

2nd Technical Note on EU financing for development¹

DRAFT

The 10th European Development Fund Development funding for EPAs

The message

The allocation of development aid from the 9th and 10th EDF is underway. Decisions will be taken at various levels on how and for what purposes EDF funds should be used. These decisions will determine the fundamentals and the entire framework of development funding from now to 2013– and it will be difficult, if not impossible, to change them. The EPA review will take place in the second half of 2006, so there is a real risk that the allocation of development aid from the EDFs will not be coherent and consistent with the results of the review. Therefore if ACP countries, sub-regional organisations and civil society want to influence the future allocation and use of development aid, then they will have to engage with EU member states and the European Commission **now**.

Background information

The European Development Fund (EDF) has been the main financing instrument of ACP-EU cooperation since 1958. It has developed, however, in parallel with the EU's integration process and in particular with the general budget and the inter-institutional task division in the Union. Whereas the EU budget is supranational and thus gives the European Parliament certain powers, the EDF is inter-governmental in its funding. The European Parliament only has powers to grant the discharge, whereas the European Commission (EC) manages the resources on behalf of the EU member states, which meet in the EDF Committee. It is thus the EU member states that decide on the important issues. An internal agreement between the EU member states and the Commission lays down the respective roles and responsibilities of the EU institutions. As an international agreement, the Cotonou Agreement (Annex IV) sets out the roles, responsibilities and implementation procedures which the EU and the ACP must stick to. To a large extent, these procedures are now harmonised with the Financial Regulation applicable to the EU budget.

Economic Partnership Agreements (EPAs) are being negotiated between the 6 ACP regions and the European Union (EU) as part of the ACP-EU cooperation. A review of the EPA negotiations is planned for the 2nd half of 2006. One of the issues to be addressed is the ambitious deadline for negotiations which has been set for 1st January 2008. Originally it was foreseen that implementation of the EPAs (or Alternative Trade Arrangements (ATAs)) will then begin. That coincides with the start date for

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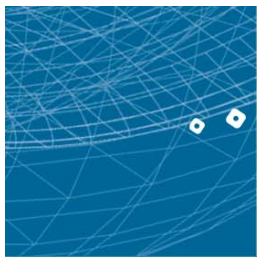
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implementation of the 10th EDF. One would think that this timeframe gives plenty of time to ACP and EU actors to decide on what – if any – development support should be allocated from the 10th EDF but that is not correct. Most, if not all major decisions on future development assistance to the ACP – including EPAs and trade capacity building - will be taken in 2006 and early 2007. During the next 6 months, European Member States and the EC will decide on: i) whether or not there should be specific development resources set aside within the 10th EDF for negotiation and implementation of EPAs; ii) the future (2006-7 and 2008-13) programming of EU development support to ACP countries/regions; and iii) the procedures, task division, responsibilities of the EC and the EU member states with regard to the implementation of the 10th EDF including the ‘development dimension EPAs’. All these decisions will be taken in parallel with ongoing reviews and programming of existing and future development support to the ACP countries and regions.²

What does this mean for the development dimensions of EPAs? All stakeholders involved in the EPA negotiations should take swift action if they want to be part of the process. A number of basic principles should be kept in mind: (i) the Cotonou Agreement is about much more than EPAs and the 10th EDF will finance a lot of other objectives as well. Any development resources used from the 10th EDF will thus result in a reduction of support to other development objectives. That being said, the EC has an added value in terms of regional integration, trade and economic development. Moreover, it is questionable whether the EC should focus on areas where EU member states might have more competence so increased attention to regional integration, trade and EPAs seems to make sense, especially since all these areas have not received major development support in the 8-9th EDFs; (ii) the amount of development support which the ACP will receive from the 10th EDF and the EU budget until 2013 has been settled. It is highly unlikely that additional resources will be channelled through the European Commission besides what is set aside in the 10th EDF and the EU budget. The only realistic options for additional development support from the EU are: the bilateral cooperation of EU member states, multilateral organisations and/or to establish new innovative funding-raising mechanisms for EPAs; (iii) finally, the Achilles Heel of EC managed development support (whether it comes via the EU budget and/or the EDF) continues to be accessibility and actual use of the development resources due to cumbersome implementation procedures, the organisational set-up of the EC headquarter services and the culture of risk-aversion inside the EC.

