Future EU External Action Budget

Focus on Development

March 2012

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This report is based on research carried out by Gwenaëlle Corre on behalf of CONCORD, the European NGO Confederation of Relief and Development. The report was written on the basis of desk research and interviews undertaken in the months of January and February 2012.

Lay-out by Leo Willekens, 11.11.11

The production of this report has been made possible by the active role and engagement of the CONCORD Multiannual Financial Framework (MFF) working group. Thanks to all of you for your continuing support throughout the process.

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Introduction

In the context of a continuing crisis and multifaceted global challenges - affecting the EU confidence internally and in its role as an international player – the legislative proposals for the EU external action instruments were published on 7 December 2011, as foreseen in the framework of the new Multiannual Financial Framework (MFF) covering the period 2014-2020. The European Commission "Agenda for Change[1]" already gave a few indications on what would the priorities be in terms of external actions. Now, the kick-off of the co-decision institutional process and debate between the European Parliament (EP) and the EU Council[2] offers an interesting space for advocacy and negotiations in the next months ahead.

Against this background, CONCORD and the EU community of Non-Governmental Organisations working in the area of development cooperation policies and politics wish to seize the opportunity to influence the debate.

This publication, together with many other sources of analysis, aims to contribute to develop a solid argumentation for CONCORD and its member organisations for their positioning and advocacy work on the MFF and the future of EU development policy. **A first part** looks at the new aid 'policy' reflected in the agenda for change and how it will be translated in the MFF, and also if the overarching priorities and principles of the EU development policy are preserved. **A second part** looks into the instruments themselves, their priorities and the potential issues raised by their implementation. This second part consists of a screening of the instruments, **with a primary focus on DCI**, on the basis of existing CONCORD MFF task force positions and other relevant CONCORD positions. In each chapter, the text is structured around the recall of the context; the analysis of what is at stake; and some suggested recommendations[3].

The work is centred on a rather straightforward methodology involving mainly desk work: a literature review[4] completed by a few interviews with EU officials and non state actors[5] and a screening of the proposals leading to the drafting of the present analysis and recommendations. It was carried out in close collaboration with CONCORD and its member organisations by: collecting preliminary inputs from MFF taskforce and taking them as a basis to structure this paper; by ensuring a constant communication[6]; by allowing for a phased approach that offers flexibility to integrate comments and organise a common validation.

Given the limited scope of the study, it did not result in a systematic screening of all technical, political and strategic elements of the proposed instruments. The priority focus was therefore given to the analysis of the DCI regulation, and **a number of specific issues such as PCD, differentiation, blending, provisions for CSOs participation**, etc.

A revised draft report was discussed during a one-day workshop (Brussels, 21 February 2012) with the MFF task force representatives. The results of this dialogue have guided the drafting of the final recommendations[7] on the four issues discussed, namely: differentiation; blending; ODA eligibility and earmarking. **The third & final phase** of this work was therefore to include all comments received by the Task force, adapted and validated through the course of an iterative process.

1 "Increasing the Impact of EU Development Policy: An Agenda for Change", EC Communication 13 October 2011.

2 Referred to as 'Council' in the rest of the document, unless stated otherwise.

3 Formulated as direct requests to EU institutions.

4 In addition to CONCORD MFF Task Force input documents and the EU officials documents – that were the primary source of information for this study - a number of articles, briefs and publications from European think tanks, specialized press, blog and newsletter from the development community, international organisations, etc. were collected and processed. Over 60 documents were reviewed. See the bibliography in annex for more information.

5 Interviews were from the start envisaged as complementary sources of information, the core of the work being focused on a literature review. Four interviews were carried: 2 with EC DEVCO officials; 1 with EEAS; one with Eurodad. **The author would like to extend her gratitude for the availability and helpful views of the interviewees.** Interviewees were informed that no direct quotation would be featured in the report.

6 Including through weekly teleconferences between the consultant and the MFF taskforce members.

7 The recommendations in the report focus on the proposed regulations (suggesting clarifications, amendments, etc.). They are completed with an additional short document for internal use, with tips for specific follow-up by CSOs.

Part I

Policy Priority & Agenda for Change: how is it translated in the MFF proposal?

To further contribute to a debate that could result in an efficient EU development framework going resolutely beyond aid, it is important to seize opportunities to influence the next steps of the negotiation process leading to the adoption of the MFF. The Agenda for Change, the Communication on trade and development, the instruments' regulations and the programming guidelines, are not yet cast in stone. An articulated voice of European CSOs can judicially influence decision making to defend the overarching objective of poverty reduction, while simultaneously seizing the opportunity to modernise EU development policy and gradually closing the gap between intentions and practice.

This first part looks at how the EU new policy orientations are translated into the MFF, and how they will impact on future instruments priorities.

1.1 Safeguard & prioritization of EU Development cooperation principles in the MFF

Context/Rationale

Four major references frame how EU development cooperation policy is placed within the EU external action context, and what its priorities are: the Lisbon Treaty (legal basis), The European Consen-

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sus for Development[8] (official strategy), the Agenda for Change (AfC)[9], and the Budget for Europe 2020[10] (two of the latest EC communications on future trends). Among international commitments, the Millennium Development Goals (MDGs) and the Aid Effectiveness (AE) principles are the most prominently featured, in line with precedent development instruments.

The Agenda for Change is partly in continuity with previous orientations: it puts poverty reduction/eradication as the primary overarching principle of EU development cooperation, as required by the Lisbon Treaty, and claims direct descent from the European Consensus on Development. It also displays a number of shifts that are directly translated in the diverse instruments for external action with:

- An emphasis on good governance and human rights with stricter aid conditionality, and on sustainable growth[11] with emphasis on the private sector (including blending grant finance with loans and guarantees in order to leverage private sector finance);
- The introduction of differentiated development partnerships, with new allocation criteria, implying that more advanced countries will no longer receive aid; and
- An attempt to enhance EU coordination and joint work, especially at the programming and monitoring levels, adding flexibility to these processes.

<u>The name of the game: what is at stake?</u>

A closer look at the EC proposal for the regulation of the Development Cooperation Instrument (DCI) illustrates how the MFF directly translates the Agenda for Change priorities, and also a number of issues linked to these latest trends.

- *<u>Harmonization of the reference to poverty reduction</u>*. The DCI regulation, in the first point of its explanatory memorandum, states that the "EU remains committed to helping developing countries to reduce and ultimately eradicate poverty." It is also clearly mentioned in recital 2, and as the primary objective of the regulation itself[12]. However, in the regional priorities (annex IV), it is referred to in different ways: for instance, it is mentioned as a '*specific* area of intervention' for South Africa, whereas all areas of intervention should have as their final objective poverty reduction, since poverty reduction is the overarching objective.

- *<u>Limited reference to existing policy communications and guidelines.</u>* There is generally a lack of references to existing sector oriented & policy communications (except once, to the EC Communication on Budget Support[13]), or to plans produced in recent past (such as the Action Plan on Gender, the EU Food Security Framework, the Communication on the EU Role in Global Health[14], the Conclusions of the Structured Dialogue[15], etc.). Besides, complementarity between the priorities emphasized in the policy documents or the instrument regulations on the one hand, and the relevant operational guidelines or communications on the other hand, is lacking. For example, so far there are no guidelines about the implementation of prominently featured sectors such as energy & agriculture. This raises the issue of the possible gap between policy commitments and implementation.

- *<u>Accompanying private sector development and economic growth.</u>* Basically, to attach more conditions to development aid and to restrict it to fewer recipients does not seem that straightforward to help eradicating poverty. The positive role of private sector is a necessity for development. However, it is important to put in place accompanying measures to ensure that private sector development is inclusive and that ensure that the benefits of economic growth can trickle down to the world's neediests.

8 First published in 2005, and agreed by the European Commission, Council and Parliament (24/2/2006). See: ec.europa.eu/development/icenter/repository/european_consensus_2005_en.pdf

9 "Increasing the Impact of EU Development Policy: An Agenda for Change", EC Communication 13 October 2011.

10 "A Budget For Europe 2020" , EC Communication, 29 June 2011.

11 With a broad definition, whereby being an inclusive & sustainable growth, it encompasses the areas of health, education and social protection.

12 Article 2,1(a): "the primary objective of cooperation under this Regulation shall be the reduction and, in the long term, the eradication of poverty"

13 Brussels, 13.10.2011 COM(2011) 638 final, Communication from the Commission to the European Parliament, the Council the European Economic & Social Committee and the Committee of the Regions – The Future Approach to EU Budget Support to Third Countries.

14 Brussels, 31.03.2010, (COM(2010)128), Communication from the Commission to the European Parliament, the Council the European Economic & Social Committee and the Committee of the Regions – The EU Role in Global Health.

