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**Research Report**

## From damage control to sustainable development: European development policy under the next EU budget

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## From Damage Control to Sustainable Development: European Development Policy under the Next EU Budget

### Summary

The EU is one of the leading global players in international development, trade, peace and security. Therefore, a key part of the EU's Multiannual Financial Framework (MFF) is the one reserved for action beyond EU's borders. This budget heading is called 'Global Europe' (also referred to as Heading IV). Under the current budget for the period of 2014 to 2020, including the inter-governmental European Development Fund (EDF), over 90 billion euros are available for the EU's external action. The lion's share of this is reserved for development cooperation. In previous years, the EU has dealt with new challenges in external action mostly by creating specific initiatives and new financial instruments. At the start of the negotiations on the next MFF, Heading IV thus appears to be rather complex and fragmented compared to other headings.

In addition to the fragmentation of the instruments, the EU has also failed to make clear strategy level choices. Recent EU strategies create an impression that nearly everything is a priority, overstretching the EU's financial as well as implementation capacity. This lack of a clear direction has allowed member states' governments to put forward their own strategic interests (mostly related to migration and security). Given the tight budget situation of the EU, a clear direction for Heading IV needs to be developed that helps to address a number of bottlenecks and trade-offs. These relate to (i) the overall volume, (ii) the thematic choices, (iii) the recipients of EU funding and (iv) the architecture of Heading IV.

Concerning volume, it is important to acknowledge that the other, larger budget headings will determine the budgetary space for EU development policy. Despite discussions on increasing member state contributions, Brexit is likely to result in a smaller overall budget. New political priorities (such as migration and security) are expected to further squeeze funding for sustainable development. Choices thus need to be made in terms of issues and geographic focus.

As for the thematic choices, the short-term involvement in crisis response needs to be combined with a clear strategy for engaging with partners on the 2030 Agenda and SDGs through geographic and thematic programmes. The partners' SDG strategies and the EU's added value should guide this engagement.

Geographically, the EU needs to strike a balance between the cooperation with middle-income countries (MICs) and a focus on the poorest countries. This can only be achieved by focusing geographic allocations to LDCs, neighbouring countries and sub-Saharan Africa, while engaging with MICs in other regions through thematic programmes.

In addition, Heading IV needs to be strongly rationalised, both in terms of the number of instruments and initiatives and of the rules for managing these. A key prerequisite in this regard – also for the proposal of a single instrument in Heading IV – would be the 'budgetisation' of the inter-governmental EDF, which would allow for a truly European development policy.

### Absent direction – EU development policy today

Preparations for negotiating the next MFF are now under-way. They will determine both the available resources and political priorities for EU development policy and EU external action up until 2030. This setting of priorities will have to happen at a time when the problem with EU external action is not a lack of strategies but a lack of direction. The 2016 Global Strategy on Foreign and Security Policy promotes coherent and better-coordinated EU external action. The 2017 New European Consensus on Development defines overarching aims and principles for the development policy of the EU and its member states. It is rightly build around the 2030 Agenda. However, it presents a long list of options rather than making real choices.

This lack of prioritisation and the fact that EU development policy today is not more than the sum of its individual parts is mainly due to an increasingly diverse range of actors, interests and priorities at the European as well as EU member state level. Member states have different thematic and geographic priorities. While some push the EU to support them in sectors and countries where they themselves engage, others prefer the EU to get involved in regions and/or topics in which they are not (or no longer) active. In addition, interior, finance and economic ministries in member states increasingly seek to push the EU to support their national and often short-term oriented interests through development cooperation actions. Similarly, some Directorates General of the European Commission (particularly DG Home) are becoming increasingly interested in Heading IV. Other actors, such as the European Parliament or NGOs, tend to support an EU development policy with a key focus on direct poverty reduction. However, this is hampered by the absence of a clear definition of poverty eradication in the Consensus. These dynamics will jostle the next Heading IV in different directions.

To prevent a loose patchwork of different interests and instruments, and to construct a strong and well-resourced EU development budget, four key bottlenecks and trade-offs will have to be addressed.

### Overall volume – less money for more things?

The first issue will be to secure adequate funding for Heading IV, which is traditionally a relatively small part of the MFF (6.1% of the total budget excluding the off-budget EDF). Given the broad reach and focus on third countries, there is traditionally less of a lobby for adequate resources for Heading IV than for other EU policies, such as agriculture or cohesion policy. In addition, pressure on EU aid to prioritise spending for security and migration issues has risen and pushed the current Heading IV to its limits. Although the EU has called for an increase of Heading IV for the next MFF, it seems very likely that an EU of 27 member states will not be able to agree on a budget larger than the current one. It could even end up smaller if member states decide not to increase their individual contributions to the MFF in order to compensate for the losses caused by Brexit.