1. Development support to EPAs – is the 10th EDF the answer?

In 2003, the EC proposed to ‘aim as a minimum at maintaining the total level of support to the (ACP) region currently provided through the EDF and be guided by the general evolution of EU GNI’.³ The 2004-2005 revision of the

² This is done in the so-called Country and Regional Strategy Papers (CSP/RSP)

³ According to the EC that the 9th EDF was the Euro 13.5 bn plus outstanding balances of Euro 9.8 bn thus totalling Euro 23,6 bn for the period 2000-2007. That amounts to Euro 2950



Cotonou Agreement did show, however, that the EU member states could not agree on the EC's proposal of 0.031% of EU/GNI (or euro 24.631 bn for 2008-13). It is a legal binding obligation that the EU has to fix the amount of development resources available for the ACP over the next 5 years as part of the Cotonou revision process. No agreement could be reached among the EU member states in 2004 and it was only in February 2005 – at the end of the Cotonou revision process – that a compromise was reached among EU member states. They decided to promise the ACP that 'the European Union will maintain its aid effort to ACP Countries at least at the same level as that of the 9th EDF, not including balances; to this should be added, based on Community estimates, the effects of inflation, growth within the European Union, and enlargement to 10 new Member States in 2004'.⁴

The vague formulation about the exact financial amount hides a disagreement among EU member states and the European Commission on what constitutes 'current funding' of the ACP group. In December 2005, the EU member states finally reached a compromise on the 10th EDF as part of the fierce negotiations over the EU's budget for 2007-2013 (the Financial Perspectives). The amount of development resources which will be made available to the ACP in 2008-2013 amounts to Euro 22.682 bn or 95.92% of the EC's original proposal of Euro 24.621 bn. In other words, the EU member states decided to provide 0.02821% of EU/GNI for the 10th EDF and not the 0.031 % of EU/GNI originally proposed by the EC. The result is that the ACP will get less development support from the 10th EDF than in the 9th EDF, at least in real terms.⁵

A recent study financed by the Commonwealth Secretariat⁶ estimate that the overall cost of adjustment assistance for the entire ACP will amount to Euro 9.2 bn. That corresponds to the increase from the basic amount of the 9th EDF (Euro 13.5 bn) to the 10th EDF (Euro 22.6 bn). Building on these calculations some might argue that this increase reflects the EPA adjustment costs and should be used for that purpose. The argument is problematic, however, as the 10th EDF is (Euro 22.6 bn) is actually lower than the amount of resources which were available to the ACP during the 9th EDF period.⁷ It can even be argued that the amount of resources which was available to the ACP in 2000-2007 was not the Euro 13.5 bn but rather Euro 23.6 bn (as the balances of Euro 9.8 bn from the 6-8th EDF were transferred to the 9th EDF, see footnote 2). It can thus be argued that the 10th EDF is even lower than

million per year in nominal terms or 0.031% of EU GNI. See also Communication from the Commission to the Council and the European Parliament, 8 October 2003: *Towards the full integration of cooperation with ACP countries in the EU budget* (COM(2003) 590) and COM(2005)51 and SEC(2005)242 from 17.02.2005

⁴ Commission proposal for a Council Decision concerning the signing of the Cotonou Agreement. 3.5.2005, COM (2005) 185.

⁵ It should be noted that a number of EU member states are currently questioning the Euro 22.6 bn and argues that the real amount was actually lower. The outcome of this internal EU negotiation is still unclear but will be settled over the next few months

⁶ *The European Development Fund and the Adjustment to Economic Partnership Agreements* by the Commonwealth Secretariat, 2006

⁷ For further information on the negotiations see background note on *the 10th EDF, Negotiations, next steps and key issues* by Jonas Frederiksen, ECDPM January 2006.

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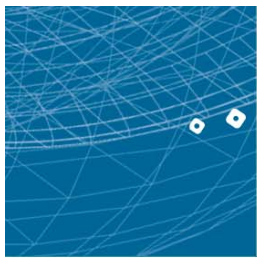
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the 9th EDF in nominal terms. Besides that the EU has opened for the possibility, as part of the revision of the Cotonou Agreement, to provide additional resources for implementation of EPAs 'under other (not EDF) financial instruments which already exist or, potentially, may be created in support of actions...for support for the implementation of the Economic Partnership Agreements'⁸

The European Commission is likely to opt for financing development support to EPAs from the 10th EDF as it has few other options available as most EU member states have been unwilling to channel aid money via the EDF and the EU budget. Indeed, the ongoing reviews of the national and regional cooperation between the EU and the ACP countries confirm that the EC intends to seriously increase the development support for EPAs and regional integration. The tough EU negotiations on the future level of funding shows that a number of key EU countries are reluctant to increase development funding via the EDF so most EU member states are also likely to support financing of EPAs from the 10th EDF. Some EU member states might be willing to go further and look at additional contributions from their bilateral cooperation programmes and/or the establishment of specific financing mechanisms for EPAs (or Aid for Trade). That being said it is clear that the easiest option for the EU member states and the European Commission is to use the 10th EDF to finance negotiation and implementation of EPAs.