15 I.e. 'The Structured Dialogue on the involvement of civil society and Local authorities in EC development cooperation'. See: https://webgate.ec.europa.eu/fpfis/mwikis/aidco/index.php/Structured_dialogue

Recommendations[16]

- ✓ Harmonize the references to the objective of poverty reduction under the common & specific areas of cooperation in the regions (i.e. Annex IV), and more generally in all the proposed regulations.
- ✓ Reiterate that the overarching goal of poverty reduction should be pursued in the context of sustainable *development* for which sustainable *growth* is only one element amongst others (and not necessarily the most conducive).
- ✓ Clearly refer in the regulations to policies that guide these regulations, and ensure that action plans are in place to effectively implement the policies.[17]
- ✓ Insist on the need for the Commission to develop communications on how to implement the two main sector priorities of the Agenda for Change, i.e. energy and agriculture; the crosscutting issues of climate change; and the role of private sector in development cooperation.

1.2. PCD: a shy exposure despite a clear rationale

Context/Rationale

The principles of the three Cs (coordination, complementarity and coherence) were introduced in the Treaty establishing the EU (Maastricht, 2000), as important pillars to enhance the impact of poverty reduction strategies. Over a decade later, in a post-Lisbon setting, the EU is even more legally empowered to take this very political challenge forward. However, the proposed regulations for the external relations instruments seldom mention it, referring with a rather apolitical, or even uncommitted language to the issue**.**

Besides, EU policies that are among the most detrimental to developing countries such as agriculture and fishery are not actually mentioned[18]. The explicit focus when it comes to *consistency* is centred on external relation areas (e.g. migration; climate change).

The name of the game: what is at stake?

- *Semantic shift & 'absence' of PCD.* The screening of the DCI regulation proposal gives an interesting illustration of this issue, where the reference to actual *Policy Coherence for Development* is not used[19].
  - For instance, the explanatory memorandum (point 3. 'Legal elements of the proposal', last paragraph) indicates that "The proposed new Regulation will operate taking into consideration the external dimension of EU sector based policy priorities, *ensuring coordination and enhancing synergies*, in line with the objectives laid down in the Regulation, and in compliance with the aforementioned legal and policy framework".
  - This same explanatory memorandum indicates that the thematic instrument on Global Public Goods and Challenges (Article 7 of the regulation) will "allow for appropriate reinforcement and *consistency of internal and external actions*" due to the cross cutting nature of its main field of activities. They are numerous indeed, ranging from environment to asylum, from food security to a very broad human resource area, but it is difficult to see exactly how this broad scope will automatically serve the purpose of enhanced consistency.
  - Even more interesting is the article 5 of the DCI regulation, which actually states that: "In implementing this Regulation, *consistency shall be ensured with other areas of Union external action and with other relevant Union policies*". Such phrasing could actually be interpreted as 'reverse PCD', i.e. the objectives

16 All recommendations in the report are formulated as direct requests to EU institutions.

17 E.g.: Insert reference to the EU Role in Global Health and 'More and Better Education in Developing Countries'.
Insert of references to the expected action plan for the Communication on Food Security and for the EU response to situations of conflict and fragility, as well as the two policy communications that will be produced in 2012, one on the role of civil society and local authorities and one on social protection.

18 Similarly, one can note the absence of references to actual EU policy reform processes that are relevant to developing countries, such as the upcoming reform Common Agricultural Policy in the regulation proposals.

19 Which, it should be recalled, is a legal obligation under Lisbon.

of development cooperation policy should not go against the objectives of the other EU policies. However, what is at stake with PCD is the coherence (of EU policies) *toward development objectives* in order to a) enhance/create conducive environment & synergies for development, and b) avoid being harmful to partner countries and people.

- o A possible rationale for the approach consigned is the current proposal for DCI regulation to claim that policy coherence for development should precisely be mentioned in the regulations of the instruments for all other potentially harmful or related EU policies. It would be interesting to assess to which extent this is the case, and how it is actually monitored.

- *Trade & development: example of unclear impact on poverty reduction.* Addressing properly the issue of PCD is a major challenge to ensure impact and effectiveness of EU aid and development policy. There is no shortage of examples that show the possible consequences of (negative) synergies between policies. A new EC Communication on Trade and Development has recently been released[20] whereby the EC aims to further tailor its trade policies with developing countries, by targeting those countries most in need. European Commissioner for Development, Andris Piebalgs indicated that there is now a need to "make sure that (EU) aid for trade focuses on those most in need even more — concentrating our support on our least developed partners. Efforts may only be attained if problems facing the business environment are tackled in a holistic manner. Good governance and a boost in domestic institutional reforms are believed to be the key to a more effective trade and development framework". Such approach is justifying and reinforcing both the concept of differentiation and the growth oriented strategic focus of the DCI regulation, but its benefit in terms of poverty reduction and provision of a better life to the world poorest is not a given. Besides, the communication points out the need to review the current EU system of preferences under which developing countries are granted reduced tariffs for their goods. Such move will result in the fact that upper-middle income countries (MIC) will no longer benefit from it. In addition, some upper MIC partners might face a brutal cut in bilateral aid as a result of differentiation, even if the idea of the EC is to support the cooperation with other instruments (such as Partnership Instruments and FTA).

- *Partnership Instrument: an opportunity for PCD?* The proposed regulation for the Partnership Instrument builds upon the 'Europe 2020' global strategy, and it aims at promoting externally the internal policies of the EU. While appreciating that this instrument is ODA additional and not development oriented, it is still a possible source for interventions in third countries (transregional interventions, horizontal knowledge sharing initiatives, etc.). Being still a bit vague in its focus, it will be crucial to reinforce the principles related to PCD in its regulation.

Recommendations

- ✓ Reinforce the principle and specific mention of Policy Coherence for Development in all the regulations of the external actions instruments, including for the Partnership Instrument (with reference to the Lisbon Treaty).

- ✓ Use the opportunity of the inter-institutional negotiation of the MFF to screen how PCD is mentioned in the regulations for internal policies.

- ✓ Earmark (non ODA) funds for research on: how PCD is translated; lessons learnt from experience (e.g. from the research funds budget heading); and mainstreaming of good practice (trainings, etc.).

- ✓ Reinforce the human resource capacity by identifying contact points in the EP Committees, in the EU Delegations, in partner governments, with local actors, in order to systematically follow up the progression of PCD (screening of internal policy, monitoring).

20 1st Feb. 2012. "Trade, growth and development – tailoring trade investment policy for those countries most in need".

1.3. Coordination & division of labour

Context/Rationale

Poor coordination between EU development programmes and those of the member states has been one of the known misdemeanours resulting in limited impact, high transaction costs and constrained effectiveness of EU aid and development. A number of efforts have been made in the past to remedy the situation, such as the adoption of the EU Code of Conduct on Complementarity and Division of Labour (2009).

One of the objectives of the Agenda for Change, translated in the proposed regulations for the external relations instruments, is precisely the boost of Joint EU approach in partner countries. It includes developing a common response strategy with Member States where the partner country has not done so, and synchronising programming with developing countries' own planning cycles. This is not a new practice, it happened in the past, for instance with a set of eleven pilot countries selected to implement joint programming. However, such mechanisms have not yet been carried out systematically.

The name of the game: what is at stake?

- *Acting for a collective impact*? Such move forward is seen as a key opportunity to modernise EU practice and hopefully increase its collective impact on poverty reduction. This evolution would actually mean fundamental changes, and a breach in the resistance to change that EU member states might have shown so far, especially when their bilateral interest were at stake. In fact, joint initiatives already exist (JAS in Mali, Zambia and Ethiopia; on-going joint programming in South Sudan; etc.), but if such approaches were to be adopted on a more regular basis, it would contribute to move toward a more effective cooperation.

- *Open range of options.* The proposals to boost common EU work in the DCI regulation range from:
  - New possibilities at the programming stage: single joint document; alignment to the partners document/plan if relevant; alignment to the partner programming cycle; to
  - Enhanced use of common modality: with the possibility for single EU contracts for budget support; and to
  - Joint Monitoring: with a common framework for measuring and communicating results.

- *Questions about implementation.* Responsibility of the coordination for such joint work is not clear. How are the decisions being made to opt for an already existing country strategy paper? How can local consultations be guaranteed in this case? Who takes the lead at country level? Past experiences show that beyond the adoption of sound principles, the test case for change dynamics happens at country level. If the division of tasks and responsibilities is not clear from the start, the whole process towards more effective aid and collective EU impact is blocked. It would be interesting to avoid eluding the question of leadership and responsibilities. The EC lead[21], in dialogue with partner countries and supported by the EUDs would make sense, so the principle could already be mentioned in the regulation (and further fine-tuned in operational guidelines).

Recommendations

✓ Advocate for the use of opportunities for EU joint work *by default* (programming; funding; monitoring), in order to improve the effectiveness of EU development cooperation.

✓ Use the opportunity of the dispositions offered in the regulations for enhanced EU joint work in developing countries to clarify the coordination modality, with an EC or Member States lead depending on the country context.

✓ Clarify the criteria under which the EC will decide when a national plan is relevant to be accepted as strategy paper.

✓ Clarify how CSO engagement can be ensured, whichever EU donor takes the lead, and when an already existing strategy document is adopted as the official CSP.

21 As in coordinating, rather than ruling.

1.4. Country differentiation

Context/Rationale

The concept of *differentiated development partnership* is introduced in the Agenda for Change, as a way to achieve maximum impact and value for money by targeting 'its resources where they are needed most to address poverty reduction and where they could have greatest impact'.

