low-carbon development.²³ Increasing financial transfers will not be enough. Even if this will be the case, the connections between climate and development policy should be enhanced.

Questions for discussion:

- *What should be the priorities and objectives of the external action of the EU by 2020?*
- *What kind of (strategic) instruments are needed for our strategic partners?*
- *How to bring about democratic and economic reform in EU's neighbourhood?*
- *How to integrate financing against climate change into the current system?*

3. EU external action: a system in permanent flux

These priorities need to be put in the perspective of the EU's external action as a system in permanent flux. It is a never-ending cycle of anticipating on and responding to events. The EEAS and the role played by actors such as European banks are important elements of that system and need to be reflected upon.

3.1 The EEAS- a tool to serve EU's ambitions?

The EEAS is the new system in which future instruments will be used to serve EU external action. Instruments will be successful if used coherently and in a coordinated manner within that system. Divergent opinions regarding the impact of the EEAS on EU external aid have been voiced. On the one hand it is argued that aid, including development aid, is an instrument to achieve foreign policy objectives and thus it should be embedded therein. On the other hand there is the opinion that development cooperation shall aim at eradicating poverty, and not be instrumentalised by *realpolitik* foreign policy.²⁴

There are several opportunities and risks for development cooperation concerning the EEAS. For instance, on the opportunity-side it can provide for better coherence to the EU's external action and thus work to better results, so that eventually the EU can punch its weight and beyond. Development cooperation might be more in line with foreign policy and political dialogue. However, there will be a question about the division of labour and coordination. The High Representative will be associated with the programming of all EU external action instruments, and will have access to European Commission managed resources, so there will be an interesting balancing act between funds and institutions. Implementation however will remain within Commission services and most importantly within the remit of the newly created DG DevCo.²⁵ When the EEAS will be involved on the issues of the European Development Fund (EDF) and the Development Cooperation Instrument (DCI), though it is specified that it will be under the responsibility of the Development Commissioner,²⁶ the same applies for the ENPI which falls under the responsibility of the Commissioner in charge of the

²¹ Schaik, L. van (2010), *The Dutch and European contribution to International climate Policy: building blocks for a viable strategy*, p. 16.

²² Schaik, L. van (2010), *The Dutch and European contribution to International climate Policy: building blocks for a viable strategy*, p. 18.

²³ DIE, ECDPM, FRIDE and ODI, (2010), *New Challenges, New Beginnings - Next Steps in European Development Cooperation*, p. 50.

²⁴ Drieskens, E. & L. van Schaik (2010), *The European External Action Service: Preparing for Success*.

²⁵ DG DevCo is the merger of DG Development and DG EuropeAid

²⁶ Council of the European Union (2010). *Council Decision establishing the organisation and functioning of the European External Action Service*, p. 27.

Neighbourhood policy. Therefore it remains to be seen whether coordination matches EU ambitions. Some fear already that development cooperation could be used more politically, for instance to ‘buy’ votes in international fora,²⁷ In the end the degree of success of the EEAS will depend on its own expertise and the (successful) coordination within Brussels and with national administrations.

3.2 Innovative ways of funding

In recent times European financial institutions have been active in providing alternative ways of funding to our partners. These alternative ways that are being explored may possibly provide an answer to horizontal debates such as that of conditionality, blending of loans and grants, and ownership. To set up cooperation between financial institutions (i.e. EIB and EBRD) and grant providers such as the Commission and Member States can accumulate larger sums of aid towards developing countries than before. The grants fit into the regular policy towards recipient countries. The bank loans deal with two horizontal issues, that of ownership and conditionality. It handles the issue of ownership for obvious reasons. When one lends an amount of money, the borrower has to pay it back in the end and thus is directly responsible for this loan. The beneficiary countries need to have a certain level of budget discipline in the way it handles the loan. The relative bigger size of loans, compared to grants can also help beneficiary countries to finance their trade and financial deficits. Secondly, Member States and the Commission struggle internally as well as externally with the issue of conditionality. The political aspect will be decreased. Loans will partly cover the issue, because the repayment of the loan will influence the policies of the developing countries. On the other hand, the tool of conditionality cannot be applied by Member States to the same extent as when they are handling the grant themselves.