Adequate funding of Heading IV can therefore only be guaranteed in conjunction with reduced spending under other Headings and a willingness to reform other policy areas. The EU's agricultural spending will be a key factor in this respect. If no reform or reduction of expenditure is possible here, no resources will be freed up for other purposes.

The amount of resources for Heading IV will also depend on the extent to which the external action community actively lobbies for adequate resources, which in turn depends on the arguments presented in favour of the importance of external action and development policy. One key issue in this respect should be that funding for migration and security issues needs to be in addition to development spending and not at the expense of it. The question of adequate volume is thereby closely related to the question of priorities and what the funds under Heading IV should actually be used for.

### Tough thematic choices

#### Promoting a sustainable security and migration policy:

While migration and security will certainly play a major role in the upcoming MFF negotiations, the key issue will be how to balance short-term needs with medium- to long-term development priorities.

In the area of peace and security, the EU faces the political and even moral questions of whether and how it should respond to the increasing and changing nature of security challenges. Should the EU use development funds for funding security provision? What types of civil and military engagement should the EU conduct as part of its external relations?

In the area of migration, the EU faces the challenge of how to move beyond a migration policy that focuses on border control as well as protection and in which it engages mainly with countries along the migration routes. Funding for migration in the next MFF should be based on a comprehensive approach to mobility which also takes both the role of migration in resilience and development and South-South migration patterns into consideration. Such an approach would respect both development effectiveness principles and human rights.

Moreover, the EU's current engagement on migration and security has created credibility issues. The increased use of aid to promote the EU's migration agenda has contradicted the EU's development and human rights commitments. Meanwhile, approaches to preparing and implementing interventions have not been in line with aid effectiveness principles such as ownership and alignment. This includes the uncritical propping up of governments through direct payments without insisting on deeper reforms in the area of democratic governance or social development. If the EU's external migration policy became more oriented towards development and long-term goals, it could be more fittingly combined with a focus on the 2030 Agenda.

**Determining European added value based on the 2030 Agenda and the SDGs:** The 2030 Agenda and the SDGs will provide the framework for future EU development policy, as

highlighted in the European Consensus. While it will be a huge challenge to not only orient EU development policy but the EU's overall external funding towards the implementation of the SDGs, it will be equally challenging to set priorities on how the EU is to engage with specific partners on the SDGs. The EU's bilateral cooperation should be guided by the partners' gap analysis and SDG strategies and European added value. In its geographic programmes, the EU could then – together with partner countries – identify three priority SDGs. It would thereby fulfil its long-standing commitment to concentrating on a maximum of three sectors. Mainstreaming the sustainability principle within the geographic programmes of Heading IV could ensure that overall the EU takes all three dimensions of sustainability into account (see Hackenesch et al., 2018).

In addition, thematic allocations will gain in importance for the implementation of the 2030 Agenda as well as for a general focus on global public goods. Thematic allocations tend to be cross-country and more flexible and can mobilise funds for specific issue areas. By establishing the thematic programme Global Public Goods and Challenges and by setting a priority on working with and through civil society, the EU has already moved in this direction. Evaluations of the Development Cooperation Instrument have shown that there is a particular European added value in engaging in thematic programmes, because the EU's financial weight can make a difference (as compared to geographic programmes). Focusing the EU's geographic programmes on a number of SDGs should therefore go hand in hand with a strengthening and financial underpinning of the thematic programmes (e.g. one third of a single instrument).

### Who should receive EU aid?

Another field where the different interests and priorities of the various EU and member state institutions become visible is the issue of geographic focus and of how much aid should go to MICs. During the last MFF negotiations, a number of member states supported a reduction of ODA funds for MICs, mostly out of concern over the EU's low spending for LDCs. Yet, EU spending in MICs continues to be high. This is at least partly due to the fact that the EU also uses ODA funds for the Neighbourhood and Enlargement policy (most North African countries, Turkey or Ukraine are all MICs). The 2016 top 10 ODA recipients of the EU (which together account for one third of EU aid) mirror this situation, as they are all MICs (except Afghanistan, Syria and the West Bank/Gaza).

Neighbouring countries will remain a top priority for the EU, and therefore spending in MICs will remain high. In addition, the EU's external migration policy has ousted objectives such as poverty reduction and resulted in a situation where the EU has a clear interest in spending ODA without due consideration of poverty status or income classification. Yet, given finite ODA resources, the EU can only expand operations to MICs at the expense of its international commitment to spend at least 0.15-0.2% of Gross National Income on LDCs.

A way out would be to base collaboration with MICs more strongly on thematic programmes, focusing geographic funding mainly on the EU's neighbouring countries, Africa and LDCs, including those in Asia. In addition, country-level coherence and complementarity between the geographic and thematic components in programming and implementation needs to be improved and better coordinated with other external policies of the EU.