The general principles of the DCI regulation (article 3) state that "In the implementation of this Regulation and with the purpose to ensure high impact of Union assistance, a differentiated approach amongst partner countries shall be pursued, in order to ensure that they are provided with specific, tailor-made cooperation" (…) [whereby] "The countries most in need, in particular the least developed countries, low income countries and countries in crisis, post-crisis, fragile and vulnerable situation, shall be given priority in the resource allocation process." The EU would therefore concentrate its grant aid where it is needed most due to limited state revenue, and where it has the greater impact (precisely because ODA contribution is not - or less - marginal, compared to middle income countries).

The explanatory statement further explains that "This should be implemented first in terms of eligibility to bilateral development cooperation programmes; and secondly in terms of aid allocation." The detailed explanations given for article 5 of the DCI regulation signal the criteria for differentiation[22]: "partner countries representing more than 1% of the world's GDP and/or upper middle income countries according to the list of recipients of Official Development Aid (ODA) of the OECD/DAC are in principle excluded; however, additional criteria relating to their need and capacity is used, such as Human Development Index, the Economic Vulnerability Index[23] and aid dependency, as well as economic growth and foreign direct investment. Also the reliability of the available data is taken into consideration[24]"

By doing so - according to the regulation[25] - the EU does not intend to weaken its relationship with third countries that would 'graduate' from aid, but renew it around different types of partnership.

The name of the game: what is at stake?

- *Poverty focus*: Dialectic on the best way to address poverty reduction emerges with the issue of differentiation, with questions around targeting the poorest people versus the poorest countries. Clearly, the criteria used to graduate partner countries from receiving bilateral aid (i.e. partners' income) illustrates that the choice made by the EU is to concentrate bilateral aid on the poorest countries, leaving MICs to their internal responsibility to tackle the issue of national poverty, and to take care of their own poor and marginalised people. One could question indeed that if by concentrating bilateral ODA "where it is needed most" the EU excludes a priori the countries where poor(est) people are, provided that they live in a comparatively richer country,

- *Partners' responsibility:* Working on the MDGs is not just the primary responsibility of Western donors. Governments of partner countries have also their responsibility in attaining MDGs and fighting against poverty, the more so when it concerns upper MICs. There is no reason *not* to envisage new forms of aid with such countries. However, the EU remains responsible to fulfil its obligations towards poverty eradication and reaching the MDGs[26].

- *Differentiated aid versus differentiated partnership:* Shifting back responsibility to partners should be positive and a way to move away from business as usual, but it also calls for careful consideration of the consequences for the poorest people in these countries, and on the provision of basic public services. The question of reallocation of saved funds also requires further reflection. If reallocation takes place within the DCI, it does not really target the poorest countries (i.e. that would under the EDF). In addition, it is not clear how differentiation will apply to the ACP. One issue raised by differentiation lies with the limits – or artificial characters - of the definitions based on GNI used to label countries (MICs, LICs).

22 See proposal for DCI regulation, p.9.

23 Which could justify why South Africa would still receive ODA.

24 Which could justify why Cuba would still receive ODA.

25 And point of view received by the EC & EEAS interviewees.

26 The EU Consensus on Development acknowledges the challenges faced by MICs and takes precedence over the Agenda for Change in the EU legal hierarchy. The Consensus could serve as a basis for argumentation to maintain bilateral ODA in upper MICs, or prioritise the funding 'saved' from differentiation towards pro-poor programmes in these countries.

- *Content of future development cooperation with MICs.* The issue of differentiation invites reflection on what the content of the development cooperation with 'graduated' countries will be. According to the proposed DCI regulation, 19 countries should not be eligible for bilateral aid as of January 2014[27]. These countries would still benefit from regional and thematic programmes, from investment facilities and they could access the new Partnership Instrument. However, the kind of programmes that will be funded in these countries remains an open question, especially in the area of community development or social sectors. In a globalised world where the concept of 'solidarity' cannot anymore be limited to EU's overarching poverty eradication goal, it is important to guarantee that global public goods challenges such as climate change, access to water, communicable diseases and food insecurity continue being addressed with all partners. Regional and thematic programmes would ensure the continuum in the partnership with third countries that graduated from EU bilateral aid. However, given the wide scope of the thematic instrument on *Global Public Good and Challenges*, it is important to ensure that sufficient funding and appropriate focus are included to meet such ambitious function. The Partnership instrument can complement such interventions, but it is not development focused.

- *Combination of criteria.* An average per capita income, as a basis for aid allocation, does not reflect the capacities or willingness of a country to address poverty. On the other hand, it could be considered questionable to maintain a situation where upper MICs, enjoying a rapid economic growth[28], would benefit from bilateral ODA, whereas it could be diverted to reinforce cooperation with LICs. Anticipation of poverty evolution indicates that it is important to concentrate bilateral aid in LDCs.

- Besides, how the different criteria mentioned in the Agenda for Change (country needs; capacities; country commitments and performance and potential EU impact) and in the proposed DCI regulation are weighted to 'graduate' a country is not clear. The equation or formula to come to the decision to cut bilateral aid to partner countries has not been clarified so far either, whereas a preliminary list of 19 'graduated' countries already exists. The fact that Cuba and South Africa[29] still benefit from bilateral ODA illustrates that political considerations as well as a flexible assessment of the criteria already exist. To what extent can it be extended to question the preset list of 19 countries?

- *Complementarity with other actors.* Task division between actors at country level is not well reflected in the differentiation approach. The rationale to cut bilateral ODA is that the central government has the means to tackle national poverty, but little is said about the possibility to accompany government in doing it, though alternative channels, like enhancing its own collaboration with civil society for instance. Such approach would be different from the funding under the CSOs and LAs thematic programme, devoted to these specific actors, for their own projects, but not particularly articulated around enhancing their collaboration with governments. Indications on enhanced complementarity with other donors, especially EU donors, in line with the Division of Labour is also lacking in DCI. None of the criteria retained in the Agenda for Change or the DCI for differentiation prevent a country from becoming an 'orphan country'. It could be interesting to guarantee that during the in-country dialogue and preparing the phasing out, other EU donor interventions are screened to ensure complementarity in funding development programmes.

- *Phasing out.* Another risk in the differentiated approach is the possible brutality of the phasing out that would not allow for proper ownership by third countries. The relatively short period preceding the entering into force of the new instruments should therefore be cleverly used to accompany EU partners in facing the foretold cut of the EU bilateral aid. However, the concrete steps for political dialogue with the partner countries leading to a renewed partnership, and the possible participation of other stakeholders than central governments (e.g. civil society; parliament; local governments) are not clear. "Through comprehensive political and policy dialogue with all partner countries, the

27 Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, India, Indonesia, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay.

28 Or, according to the Agenda for Change: 'on sustained growth paths and/or able to generate enough own resources'.

29 South Africa is richer than Indonesia that is on the list of graduated country for instance.

EU should define the most appropriate form of cooperation, leading to informed and objective decisions on the most effective policy mix, aid levels, aid arrangements and the use of new and existing financial tools, and building on the EU's own experience in managing transition.[30]" The in-country process of dialogue informing the EC decision lacks transparency. The problem is that the dialogue is on going now, even before any of the proposals (regulation for the instruments and Agenda for Change") are actually validated. There is no transparency on a country-by-country analysis to see where phasing out will be more difficult. Besides, there seems to be no flexibility whatsoever in the start date of the differentiated approach: bilateral aid cuts would apply to all 'graduated' countries as off January 1, 2014, independently from the results of the dialogue on aid levels and modality mix, that may indicate the need for a longer phasing out period. For example, short-term focus for using EU aid could help build up robust and sustainable tax systems in the medium to long term. This cannot happen over a period of 2 years. All in all, phasing out will cost money, and a share of the expected 'freed-up' funds should be reinvested in 'graduated' countries to support a proper process.

- While the EC has always been a fervent supporter of the Aid effectiveness principles, it is legitimate to request some clarification on the consequences of a possibly one-sided decision for differentiation over ownership.

Recommendations

- ✓ Adopt a clearer and more holistic approach to differentiation, where the eligibility criteria are based on the multidimensional causes of poverty such as growth, GNI but also human development index, inequality index, access to social protection and services or other deprivations indicators, with appropriate balance between the different criteria, so as to loosen the equation of 'country most in need vs people most in need'.
- ✓ Clarify the formula leading to graduating a country and hold the EC accountable on how they use the four criteria stated in the Agenda for Change in future differentiation (e.g. do not use GDP alone as a means of making aid allocation decisions).
- ✓ Investigate the possibility/potential impact to use bilateral ODA for new types of support to government in enhancing development, before cutting bilateral aid (e.g. for instance by supporting central governments in enhancing their collaboration with civil society for development initiatives).
- ✓ Improve the gradual aspect of phasing outs, clarify the modality for consultation with partner countries (democratic ownership).
- ✓ Work on a strategy as to how EC bilateral aid to the government can be replaced by other cooperation modalities having a direct impact on poverty, human development and social cohesion, including in complementarity with other donors and through division of labour.
- ✓ If needed, allow for a longer buffer period before the actual cut in bilateral aid is taking place.
- ✓ Ensure that the funds 'saved' due to differentiated partnership are indeed reallocated:
  - To poorest countries where domestic resources are difficult to mobilize and/or where the MDGs are lagging the most behind;
  - A proper phasing out in graduated countries should also be ensured (for example, if it requires a longer period);
  - Through the thematic programmes on global goods and challenges and CSOs/LAs in order to address the poverty and inequality issue in MICs.