Another problem is that financial institutions are reluctant to give loans in times of crisis. These alternative funding mechanisms are sometimes symptomatic of the decision-making process inflexibilities, that most of the time are a step behind the urgency of developing aid. Example thereof is the €1 billion Food Facility Instrument that was adopted in 2009. According to a recent report the lending of the EIB to African, Caribbean and Pacific (ACP) countries actually fell between 2007 and 2009.²⁸ In times of economic crisis it is important for such institutions to have a countercyclical response by lending to developing countries.

The EU-Africa Infrastructure Trust Fund enables to channel both Commission and Member States grants together with the lending capacity of the EIB and Member states development lenders. The fund provides grant support to interest rate subsidies, project technical assistance, one-off grants for environmental or social components linked to projects and payment of early-stage, risk-mitigation insurance premiums.²⁹ These blending mechanisms between EU budget grants and European ‘development’ banks loans are relatively well organised in the EU’s neighbourhood and candidate countries. There a €117 million commitment from the EU budget has been followed by a €7 billion investment from these institutions.³⁰

Questions for discussion:

- *What will be the role of the EEAS with respect to the future priorities and instruments?*
- *Is it possible to rely more importantly on alternative sources of funding? What are the advantages and disadvantages of such loans and facilities?*

4. The future EU Budget: What is at stake?

The above-mentioned policy priorities for EU external action, as well as the role of the EEAS and European financial institutions, need to be nonetheless analysed in the perspective of the current Heading IV and the future negotiations over the MFF. The Treaty of Lisbon formalises the MFF and

²⁷ Seters, J. van and S. Wolff (2010), *European Development Cooperation. Brokering environmental knowledge beyond Lisbon*, p. 22.

²⁸ DG External Policies of the Union (2010), *Reform of the European Investment Bank: How to upgrade the EIB’s Role in Development*.

²⁹ More information available at: http://www.eib.org/projects/regions/acp/infrastructure_trust_fund/index.htm

³⁰ European Commission (2010b), *The EU Budget Review*, p. 19.

the subsequent inter-institutional agreements, which had become ad-hoc practice over the years.³¹ At the end of the first half of 2011 the European Commission will come up with a proposal, which will set off the negotiations. Ideally the negotiations will be concluded during the Danish EU presidency in the first half of 2012. It is very well possible they will not be completed up until mid 2013. This section provides an overview of the state of play, the current heading IV as well as the debate regarding the budgetisation of the EDF. It should be read together with the annexes providing various financial overviews.

4.1 State of play of the debate

Annex 1 presents the current MFF. At the moment Heading IV ‘The EU as a global player’ consists of € 55.935 million, 5,7 % of the total budget for 2007-2013 (excluding the EDF- Annex 2). In spite of the current crisis where austerity is the most commonly used word in the debate, when looking at the past it is unlikely that the EU budget will decrease. It is also not likely to be increased as much as in the previous MFFs.³² This can also be seen in the debate on the 2011 annual budget. The reason for this is adequately captured in a quote by the president of the Budget Committee of the European Parliament, Alain Lamassoure: “*Avant la crise, les États ne voulaient pas payer plus pour le budget communautaire. La situation est désormais plus simple puisque personne ne peut payer*”.³³ In addition, the European Parliament and the Commission have moved to the forefront of the debate, introducing proposals for own resources/an EU tax.

The dividing lines on the MFF for 2014-2020 can be drawn between two types of spending pillars: a ‘redistribution’ pillar and a ‘public good’ pillar based on the aim of the expenditure and whether it is redistributed to a particular Member State.³⁴³⁵ This division lays along the lines of the Cohesion policy (heading I) and the Common Agricultural Policy (CAP) (heading II) versus Justice and Home Affairs (JHA) (heading III) and EU’s external action (heading IV). Looking at the present debate, chances are that the ‘redistribution’ pillar may be reformed more extensively than already decided upon in the previous MFF. If this is the case, the funds that will be released, are likely to benefit Research & Innovation (R&I), JHA, and the EU’s external action. This would match a growing sense of urgency in the field of JHA and EU external action amongst the Member States.³⁶

In order to help the debate, Annex 4 presents what was the situation during the MFF 2000-2006.