### Reforming the architecture of Heading IV

Setting priorities in terms of countries and themes also has direct implications for the future architecture of Heading IV. A proposal has gained momentum to streamline the instruments in Heading IV and to advocate for a single ODA or external action instrument depending on the interests advanced by the actors concerned. Streamlining the instruments can certainly have advantages and result in a Heading IV that is more visible, better coordinated and more flexible. So far, however, there seems to be no common understanding of what a single instrument should look like or what it should include. While the development community promotes the idea of a single ODA instrument, the foreign policy community prefers a single instrument under Heading IV that combines ODA and non-ODA instruments.

Current proposals seem to suggest a far-reaching consolidation of Heading IV instruments, including a window for the Neighbourhood instrument, a budgetisation of the EDF (see Box 1) and a strong focus on migration. From a development perspective, this proposal has a number of implications and risks.

For one, it seems about time to budgetise the EDF, also because the case for the EDF's place outside the MFF has weakened considerably. The main remaining difference between the EDF and the on-budget instruments is that the EDF is not subject to the 'annuality' rules of the MFF and thus allows financing decisions beyond the financial year's duration. In the last EU budget period, the only real argument

#### Box 1: The European Development Fund

A key issue in the negotiations concerns the incorporation of the EDF into the EU's budget, also referred to as 'budgetisation'. The first EDF was launched in 1959 as an intergovernmental fund to finance actions in member states' overseas countries and territories. Following their independence, the fund subsequently evolved into the means of implementing cooperation with African, Caribbean and Pacific (ACP) states.

The early creation of the EDF made EU development policy highly path-dependent, so that until today it continues to separately legislate for and finance cooperation with ACP and non-ACP states. The distinction has become less relevant over the years. This is due to several trends, including (1) the negotiation of Economic Partnership Agreements with smaller groups of ACP states, (2) several efforts to harmonise the EDF's rules and procedures vis-à-vis those of the budget and (3) the paradoxical situation of having a highly institutionalised framework for a non-strategic partnership.



against budgetisation was a financial/technical one: The 1% GDP ceiling would mean that incorporating the large fund could result in an overall reduction of EU aid.

Some stakeholders have linked the EDF debate to the Brexit process. However, the UK's stated preference for an approach of cooperating with EU on development on a case-by-case basis rather than a long-term commitment would likely be declined by the EU as part of a broader stance against 'cherry-picking'. As the current debate unfolds, UK-EU cooperation by way of delegated funding and joint programming would politically be more likely than long-term UK financial contributions; off- or on-budget.

Moreover, budgetisation under the next MFF could create opportunities for strengthening the overall effectiveness of Heading IV. For instance, the flexibility margin of the EDF could be applied to all instruments, as well as applying the so-called n+3 rule to all on-budget instruments. This rule requires that allocations be spread out over three years and be spent within that period.

Another key issue relates to the **cost of migration**. So far, spending for migration is spread out across several instruments, with a large majority outside of the EU budget (e.g. EU Trust Fund for Africa and the European Investment Plan). The Commission is preparing proposals to create a specific instrument for border management and security (outside of Heading IV) and to put a strong focus on migration as part of the single Heading IV instrument. From a development perspective, a number of safeguards would have to be built in to secure more long-term and sustainable development-oriented expenditures. Such safeguards should prevent a situation where the majority of funding goes to the countries along the migration routes into Europe.

Safeguards also need to be adopted with regard to migration management, in order to ensure that short-term immigration control measures are an exception. A long-term, comprehensive approach needs to be adopted in cooperation with countries of origin and transit, and respecting development aid principles and human rights. It also needs to be guaranteed that development aid and investments are allocated not only for the purpose of migration control, but also and primarily to address issues such as employment, agriculture, youth, development of rural areas and support to social sectors.

ODA requirements, which means that the large majority of funds (e.g. 90%) under the single instrument would have to be ODA eligible, can only be the first step. Policy narratives and management processes will each inform ODA reporting practices, rather than the other way around. Equally important is a strong policy framework and a Common Implementation Regulation that calls for a strong alignment of spending to SDGs, respect of fundamental values and aid effectiveness principles.

## Conclusion

Securing a strong and well-resourced Heading IV under the next MFF ultimately depends on the role and place of development policy vis-à-vis other EU policies. The way forward is to promote a strong EU development policy that is not subordinated to other strategic interests of the EU but is adamant when it comes to a few key principles. This relates to the long-term and multi-dimensional nature of sustainable development, the adherence to fundamental values as well as to key principles of aid effectiveness, and implies a move away from the EU's current damage control mode.

## References

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