30 Agenda for Change.

Part II

Priorities & implementation of the new external action instruments: what is at stake in the MFF proposal?

The second part of this paper looks into the instruments themselves, their priorities and the issues raised by their implementation. It screens the instruments on the basis of existing CONCORD MFF task force inputs (e.g. principles and preliminary recommendations on the instruments) and other relevant CONCORD positions (e.g. on the Structured Dialogue).

2.1. Blending

These following two chapters, rather than screening all references to funding modalities, are focusing at what will change with regard to budget support and blending loans and grants, two important trends.

Context/Rationale

While the project approach remains overall the most used modality to channel EU ODA, the EC is opening progressively its tool box under the influence of a number of contextual, political or strategic elements (aid effectiveness, pressure for disbursement, risk mitigation, etc.).

The latest ascending modality is certainly 'blending'. It is not a new feature in EU development co-operation (a number of facility and funds already exists[31]), but its development calls for a closer look of its pros and cons in the lenses of the overarching development policy objective: poverty reduction.

The blending mechanism combines EU grant resources with additional flows, such as loans from private institutions, risk capital or private investments, in order to gain financial and qualitative leverage. The intention is to increase EU policy impact and to make projects more affordable. In the context of heavily constrained public funds, blending is expected to support the largest possible impact of grants by leveraging additional financing. Blending is featured in the Agenda for Change and translated in the proposal for the new instrument regulations. "The EU will further develop blending mechanisms to boost financial resources for development, building on successful experiences such as the European investment facilities or the EU-Africa Trust Fund for infrastructure"[32] It is also actively supported by the EU Commissioner for Development and called for by International Financial Institutions.

Under Title II of the DCI regulation proposal, article 3 on general principles, point 8 (c) mentions that the EU shall promote "effective and innovative cooperation modalities and instruments as set out in Article 4 of the Common Implementing Regulation, such as blending grants and loans and other risk-sharing mechanisms in selected sectors and countries and private-sector engagement, in line with OECD/DAC best practices. These modalities and instruments shall be adapted to the particular circumstances of each partner country or region, with a focus on programme-based approaches, on delivery of predictable aid funding, on the mobilisation of private resources, on the development and use of country systems and on results-based approaches to development (…)".

31 I.e.: The Neighbourhood Investment Facility; the Western Balkans Investment Framework; The EU-Africa Infrastructure Trust Fund; the Latin America Investment facility; the Investment facility for Central Asia.

32 Agenda for Change, 3.2. §2.

The name of the game: what is at stake?

- *Neither to be dismissed nor a panacea.* Blending is a new way to search 'value for money' and a push to support the private sector. It focuses on economic growth; it does not fully take output-based monitoring into account; and it is not necessarily much development oriented. It is also a call to address ODA cuts, and it can be seen in large as a move to respond to the crisis. Blending also offers advantages when used appropriately, such as supporting local markets for instance or saving up ODA that can be reinvested in other projects thanks to complementary private investments and leverage offered by pulled resources. However, evidence indicates that a share of the financing through blending can end in OECD countries or MICs. While primarily seen as targeting LDCs, blending funds can partly end up away from these countries (in multinational banks, with tied technical assistance, in Chinese companies or OECD ones, etc.).

- *The advantages of blending mechanisms.* At a time when the EC is proposing to increase the scale and scope of blending, seen as an innovative financing modality, many pros are put forward, they include:
  - o Leveraging additional public & private resources for EU development policy;
  - o Working with programme based-approach and predictability of aid delivery;
  - o Decreasing costs and making projects affordable for governments;
  - o Supporting projects that are not 100% profit recoverable;
  - o Increasing EU visibility;
  - o Further targeting of private sector; support to economic growth and contribution to job creation; etc.

  In addition *pooling resources* is seen as a way to:
  - Increase coordination between financial institutions and donors (in line with the aid effectiveness principles);
  - Guarantee value for (public) money; and

- Bare heavy investments in sector approach such as energy, etc.

EC commitments since 2007[33] indicate that 115 projects have benefited from blending, mobilising 760 million Euros in the form of grants, 10 billion loans and leading up to an overall of 26 billion total project financing[34].

- *Contextual explanations*. Commitments on financing for development have been taken at the international level, but the consequences of the financial crisis constrain ODA budget and contribute to make these commitments difficult to honour. What blending offers, in terms of pulling resources for development and possibly boosting ODA commitments through low concessionality, is therefore seen as an asset. Besides, EU Member States are very eager to access precious limited complementary ODA in the forms of grants that the EC can provide, contrary to many bilateral agencies. More simply, a greater visibility due to the size of the project benefiting from blending funds can be a crucial part of the motivation for a whole intervention.

- *Filling the gap.* Leveraging of public & private resources, or supporting state access to loans for development investment should not be dismissed due to a restrictive consideration of what 'poverty reduction' encompasses focus (e.g. focus on providing for basic services when not delivered properly, social sectors and governance), as it can indeed attract resources for development. "In fact, expanding the use of blended loans, if well managed, allows for a better division of projects into those that can only be financed by grants and those that are bankable. Grants allow the financing of projects that are sub-investment grade, but realisable with the assistance of a grant element, ensuring that grants are not wasted on projects that can benefit from pure loans and that projects do not materialize due to lack of finance."[35]

- *Constraints; limits; doubts.* While the elements listed above can generally be considered as assets, serious doubts exist on the *risk that blending mechanisms are in fact partly supporting private sector investments with ODA*, that does not all end up in the beneficiary countries. Besides, there is *little evidence[36] that blending ensures long-term sustainability of the interventions/investments*. Similarly, there has been no systematic assessment of the EC blending facilities so far, looking at their *impact on poverty reduction and how they actually contribute concretely to render the aid more effective.*

- *Debt burden.* There is also a risk of debt burden for developing countries with public loans. The loan absorption capacity of the countries has to be well taken into consideration when opting for the blending modality. This capacity can be unstable since it remains tied to contextual evolution of the market economy (change in interest rate; sudden pressure affecting growth and having an impact on the government capacity to reimburse; financial crisis propagation; etc.), but also the more political context (social unrest affecting governance; new elections leading to diverging priorities in terms of public spending etc.). In that sense, it is important to remind the importance of the role of local civil society in democratic ownership when commitments presiding over heavy debt burden is decided by a centralised ruling elite.

- *Poverty reduction impact at project level.* While the wish to mobilize private sector investments in developing countries is certainly laudable, the actual question is to see whether the good intention is actually translated into the right tools and mind-set[37]. The answer is not clear at this stage. To start with, it is difficult to answer without serious impact assessment of the results achieved so far by EU blending, and their links with poverty reduction. Blending does not seem to be approached as a development tool by banks for instance. A number of guarantees and criteria to ensure the poverty orientation of blending could be reinforced, such as:
  - The operationalization of the poverty eradication objective at the design stage of blending

33 Cumulated for ITF, NIF, LAIF & IFCA.

34 Extract from the joint presentation DG DEVCO – DG ECFIN – EIB entitled *EU Blending mechanisms – A Stock Taking Exercise.*

35 CEPS, Innovative Approaches to EU Blending Mechanisms for Development Finance, Jorge Núñez Ferrer Arno Behrens, 18 May 2011. Study carried out with the support of BMZ.

36 A few studies were carried out on governance and EU blending, see for instance the European Think-Tanks Group study entitled *EU Blending Facilities: Implications for Future Governance Options,* but none on the more technical aspects of the long-term impact/sustainability of blending.

37 Possibility to refer to the criteria adopted by the Task Force on private sector, once validated.

projects[38], along the line of the financial liability or technical issues;
- Criteria to avoid that grants are given to companies that do not need it; etc.

A number of questions should be systematically addressed preceding the attribution of blending for a project, such as: is the blending necessary? Can it be non concessional? Is it in line with the country strategy? Is it development and aid effectiveness oriented? Blending also risks diluting ODA into economic growth orientation. It is not clear at the moment what weight is given to these different criteria in electing blending projects, on a case-by-case basis[39].

- *The role of EIB.* Since blending is using ODA to implement EU policy, the European Commission remains in charge of its implementation, and DEVCO provides a mandate to the EIB to manage blending. However, EIB staff is not particularly development oriented, and is not used to implement a policy under EC control. One may wonder if the EIB is the best actor to manage blending and to filter projects aiming at supporting local SMEs in developing countries. It would be interesting to learn more about other models used for blending (task division, responsibilities and actors involved), and to work on alternative mechanisms to manage the Facilities when deemed more efficient than going through the EIB[40].
  In addition, recent dialogue between the EIB and EU CSOs indicates that the Bank is rather critical towards the EC, as it believes that they operate Facilities without any strategy, on a first-come first-served basis. In any case, it is important to have DEVCO accountable on the use of blending. So far, no specific (monitoring or reporting) modality on blending seems to be in place. Transparency, accountability and detailed criteria[41] that justify engaging in blending are needed.