4.2 Heading IV: the current budget

The EU (27 Member States and the European Commission) is the largest donor in the world of total Official Development Aid (ODA), providing for more than half, which accounts for €48,2 billion (incl. EDF).³⁷ As table 2 shows the proposed annual increase for Heading IV amounts on average to more than 6%. This includes amongst others the EU Common Foreign and Security Policy (CFSP),³⁸ more traditional foreign policy initiatives and EU development cooperation except for the European Development Fund (EDF). Annex 3 details Heading IV budget for 2011 in terms of commitment appropriations to specific instruments.

³¹ European Union (2010), Article 312. Even though the European Parliament is co-deciding with the Council when it comes to the yearly budget, the MFF is to be adopted by the Council following a ‘special legislative procedure’ whereby the Council acts by unanimity after obtaining the consent of the European Parliament. Hence the adoption of the MFF is rhythm by three steps: intergovernmental and diplomatic negotiations, political agreement at the European Council and final formalization by a regulation after some minor amendments.

³² Bréhon, N.-J. (2010), *Le budget européen : quelle négociation pour le prochain cadre financier de l’Union européenne?*, p. 2

³³ ‘Before the crisis, the member states did not want to pay more for the EC budget. The situation nowadays is easier since nobody can pay’. Alain Lamassoure, hearing at the Senat, 01-10-2009. In: Bréhon, N.-J.(2010), p. 14.

³⁴ Can you give exact English translation here?

³⁵ Amongst others: Santos, I. and S. Neheider (2009), *Reframing the EU budget decision-making process*; Iozzo, A., S. Micossi and M.T. Salvemini (2008), *A new budget for the European Union?*.

³⁶ Public consultation: Reforming the Budget, Changing Europe.

³⁷ European Commission (2010a), *Annual Report 2010 on the European Union's development and external assistance policies and their implementation in 2009*, p.11.

³⁸ EU CFSP budget, currently chapter 1903 covers mainly ESDP missions decided by CFSP Actions and EU Special Representative 2009, overview available at: <http://register.consilium.europa.eu/pdf/en/09/st06/st06482.en09.pdf>

Geographical instruments target the Eastern and Southern Neighbours with the ENPI as well as Asian, Latin American and South Africa via the DCI. These instruments are separate from the EDF which focuses on ACP countries.³⁹ For 2011 the geographical distribution is as follows: €363M for Latin America, €729M for Asia and €138M to South Africa under the DCI. The Eastern partner countries will receive €555M under the ENPI and the Mediterranean partner countries will receive €843M under the same instrument.

The Lisbon Treaty has the advantage of clarifying the legal basis for development cooperation and its poverty eradication objective.⁴⁰ The distinction with cooperation with third countries other than developing countries is better spelled out, therefore making it easier to revise regional groupings.⁴¹ Does it still make sense to have the current division between and amongst candidate countries, the neighbourhood and other regional groupings? Might it be time for the EU to design a single foreign economic policy?⁴² And if so shall the EU continue with instruments like the DCI that covers both economic integration and development cooperation? Finally, a debate about better monitoring and rationalisation EU's external action expenditures is also starting.⁴³

4.3 Budgetising the EDF- an old debate

A final issue worth underlying in the revision of Heading IV is the re-emergence of the debate on possible budgetisation of the European Development Fund (EDF). Established in 1959, it aimed at providing technical and financial assistance to (now former) colonies. Presently, EDF contributions of EU member states are based on separate negotiations from the MFF and consist of "ad hoc" Member State contributions. The Treaty introduces the possibility for the Council to decide on the budgetisation of the EDF and simplifies the procedure by getting rid of the clause requiring a formal ratification of EDF budgetisation by all EU member states.⁴⁴ It can now be decided upon via a simple majority in the Council.⁴⁵