- *Civil society participation.* The Agenda for Change indicates that further development of blending processes should be supported by an EU platform for Cooperation and Development incorporating the Commission, Member States and European financial institutions[42]. Unfortunately, participation of civil society is not envisaged at this stage, whereas CSOs, based on their own experience in development, could help to see how to operationalize a number of elements such as:
  - the monitoring of the poverty reduction objective in projects;
  - the targeting of local private sector;
  - the ownership and alignment of projects by local stakeholders; etc.

  In addition to their role in democratic ownership (see point on debt burden above), CSOs should be informed and/or consulted when blending is discussed at country level. Last but not least, it would be interesting to launch the debate on the opening of blending to CSOs.

Recommendations

✓ Ring fence money going into blending until serious development environment and poverty impact assessment is carried out on the existing EU blending facilities including at project level. Such an assessment should also consider in particular the impact of blending on the debt level of partner countries.

✓ Opt primarily for budget support and align to country systems that should be used by default. Providing that guarantee of transparency is in place (fiduciary conditionality) budget support can contribute to partner countries' engagement[43] in Public Private Partnership (PPPs) and multi-stakeholder programmes.

✓ Ensure that poverty reduction is addressed at the project design level when blending modality is used.

38 Is this aspect taken into consideration in the template of the evaluation fiches? If so, how? What is the staff feedback on dealing with it?
39 Are template used to select blending projects sufficiently developed to take these questions into consideration?
40 On going work on the financial regulation looks at the possibilities for the EC could manage bigger trust funds for example.
41 That goes beyond the mere overall policy objectives, general criteria for the Facilities and the country action plans, down to the actual project level, by judging the projects on their expected results/impact.
42 Agenda for Change, 3.2. §2.
43 Including enterprises or other entities in a given partner country.

✓ Clarify the issue of DACability and effect of low concessionality on ODA accounting.

✓ Clarify the definition of responsible finance standards including transparency, monitoring and evaluation standards, conditional to obtaining blending, and pay particular attention to the issue of debt burden and long-term sustainability of investments.

✓ Investigate alternative mechanisms than blending management by the EIB or similar investment banks, including at smaller scale and in cooperation with non-profit and civil society actors.

✓ Invite the DG on Development & Cooperation – EuropeAid (DEVCO) to develop specific and more transparent reporting on blending.

✓ Balance sector interventions covered by blending, and if needed set a target/benchmark for blending in social sectors. Increase the use of blending for agriculture, and include the principle of support to private sector to local SMEs and micro private sector (unless exceptional situation, to be duly justified in contribution to poverty reduction, in order to leave some flexibility).

✓ Clarify the role for participation of CSOs in this on going discussion and in strategic dialogue governing the decision to opt for blending at country level. Improve the capacity of EU Delegations staff to consult CSOs on projects proposed under a facility.

✓ Investigate the possibility to open blending to civil society.

2.2. Budget support[44]

Context/Rationale

The emphasis on ‘fundamental elements’ in the EU development cooperation policy and in its partnerships with third countries has always been at the core of the relationship. The importance of good governance, democracy and human rights is reassessed in the Agenda for Change, and political conditionality takes a new form with the proposed adaptation of budget support modalities. Besides, in line with the Aid effectiveness commitments, country systems should be used by default, and budget support is key to achieve this.

Budget support presents the characteristic of not being reducible to a ‘funding modality’ in the EU modality mix available. It is featured as a ‘vector of change’. The public definition[45] for instance indicates that budget support involves:
- Policy dialogue;
- Financial transfers to the national treasury of the partner country;
- Performance assessment and capacity building, based on partnership and mutual accountability.

“It should not be seen as an end in itself, but as a means of delivering better aid and achieving sustainable development objectives by fostering partner countries’ ownership of development policies and reforms.”

The novelty brought by the EC Budget Support Communication is the provision of three different categories of budget support programmes: 1) Good Governance and Development Contracts (former general budget support); 2) Sector Reform Contracts (sector budget support to address reforms and improve service delivery); and 3) State Building Contracts to provide budget support in fragile situations. The contractual aspects of these appellations do not prevent partner countries that loosen their commitment to the fundamental elements from receiving EU ODA, but the funding would then be directed to non-state actors[46]. It would be worth investing to what extent this alternative is actually used.

44 The CONCORD policy steering group is reviewing a proposed position paper on Budget Support, probably adopted mid March, which contains a whole list of recommendations.

45 I.e. definition accessible to the EU public on the *europa* website.

46 Laudable intention, which is in fact difficult to implement in democratic deficient environment.

The name of the game: what is at stake?

- *Extending conditionality & risk mitigation.* In addition to the previous set of eligibility criteria to qualify for budget support (i.e. well-defined national or sector-based reform policy and strategy in place; stability oriented macroeconomic framework and benchmarks to improve sound public financial management), a fourth condition is introduced in the new communication in relation to transparency and budget oversight. Fiduciary conditionality should now be met along the line of political conditionality in order for partner countries to benefit from budget support. The newly labelled and defined 'contractual' aspect of budget support can be seen as an asset to mitigate risks (on EU public money), to create investment for improved performance, and to facilitate democratic accountability through facilitated access to information.

- *Performance assessment: are the elements in place?* The EC can decide that insufficient performance leads to withholding disbursement in specific situations, but how concretely it is assessed is not clear at this stage. Conditionality can act as a strong political tool in the relation with partner countries. It can even risk leading to situations where political considerations overwhelm the objective of supporting poverty reduction. How exactly the 'performance' is assessed at country level remains vague. The balance between political and fiduciary conditionality will vary from one formula of budget support to another (see above the 3 possibilities or 'contract' types). Criteria used for official decision and matching capacity to deal with budget support should be further defined (if not in the proposed regulations, then perhaps in updated operational guidelines). The crucial role of CSOs to hold governments accountable when budget support is used is barely mentioned in the EC communication on budget support. It would be interesting to recall CSOs roles vis-à-vis budget support in the proposed regulation.

- *Specific risks linked to the complexity of the modality.* Budget support is already a composite package, with a number of objectives, conditions and incentives attached. Sharpening the approach bares the risk of overburdening the package, both for partners (having to deal with a range of conditions, and subject to external factors that can affect their performance), and for EC staff, having to develop a very fair understanding of the context to make an increasingly political decision (to qualify or disqualify). This could eventually lead to a decrease of the use of budget support, not because it is inadequate or does not serve its purpose, but because the reality of aid lies much into the modalities of implementation.

Recommendations

- ✓ Emphasize the importance of understanding the context; of starting the analysis from the country needs; and insist on the need to conduct systematically adequate analytical work before calibrating budget support.

- ✓ Ask for clarification on the fact that increased formalisation of the political conditionality (resulting in more requirements for partner countries) should not prevent Budget Support from remaining a poverty reduction oriented tool.

- ✓ Provide adequate support to EC staff informing decision on budget support: e.g. capacity development enhancing both highly technical and highly political understanding of the context; clear criteria to apply for risk management framework; time to engage in dialogue with in country state and non state actors, etc.

- ✓ Define explicitly the management framework for EU budget support; clear parameters for conditionality and how performance and changes associated with different risks are assessed. Specific attention to guaranteeing shared understanding by both the recipient government and the donor is necessary.

- ✓ Improve the modality of participation / engagement of civil society, national parliaments and media institutions in budget support, especially with regards to domestic accountability (introduce a possibility to earmark funding for their participation).

✓ Increase the transparency about budget support (informed decision, monitoring), for watchdog bodies to be better equipped to hold their governments to account.

✓ Strive for more alignment between EU and Member States on use of budget in order to avoid double signals and to maximize collective impact. [47]

2.3. Civil society participation

Context/Rationale

Participatory approach for an inclusive development, including the active participation of civil society, is now indisputably recognised as one of the corner stones for achieving efficient development and tackling the poverty issue. The European Consensus on Development recalls, in its common principle, that "the EU supports the broad participation of all stakeholders in countries' development and encourages all parts of society to take part. Civil society, including economic and social partners, such as trade unions, employers' organisations and the private sector, NGOs and other non-state actors of partner countries in particular, plays a vital role".[48]

The final statement of the Structured Dialogue calls to "increase and continue all efforts to create the conditions conducive to an enabling environment allowing CSOs and LAs to operate effectively as development actors in their own right in, and as partners of, EU Development Cooperation". The Agenda for Change states that "there is also scope for the EU to work more closely with the private sector, foundations, civil society and local and regional authorities as their role in development grows"[49]. It is indeed translated in the proposals for the instruments regulations of the next MFF.

The name of the game: what is at stake?

- *From NSA to CSO.* An attentive screening of the proposed DCI regulation regarding CSO involvement is worth detailing in order to see how participation can be translated into practice. References to civil society participation at all stages of development processes can be found very regularly in the regulation, and together with local authorities, civil society organisations are the beneficiaries of one of the three proposed thematic programmes. It is worth noting that the regulation now refers to *Civil Society Organisations* rather than *Non State Actors,* therefore clearly differentiating non-profit and private sector organisations.

- *Participation in programming is acted.* For instance, under Title V, article 10 (laying out the general framework for programming and allocating funds) proposes that "the Union and its Member States shall consult each other, and other donors and development actors **including representatives of civil society** and regional and local authorities, at an early stage of the programming process in order to promote complementarity and consistency among their cooperation activities." Article 13, on programming document for thematic programmes, confirms that 'Commission and the Member States shall consult each other, as well as other donors and development actors including representatives of civil society' during the programming of the thematic programmes. However, civil societies role goes beyond promoting consistency and complementarity at the programming stage. It also contributes to promote transparency and domestic accountability, a role that is less clearly spelled out in the DCI regulation.

- *Remaining gaps.* A few specific points regarding the modalities for programming or indexing bilateral and regional cooperation remain too vague to guarantee that civil society organizations would indeed be associated, or consulted. For instance, article 11.1.§3[50] reads that: "strategy papers shall, *in principle*, be based on a dialogue between the Union and the partner country or region, involving where appropriate, the relevant Member States, and the partner country or region, involving civil society'. The phrasing

47 http://www.thebrokeronline.eu/en/Articles/Too-much-too-quickly/(language)/eng-GB

48 See point 4.2, alinea 18.

49 § §, under point 1 of the EC Communication.

50 On programming documents for geographic programmes.

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'in principle' and 'where appropriate', suggests that exceptions to this principle are possible, without explaining under which circumstances, and what would be the consequences on the involvement of civil society. Similarly, article 11.2 introduces, for the review of strategy papers, the notion 'ad hoc if necessary': the extent to which civil society organizations would be involved under such context is unclear.

- *What guarantee for participation with alignment on existing country strategy?* The possibility to align to national/regional strategies when they exist without engaging in designing a specific EU strategy paper raises a specific challenge. The EC/EU can in fact adopt a strategy with a partner that has been previously validated, as the result of a process where civil society organizations have not necessarily been properly consulted. While it is positive to align to country owned strategies, it is fundamental to ensure that CSOs views are particularly taken into consideration during the pre-programming phase (investigation & dialogue led by DUE) and during the drafting of the multiannual indicative programmes – that 'shall be drawn up for each of the countries or regions receiving an indicative allocation of Union funds under this Regulation' (Art 11, 5). Besides, there will be no *thematic strategy papers*, only *multi-annual indicative programmes* with the risk that there will be less possibility for CS to input and to highlight its role in sector-based approach.

- *Consultation for programming of unallocated funds.* Similarly, it is important to make sure CSO will/could be involved in the programming of unallocated funds. So far, the exact modality to use these funds is not spelled out: "the use of these funds shall be decided later in accordance with the Common Implementing Regulation" (article 10.4.). In the case of fragility (see article 12), the need for swift response mechanisms and the use of specific procedures should not jeopardize the possibility for civil society participation. Article 16, on the suspension of assistance, lays out that "the Union shall invite the partner country to hold consultations in view of finding a solution acceptable to both parties": insist on the need for CSO participation in these consultations.

- *Spelling out the diversity of the civil society roles.*
  - A level of caution is called on a number of considerations in the DCI regulation. It in-

cludes the restrictive definition of the thematic approach in the explanatory memorandum, that does not refer clearly to the added value CSOs can have in *service provision*: “The programme will promote an inclusive and empowered civil society and local authorities, increase awareness and mobilization on development issues, and strengthen the capacity for policy dialogue on development”[51]. The actual article 8 of the regulation does not restrain from funding CSOs actions outside these categories, such as basic services projects. It is recommended to harmonize the phrasing under the detailed explanation of the explanatory memorandum, and in the text of the regulation.

- It is interesting to see that CSOs are mentioned under the *common areas of cooperation for geographical instrument*, namely under the ‘Human rights, democracy and other key elements of good governance’ heading, but not under the other 2 headings (i.e. *Inclusive and sustainable growth for human development,* hosting especially ‘social protection, health, education and jobs’; and *Other areas of significance for Policy Coherence for Development* including climate change and environment; migration and asylum; and transition from humanitarian aid and crisis response to long-term development cooperation). These other two headings are seemingly relevant for CSO interventions & added value.

- *Limited harmonization of the mention of CS under regional priorities.* Supporting an active and organised civil society for development and fostering public private partnerships is only featured under Asia, Central Asia & Middle East but not under Latin America & South Africa (see annex IV of the regulation). These regional priorities are based on a number of agreements made at these levels with the EU, but one could argue that the results/conclusions of the Structured Dialogue (where all regions were associated & actually represented by ‘ambassadors’ that endorsed the final declaration) justify the mention of the support to an organized civil society as a priority in all regions. Besides, CSOs are seen both as a specific and common area of interventions: it is worth addressing this incoherence.

- *Participation when modifying priorities and funding?* Regional and thematic priorities can be changed through delegated acts. There is no consultation of CSOs foreseen under delegated acts. There is a need for a Civil Society consultation mechanism on regional and thematic priorities at EC/EEAS level.

- *Benchmark for CSO funding.*[52] CSO access to funding is guaranteed under the thematic programmes but it should not be limited to them. It is equally strategic to ensure the possibility to access funding directly under the geographic programmes at bilateral or regional level.
  - Is earmarking the answer to such expectations? Opting for a set percentage (i.e. introducing a benchmark to *earmark funds from the geographic programmes* for CSO activities and projects) is difficult to argument[53]. Besides, it goes against the Aid effectiveness principles of alignment and ownership, and is not necessarily strategic[54].

  - Annex VII misses a principle of a budgetary *allocation key between the support for civil society organizations and support to local authorities.* It is indeed important to ensure sufficient flexibility for funding, but it should be balanced with sufficient predictability. One argument that can be used to that purpose is one of the recommendations to partner governments under the Structured Dialogue conclusions that could imply a ‘preset repartition’ key within the regulation: ‘Finally, and, to the extent possible, resources need to be made accessible to local authorities and civil society. This needs to be done in a predictable way so LAs and CSOs have a margin to match their local development plans with community needs, within the framework of national strategies.’

- *Modality mix and CSO funding.* Explanatory memorandum indicates that the regulation will

51 See under ‘detailed explanation’ for article 8, page 9 of the EC proposal.

52 The issue is mentioned under the CSO chapter, rather than the ‘benchmark’ chapter but is relevant under both titles.

53 5%? 15%? The Reference to the Cotonou Partnership Agreement (CPA) would not suffice in this particular regards, since the CPA does not guarantee 15% of funding to CSO, but make it possible, up to that threshold, to fund soft projects to support CSO capacity development and role in dialogue, if co decided with the Authorizing Officer. It is in no way a benchmark for CSO funding.

54 One could argue that a strategic involvement at sector level, especially social sectors, would be more strategic, and possibly leading up to access more funds if CSOs become a partner in the implementation of programme in sector of concentrations.

'simplify the regulatory environment and facilitate the access of Union assistance to partner countries and regions, **civil society organisations,** SMEs (see first §, 5. Simplification'). However, the modality mix or 'toolbox' for alternative, innovative funding mechanisms - as mentioned in the Structured Dialogue conclusions - are not featured/translated in the current proposal for DCI regulation or legal provisions for external action instruments. In this regard it is important to monitor regulatory development (programming guidelines, forthcoming communication on CSOs & LAs) to ensure that such flexibility in the menu of options available to access funding is clearly spelled out.

Recommendations

✓ Mention the possibility for programme approach & innovative modalities to support CSOs (refer to Structured Dialogue toolkit & technical briefs to see the possible modality portfolio) in DCI, Article 3(c). Link the proposal with previous point (b) about civil society of the same article.

✓ Recall the need to publish programming documents upon adoption to support domestic accountability and more generally to establish regular and structured mechanisms to consult civil society at country level.

✓ In the DCI regulation:
- Harmonize the reference to CSOs in annex IV;
- Pursue the request for clarification on participation of CSOs in article 11;
- Harmonize the references to the role of CSOs in the explanatory memorandum detailed explanation on the thematic programmes with the actual wording used in Article 8;
- Clarify the involvement of CSOs in the programming of unallocated funds;
- Explore and strengthen possibilities for Civil Society consultation on regional and thematic priorities.
- Insist on the need for CSO participation in the consultations foreseen in Article 16 dealing with suspension of aid;
- Include a criterion reviewing the level of participation of CSOs in the establishment of a national strategy when opting for adopting such a document instead of drafting an additional EU Country strategy paper;
- Ask clarification on modality for CSO participation in the decision-making leading to the reallocation of funds between and within programmes.

✓ For fragile states, emphasize the need for sensitization toward CSOs to pro-actively engage with the EU Delegations and to be considered as a key source of information for assessing the context, to counter balance the unsteady guarantee of participation in programming and reviewing due to the unknown nature of the modality used to ensure 'swift responses.'