As we are discussing the future negotiations of the MFF, the first arguments pro and con the budgetisation of the EDF become apparent. The first and foremost argument of the proponents is the democratic legitimacy when the EDF can be scrutinised by the European Parliament, which is not the case at the moment. Furthermore, they would argue that budgetising the EDF would enable greater flexibility in terms of reallocation of budget towards other countries and/or priorities, amongst ACP countries and the ability to support the African Union and other regional initiatives.⁴⁶ There is a different distribution key for the contribution of the Member States to the EDF. It would mean that for some countries it would increase their contribution to the EDF and for others it would decrease.^{47 48} This can provoke resistance from Member States that will pay more in the new budget. Although officially these arguments will not be used, hypothetically the former contribution key to the EDF could become a 'normal' part of the negotiations towards the next MFF, possibly placed within the 'net contributor' debate. The debate about the ratio of Member States receiving funds from the EU to what they contribute to the budget.

³⁹ Council of the EU & European Parliament (2006), *Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument*; Council of the EU & European Parliament (2006), *Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation*; Council of the EU (2008), *Council Regulation (EC) No 215/2008 of 18 February 2008 on the Financial Regulation applicable to the 10th European Development Fund*.

⁴⁰ European Union (2010), Article 208.

⁴¹ European Union (2010), Article 212.

⁴² Debrat, J.-M. (2009), *European Development Policy: A Response to the Crisis Affecting Globalisation*.

⁴³ See also Riccardi, F. (2010). *EU must increase monitoring of its funding to third countries*.

⁴⁴ European Communities (2002), Article 179 (3).

⁴⁵ European Union (2010), Article 209.

⁴⁶ Concord (2010), *Budgetisation of the European Development Fund*.

⁴⁷ Eurostep (2009), *Integration of co-operation with the ACP countries into the EU budget: Budgetisation of the EDF*.

⁴⁸ Concord (2010), *Budgetisation of the European Development Fund*.

The European Commission⁴⁹ and the European Parliament⁵⁰ favour the budgetisation of the EDF. The EP would then be able to scrutinise it, like other external action instruments. This would add to the democratic legitimacy of the system. It would also bring more policy coherence. On the other hand ACP countries are sceptical since it could negatively affect their special status in EU development aid. One fear is that it could lead to a shifting of funds from the ACP countries to other regions/countries and/or towards thematic funds.⁵¹

If the EDF were to be budgetised this would mean a considerable increase in the total budget. The amount of the tenth EDF for the period 2008-2013 is € 22,682 billion (Annex 2).⁵² On an annual basis this would add up to €3,5 - €4 billion. In the eyes of Member States that want to decrease the overall EU budget, the possible newly available funds (as a result of a decrease in funds for cohesion policy and the CAP) could be invested in Heading IV. This amount would (partly) pay for the EDF and thus would result in a partial or even neutral EU budget in the upcoming MFF. The contribution to the former EDF outside of the EU budget would lapse partially or all together.

Questions for discussion:

- *Should the (relative) size of the budget for Heading IV be increased?*
- *Shall we redesign instruments by revising regional groupings?*
- *Is budgetising the EDF a realistic option?*
- *How can we ensure that development aid is used for development objectives?*

5. Conclusions and Future Prospects

In the perspective of the upcoming MFF negotiations for 2014-2020, this paper explored the challenges facing the EU in reforming its external action instruments. To define the EU's priorities and ambition by 2020 is a crucial step in the negotiations. Geopolitical power shifts need to be translated in the EU external action budget and instruments vis-à-vis its strategic partners, its neighbourhood and climate change. The organisation of the EU's external action is a system in constant flux, the paper explored the risks and opportunities related to the creation of the EEAS and opportunities that European financial institutions have in this matter. After these priorities the paper focused on the current and future debate of the EU budget and Heading IV 'The EU as a global player'. It showed that the dividing line at the moment is located between the so-called 'redistribution' and the 'public good' headings. The budgetisation of the EDF is a recurring debate on which the Lisbon Treaty offers new possibilities.

Future prospects regarding EU's external action and its instruments involve core horizontal issues such as aid effectiveness, conditionality, division of labour and flexibility. Discussions to revise Heading IV will need to take into account the problems linked to the division of labour amongst donors. The multiplication of donors, funds and agreements with international organisations such as the UN might involve higher transactions cost, and administrative frustration on the part of the beneficiary country.⁵³ In this light, besides discussing the role of the EU, it is also important to identify the issues where the EU can be of added value compared to the Member States, a discussion that is at the heart of the establishment of the EEAS.