✓ Include reference(s) to the conclusions of the Structured Dialogue in all regulations, including with regard to the diversification of funding modalities (toolbox). The Final Statement is not a binding document, but it reflects commitments validated by all stakeholders (including EU Commissioner A. Piebalgs).

✓ Propose an allocation key between CSOs & LAs in the CSOs/LAS thematic programme, and if possible, ensure the predictability of funds for CSOs under all programmes.

2.4. DACability and ODA eligibility:

Context/Rationale

A number of contextual and political reasons tend to increase the pressure on 'value for money', at times when justifying the use of European taxpayer money for ODA could become increasingly difficult. In addition, a number of EU donors tend to lag behind on attaining financial targets set in the international commitments on financing for development.

Against this background, growing concerns exist on the risk of instrumentalization of ODA towards non-aid goals, and the possibility to twist around ODA eligibility, either to use EC grants for objectives that do not seem to directly contribute to poverty reduction, or to try and boost the ODA figures[55].

Far from introducing an exhaustive analysis on this issue, the following sub-chapter focuses on a few elements concerning ODA eligibility under the proposed DCI regulation.

The name of the game: what is at stake?

- *DCI ODA eligibility.* The overarching objective of the Development Cooperation Instrument is poverty reduction. Besides, the proposed regulation plans the concentration of aid in the country where it is the most needed (differentiation), so it is expected that the instrument would be 100% ODA eligible. This is not actually the case, due to a few exceptions.
    - The explanatory memorandum indicates that indeed, all forms of interventions should fulfill the ODA criteria established by the DAC, except for the thematic and pan-African programmes, that can be used for funding non-ODA activities, up to 10% of their respective envelopes. Article 2 of the regulation, establishing the objectives and general principles governing the instrument, confirms "at least 90 % of the expenditure foreseen under the Pan-African and thematic programmes shall fulfil the criteria for ODA established by the OECD/DAC."
    - Pro: The explanation given to justify such exception lies in the *flexibility of the programmes* to cover for expenditures, which "although not strictly speaking ODA-compliant, may be required for the adequate implementation of actions under these programmes". Article 6(b), on thematic programmes, add a precision by stating that the up to10% non ODA funding "may include actions in Member States, candidate countries and potential candidates and other third countries". The flexibility offered by the possibility to use 10% non-ODA in the thematic and Pan-African programmes can be important for migration-related actions and cross-border activities.
    - Con: Offering flexibility for funding is a rather positive option, but one could wonder why such actions could not be covered by other instruments (like the Partnership instrument for instance). The criteria to qualify for using non-ODA funding from the DCI is very vague. It will be important to monitor the use of the non-ODA to see if it is properly utilised and responds to the criteria of being 'required for the adequate implementation of actions' under the thematic and pan-African programmes.

- *Article 20, on "Erasmus for All",* also retains attention. It indicates that in order to promote the international dimension of higher education, an indicative amount of EUR 1 812 100 000 from the different external instruments (..) will be allocated to actions of learning mobility to or from non EU countries and to cooperation and policy dialogue with authorities/institutions/organizations from these countries". Since the initiative will be funded by different instruments, with a mix of ODA and non-ODA funds, it would be interesting to see how the share of the DCI funding going into this initiative is accounted for. Indeed, it is not clear whether all, part or none of this would be ODA. If it's ODA, is this inflated aid? If it's not ODA can part of the funding come from the DCI? It is also unclear how much the DCI share will be. If the funding from the DCI is counted as ODA, how would this be monitored? It is important to think about what sort of precedent the use of funds from the DCI for the "Erasmus for All" programme would set.

- *Indirect taxes eligibility.* The Council Regulation establishing *common rules and procedures for the implementation of the Union's instruments for external action* states that indirect taxes are now eligible costs for grants under the DCI regulation and other external relations instruments. More precisely, article 5 'on taxes, duties and charges' indicates that the "Union assistance shall not generate, or activate the collection of specific taxes, duties or charges. Where applicable, appropriate provisions shall be negotiated with

55 The on-going debate on 'blending' illustrates such doubts, with the question arising around the support to private sector and the issue of concessionality level for ODA eligibility.

partner countries in order to exempt from taxes, custom duties and other fiscal charges the actions implementing Union's financial assistance. Otherwise, such taxes, duties and charges shall be eligible under the conditions laid down in the Financial Regulation". It means that EU grants will not generate any tax related costs for beneficiaries. CS has requested this for some time and it is seen as a very positive move in EU development cooperation.

Recommendations

- ✓ Limit to the minimum non-ODA expenditures under the DCI budget:
  - Non-ODA activities should only be financed under the DCI in duly justified cases where added-value to the objective of ODA is clearly demonstrated;
  - Criteria for duly justified cases and provisions for monitoring should be made more explicit in the regulation (including a list of examples of duly justified cases);
  - The ceiling of 10% for non-ODA actions should in practice be limited to the lower possible threshold.
- ✓ Request clarification on the use of the criteria '*although not strictly speaking ODA-compliant, may be required for the adequate implementation of actions under these programmes*'. How will it be assessed in practice?
- ✓ Require a specific monitoring on non-ODA DCI interventions for thematic and Pan-African Programmes (e.g. publication annual report, facilitated access to information).
- ✓ Request a clarification on the "Erasmus for All" programme from the EU institutions before a position can be agreed:
  - How much of the €1.8 billion will come from the DCI?
  - What will this be used for?
  - Is this expected to count as ODA?
  - How will this be monitored? How does it fit with the objectives of the DCI?
  - What is the benefit for poverty reduction?

2.5. Earmarking, mainstreaming, benchmarking, flexibility

Context/Rationale

Earmarking funds is tempting to ensure that particularly crucial areas of interventions receive a guaranteed level of funding, and to ensure that simplification (e.g. with the regrouping of a number of areas of the DCI Global Challenge thematic programme) does not result in decreasing the predictability and the level of overall funds for these areas.

There have been new international commitments in terms of additional money for climate change and biodiversity in Nagoya and Copenhagen. To the request of developing countries (ownership), parties to UN have committed to additional funds for climate change and biodiversity. The increase in the funding for environment and climate change is Europe's fair share of these new and additional financial commitments.

However, defining proper benchmarking is difficult, and increased earmarking also results in lesser flexibility to align with partner priorities, and to reallocate funds between programmes and sub headings if needed. The proposed DCI regulation introduces a few elements with regards to the issues mentioned above.

Point 4 of the explanatory memorandum entitled *Budgetary Implications* sheds light on foreseen benchmarks in the thematic programmes, stated in the Article 15 of the proposed regulation. "It is planned that no less than 50% of the programme for Global Public Goods and Challenges will be spent on climate change and environmental objectives and at least 20% on social inclusion and human development. Globally, in line with the Communication *Increasing the impact of EU Development Policy: an Agenda for Change*, a continued support for social inclusion and human development is foreseen through at least 20% of the Union's development aid. Finally, this Regulation intends to contribute to addressing at least 20% of the Union's budget to creating low carbon and climate resilient societies, as provided for in the Commission communication *A Budget for Europe 2020.*

Besides, "in accordance with the intent stated in the Commission Communication "A budget for Europe 2020" of 29 June 201120, this Regulation should contribute to the objective of addressing at least 20% of the EU budget to low carbon and climate resilient society, and the global public goods and challenges programme should use at least 25% of its funds to cover climate change and environment.

The name of the game: what is at stake?

- *High benchmark for Climate Change and environment.* The benchmark for climate change (CC) and environmental objectives is half of the budget for the thematic programme for Global Public Goods and Challenges[56].
  - It should be clarified that contrary to the benchmark on human development, the 50% benchmark for climate change and environment includes both specific funding for targeted actions on environment and climate change, as well as mainstreaming in other sectors. This may lead to confusion. The actual benchmark for specific targeted actions on environment and climate change is 31.8%.

  - The 31.8% benchmark represents a significant increase in the funding for environment and climate change compared to current figures. This is positive as it represents the new and additional money needed to meet Europe Union's fair share of international commitments for climate action and biodiversity taken in Nagoya and Copenhagen since 2010, in response to requests made by developing countries.

- *Lack of clarity in accountability and additionality for Climate Change.* The priorities are further defined as such: "Sustainable energy-related activities will be one of the key areas for climate change expenditure. Likewise, in view of a key role of healthy ecosystem services for food production, biodiversity, especially when also contributing to climate resilience, will be one of the key areas under food security and sustainable agriculture", but no information is given on the *modalities to identify and account for these CC/environment oriented activities under the thematic programme*[57].
  - Some of these activities could be performed in different areas, running the risk to drag even more on the scarce resources left for the other themes. It is therefore essential that the 'additionality' principle be respected. The overall DCI funding is more important than in the previous regulation – at least at this stage in the new proposal - but given the benchmark on CC/environment, projects in this particular area could result, paradoxally, in dragging ODA away from other key sectors for development and poverty reduction.