Last but not least, funds need to be flexible and sufficiently responsive to changing priorities and adapted to different circumstances. The revision of Heading IV, its strategic use by the EEAS as well as the role of European financial institutions are issues that could help address this need; to prepare steps towards a strategic power EU with the matching financial instruments at hand.

⁴⁹ European Commission (2003), *Towards the full integration of co-operation with ACP countries in the EU budget*.

⁵⁰ European Parliament resolution on the budgetisation of the European Development Fund (EDF) 2003/2163(INI)

⁵¹ Concord (2010), *Budgetisation of the European Development Fund*.

⁵² <ec.europa.eu/development/how/source-funding/10edf_en.cfm>

⁵³ Dearden, S. (2010), *The Challenges Facing EU Development Policy*, p. 15.

6. Annexes- Financial overviews

Annex 1- Financial perspectives 2007-2013 and EDF

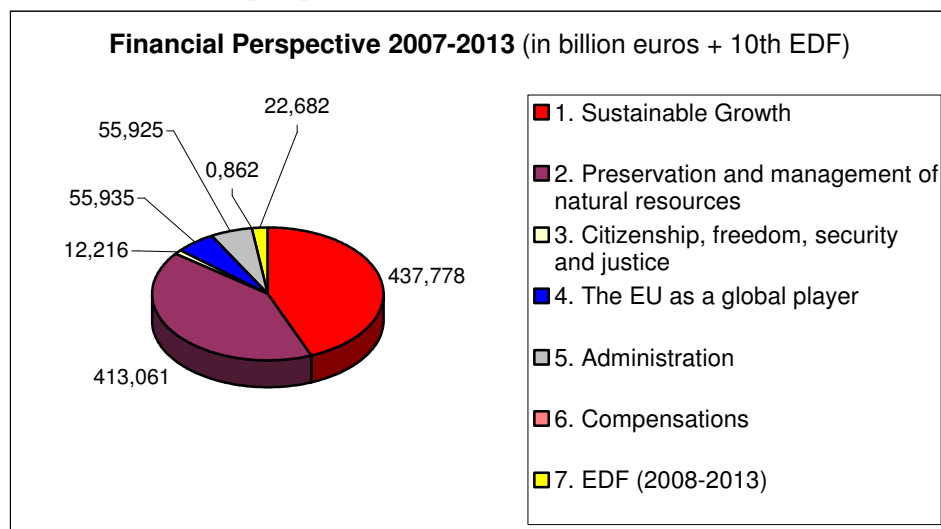
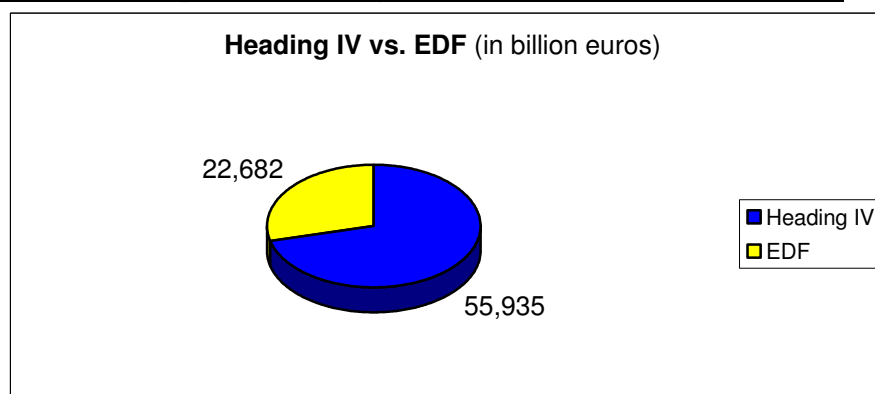