  - The (exclusive use of) the Rio markers approach for accountability raises questions. First, regarding both the basis for assigning a 0%, 40%, or 100% climate relevance to funding, and second, because of the lack of a qualitative distinction in terms of benefit for climate and development[58], i.e. equal value to carbon capture & storage project as to local techniques for emissions reductions and adaptation.

- *Benchmark on social inclusion and human development.* The benchmark of 20% for health and basic education stated in the legislation of the previous DCI has been shifted to 20% for human development and social inclusion. It is no more referring specifically to basic and secondary education and basic health, and it encompasses many other areas (e.g. growth, employment, private sector engagement, or cross cutting issues such as gender or women empowerment). In addition this 20% benchmark is now applied only to the thematic programme in the annex VII:
  - There is a potential double dissolution of the support to basic health & education under the 'Human Development' umbrella label of the *Global Public Goods* thematic programme (first, within 'social inclusion', and second, along the line of many other areas). This is a step back from the long-lasting call of the European Parliament and civil society organisation to dedicate 20% of the EC assistance to basic education and basic health (a commitment agreed in the regulation of the DCI

56 Including a specific target 31,8% for actions on 'Environment and Climate Change', additional actions under other areas of the thematic programmes being accounted for as supporting the 'Climate Change and environmental Objectives'.

57 Biodiversity projects for instance, could be accounted for as an environment project, but also as a food security projects.

58 I.e. equal value to carbon capture & storage project as to local techniques for emissions reductions and adaptation.

in 2006). The European Union has even had more ambitious benchmark for social infrastructure and services in the past DCI.

- This concept of social inclusion and human development is not clearly defined by the OECD standards, which makes the benchmark unclear and difficult to monitor

- Being able to fund basic health and basic and secondary education under the Human Development label is also particularly important in the view of differentiation, in order to continue funding projects in social sectors in countries that have 'graduated' from EC bilateral ODA.

- A possibility to avoid possible misbalance in support to different sectors would be to suggest benchmarking in all the programmes: geographic instruments, the pan African programme and under the human development area in the global challenges thematic instrument.

- The new proposal for DCI geographic programmes (annex IV) lists basic and secondary education and basic health under the second area entitled 'inclusive and sustainable growth for human development together with social protection and jobs' – this is again the dissolution of the essential social sectors within a broader concept, which remains unclear and difficult to monitor as it does not correspond on current OECD classification. Likewise, the specific areas for geographic programmes listed in annex IV B per region does not mention systematically basic and secondary education and basic health as a priority in each region. If diversion of ODA funding away from social sectors in the framework of the renewed DCI cannot be confirmed at this stage, it is however more efficient to plan some type of alert mechanisms that could be activated once allocations under social sectors have been monitored, with a meaningful aggregation of data[59].

- *Opting for more or less benchmarking? Pros & cons.*
  - Other areas also benefit from indicative benchmarks under the Global Goods thematic programme (see Annex VII). It is important

59 Specific benchmark of each sectors listed under 'Human Development', and additional disaggregation under the other two headings of the common areas. For example, under *Transition from humanitarian aid and crisis response to long-term development cooperation.*

in the sense that it ensures a level of predictability between the various areas covered by the programme and it prevents the risk of 'orphan sectors'. However, it does not guarantee that the current level of funding is ensured (as the final envelope will result from the results of co-decision by the EP and the Council on the MFF).

- Besides, additional benchmarking lessens flexibility and the possibility to response to partner own set priorities. It is a laudable intention to simplify the instruments by grouping a number of areas under one thematic programme, and to guarantee each area will benefit from an average preset percentage of the funding. However, it results in a loss of flexibility, which risks limiting the possibility to answer to the actual partners' needs (e.g. seldom defined ex ante).

▪ *Risk of the marginalization of cross cutting issue.* Point 3 of Article 3 on General principles is dedicated to cross cutting issue: "the promotion of human rights, gender equality, women empowerment, non-discrimination, democracy, good governance, the rights of the child and indigenous peoples' rights, social inclusion and the rights of persons with disabilities, environmental sustainability including addressing climate change and combating HIV/AIDS".
  - While a long list of issues are mentioned, there is *no detail on the modality to operationalize the mainstreaming of the cross cutting issues*, which bear the *risk of the marginalization* of the issues, rather than their actual mainstreaming. There is also a confusing mix of essential elements of the cooperation agreements (good governance, human rights, democracy) – that will form the basis of political conditionality with very concrete consequences for partners (e.g. access to budget support), and real cross cutting issues that do not have a binding nature.

  - It would be interesting to check how *gender equality* is actually defined (as a cross-cutting issue, as thematic priority, etc.). If it is mentioned in the restrictive definition of MDG3 (whereby 'gender equity' relates to access to primary and secondary education) it does not encompasses the overall dimension of women empowerment. In that case, the mention of 'women empowerment' should be harmonized under regional common & specific priorities.

▪ *Flexibility*. The principle of flexibility is enshrined in the DCI with article 20, §2 stating that reallocation between programmes is possible by delegated act[60], or that "within the global public goods and challenges programme may be reallocated between subheadings by Commission decision which shall be communicated to the European Parliament and to the Council within one month of its adoption." There is basically no need for specific scrutiny by the European Parliament, since the EP and the Council have 2 months (possibly extendible to an additional 2 months) to react before the regulation resulting from the delegated act comes into force. Asides from of the comitology argument and the democratic scrutiny debate it raises, flexibility can have both positive and negative impact:
  - It facilitates the adaptation to a changing environment and the rapid evolution of partners' needs.

  - However, if a greater flexibility can have a positive impact in terms of reaction and adaptation to unexpected events, global initiatives such as the GFATM and GAVI have shown their effectiveness thanks to long term and predictable financing from donors. Flexibility can put at risks EU pledges and have a direct impact on the Global initiatives programmes in countries.

  - Greater flexibility in sector allocations can also have a negative impact on the provisional 20% commitment of EU aid to social inclusion and human development.

  - The modality for CSO participation in the review and reallocation mechanisms is not defined. Therefore flexibility can result in limiting the possibility of multi stakeholder dialogue.

▪ *Article 15.* Another element of flexibility worth mentioning is the possibility, according to article 15, of the '*Participation by a third country non eligible under this Regulation'* that lays out the possibility to extend the eligibility of DCI Regula-

60 See annex X for a recapitulative on the use of delegated act.

tion to include “all third countries, territories and regions, insofar as this contributes to the general objectives of the Regulation” for actions with a “global, regional, trans-regional or cross border nature”. To what extent this statement can affect the use of ODA under the proposed DCI regulation is not clear. What would be the added value of non-eligible third countries? How would it be assessed? Would it lead to further use of DCI funding for non-ODA activities under the geographic & thematic instruments [61]? Clarification is needed on these questions.

Recommendations

- ✓ Opt for separate/specific accounting for climate finance & recommend alternative/ complementary criteria in addition to the Rio markers.
- ✓ Clearly define additionality in the DCI regulation, preferably using the same definition as in the 2011 EU Accountability Report[62].
- ✓ Request clarification on policy guidelines for climate action - including on the ‘mitigation-adaptation’ balance and in relation to sustainable energy - and on complementarity between thematic and geographic projects.
- ✓ Underline the need for coherence with separate funds/mechanisms for climate finance for developing countries.
- ✓ Require precision on how the 50% benchmark for Climate Change will be reached and accounted for (which programmes; which modalities; etc.). Highlight that conditions for a 50% benchmark are adequate overall funding and respect of additionality, so as not to cannibalize other priorities.
- ✓ Suggest a 20% benchmark for basic social sectors (mainly health and education) in all European Commission ODA, as part of the continuous support for social inclusion and human development:
  - Call for mechanisms to ensure that this target is met throughout aid instruments (geographic and thematic);
  - Commit to increase monitoring and reporting towards this target on an annual basis.
- ✓ Advocate for more funding for the thematic instruments, especially under ‘global public goods & challenges’ given its wide scope in view of:
  - Nesting ‘additionality’ for climate change;
  - Persisting characteristics of the food security crisis;
  - The possibility it offers to support interventions in ‘graduated’ countries in the areas of social sectors; etc.
- ✓ Check how the definition of ‘gender equity’ is used through the regulations, if it is mostly understood as MDG3, add a complementary mention of women empowerment on a more systematic basis, and maintain a two-track approach on gender (i.e. mainstreaming and thematic issue).
- ✓ Request clear reference to the Action Plan on Gender in the regulations of all external action instruments.
- ✓ Ask for strategies for all relevant cross cutting issues where these do not exist.
- ✓ Request clarification on article 15, especially concerning the possibility offered to exceptionally spend ODA in the third countries non-eligible under DCI.

61 The FDR-group have voiced concerns that money from the NSA LA programme is spent on in-country actions in Russia and Israel, because the current DCI-regulation makes a reference to the ENPI-regulation.

62 European Commission, 2011, EU Accountability Report 2011 on Financing for Development. See: http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/documents/working-document-vol1_en.pdf.

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Future EU External Action Budget

Focus on Development

This report is co-financed by BOND and CONCORD Denmark.

Publisher: O. Consolo, CONCORD, 10 square Ambiorix, 1000 Brussels, Belgium
March 2012

www.concordeurope.org

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