Table 2. The Financial Framework 2007-2013 including yearly budgets.⁵⁴

Commitment appropriations	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	53.979	57.653	61.696	63.555	63.974	66.964	69.957	437.778
2. Preservation and Management of Natural Resources	55.143	59.193	56.333	59.955	60.338	60.810	61.289	413.061
3. Citizenship, freedom, security and justice	1.273	1.362	1.518	1.693	1.889	2.105	2.376	12.216
4. EU as a global player	6.578	7.002	7.440	7.893	8.430	8.997	9.595	55.935
5. Administration	7.039	7.380	7.525	7.882	8.334	8.670	9.095	55.925
6. Compensations	445	207	210					862
Total commitment appropriations	124.457	132.797	134.722	140.978	142.965	147.546	152.312	975.777
as a percentage of GNI	1,02%	1,08%	1,16%	1,18%	1,16%	1,15%	1,14%	1,13%
10 th EDF (2008-2013)	-							22,682

Annex 2- Comparison Heading IV (2007-2013) vs. EDF (2008-2013)



⁵⁴ Source: <ec.europa.eu/budget/prior_future/fin_framework_en.htm>

Annex 3- Heading IV Commitment Appropriations 2011

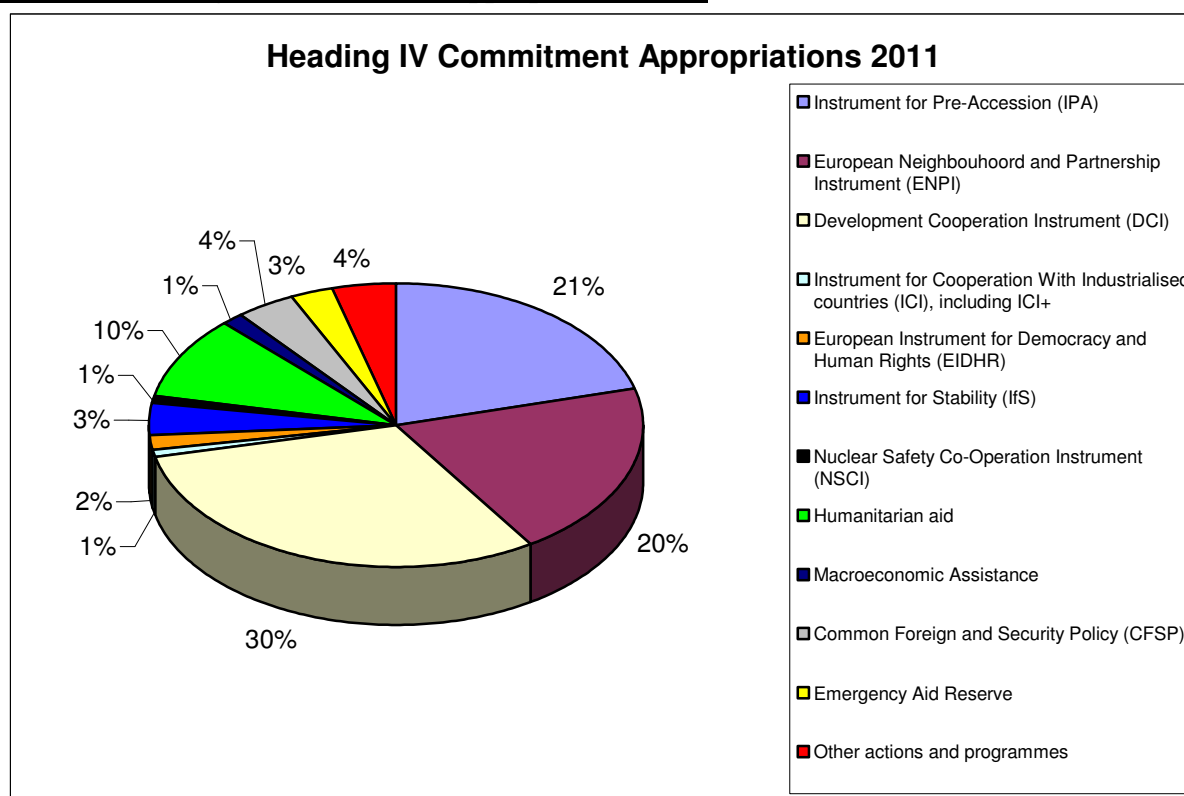


Table 3. Commitment Appropriations 2011 on 'The EU as a global player'.

Commitment Appropriations	Draft Budget 2011	
	EUR million	%
Instrument for Pre-Accession (IPA)	1797	20,9
European Neighbourhood and Partnership Instrument (ENPI) ⁵⁵	1729	20,1
Development cooperation instrument (DCI) ⁵⁶	2614	30,3
Instrument for Cooperation with Industrialised countries (ICI) ⁵⁷ , including ICI+ ⁵⁸	70,6	0,8
European Instrument for Democracy and Human Rights (EIDHR)	163	1,9
Instrument for Stability (IfS)	290	3,4
Nuclear Safety Cooperation (INSC)	76	0,9
Humanitarian aid	825	9,6
Macroeconomic assistance	115	1,3
Common Foreign and Security Policy (CFSP)	327	3,8
Emergency Aid Reserve (EAR)	253,8	2,9
Other actions and programmes	353	4,1
Total	8613	100

- The first 5 instruments of cooperation represent 74% of the Heading.
- The other 26% address specific needs, particularly crisis situations.
- 'Other actions and programmes' fall under heading IV of the budget, but are not managed by the traditional external relations DG's and/or EuropeAid.

⁵⁵ The ENPI covers Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Occupied Palestinian Territory, Russia, Syria, Tunisia, Ukraine.

⁵⁶ The DCI covers 47 developing countries in Latin America, Asia and Central Asia, the Gulf region (Iran, Iraq and Yemen) and South Africa.

⁵⁷ The ICI covers Australia, Bahrain, Brunei, Canada, Chinese Taipei, Hong Kong, Japan, Republic of Korea, Kuwait, Macao, New Zealand, Oman, Qatar, Saudi Arabia, Singapore, United Arab Emirates, United States.

⁵⁸ The ICI+ is a revised instrument enabling the financing of non ODA activities for developing countries. Latin American countries are eligible.

Annex 4. The Multi-Annual Financial Perspective 2000-2006

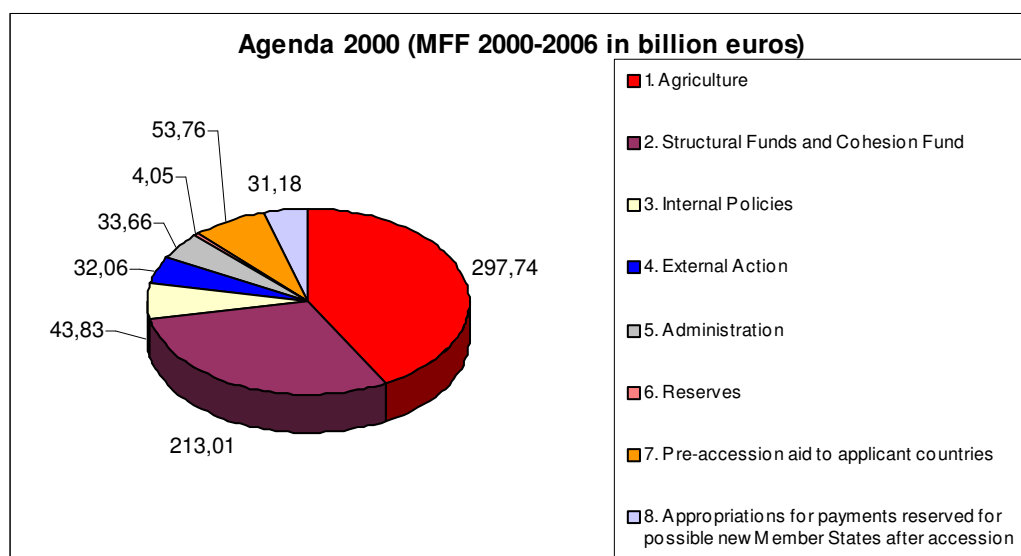


Table 4. 'The EU as a global player' in 2000-2006

	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006
4. External Action	4.550	4.560	4.570	4.580	4.590	4.600	4.610	32.060
7. Pre-accession Strategy	3.120	3.120	3.120	3.120	3.120	3.120	3.120	21.840

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