The ACP regions and civil society might look at it differently. It seems logical that some ACP actors will be reluctant to accept that the only future funding of EPAs should come from the 10th EDF as development funding from the EDFs to the ACP countries has continuously decreased since the 1980s. Lastly, ACP negotiators will find it difficult to convince their constituencies about the benefits of EPAs if they cannot also point to additional development funding.

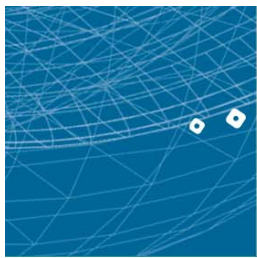
The ongoing review of the Country and Regional Strategy Papers and the many decisions which will establish and then allocate the 10th EDF will be critical in deciding on how much the development resources should be used for EPAs, trade and regional integration until 2013. If ACP and EU stakeholders want to influence the framework and decisions, they have to do it now, or it will be too late.⁹

2. Next steps and key moments in 2006

- The next step in the implementation of the 10th EDF is the breakdown of the global amount i.e. euro 22.682 bn into envelopes and levels. This will be done in the financial protocol (annex I) of the Cotonou Agreement. However, it is an open question whether the current breakdown into national, regional and all-ACP programmes and into A- and B envelopes

⁸ See Declaration XIV of the European Union in the revised Cotonou Agreement

⁹ It should be mentioned that most but not all the 10th EDF resources will be programmed in 2006-7 and that the bi-annual performance reviews (MTR/ETR) allows for adjustments to country and regional resource allocations and changes in the focal sectors of the CSP/RSPs.



is an appropriate framework due to changing priorities in ACP-EU cooperation and developments across the ACP region. Whether or not the Financial Protocol will include a specific amount for EPAs will be decided between February and June 2006. The European Commission will issue a proposal for the future breakdown in early February 2006 and discuss it with EU member states. The ACP group and the regions will also be consulted and can influence the breakdown if it clarifies its own priorities. It is expected that the ACP and EU will agree on the Financial Protocol in June 2006 so that the ratification process can get going.

A number of options for increasing the development support to EPA negotiations have been tabled over the last few months: one idea is to include an indicative amount in the Financial Protocol (of the 10th EDF) for EPAs, another is to allocate specific resources within the national and regional programmes for trade related purposes. It seems most likely that the EU will opt for a decentralised process where the EC delegations and the National/Regional Authorising Officers in ACP countries (and Sub-regional organisations) decide on what they want to use the 10th EDF resources for. If EPAs and/or regional integration are a priority then they are likely to receive (increased) development support from the EU.

- A new Internal Agreement establishing the 10th EDF committee and the responsibilities of EU Member States and the European Commission is in preparation. It will be interesting to see whether EU member states will continue to let the European Commission keep charge of the EPA negotiations or whether they will try to be more involved. A proposal from the EC is in the pipeline and will have to be adopted in parallel with the Financial Protocol.
- The allocation criteria for breaking down the overall 10th EDF amount (euro 22.6 bn) into regional and national envelopes are being discussed in the European Council at the moment. The proposal from the European Commission is based on the allocation formula used for the 9th EDF. A number of issues are, however, given more emphasis than in the past: Besides the Millennium Development Goals, ACP countries commitment to regional integration and EPAs are clearly given more weight than in the past. It is thus likely that countries and regions that are progressing in terms of regional integration and EPA negotiations will receive increased development funding via the Country and Regional Strategy Papers (CSP/RSP) than in the past.
- The European Union and especially the Commission face a number of serious challenges with regard to implementation of development funding for regional integration, trade capacity building, and EPA negotiations. Existing procedures (EC/EDF) are not user-friendly, especially at the regional level and for process related activities such as trade capacity and EPA negotiation. It is a bit of a dilemma as politically more emphasis is given to the trade dimensions but on the other hand implementation of such support performs below the average of EC financed programmes

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across the ACP.¹⁰ The increasing use of contribution agreement and budget support is one way in which the EC and NAO/RAOs can find an aid modality which allows for relative quick access to and use of the available resources.

- The implementation and management procedures that will have a crucial impact on the use of the 10th EDF will be laid down in a Financial Regulation applicable to the 10th EDF. The EC has done its utmost to harmonise the EDF Financial Regulations with the ones applicable to the EU budget over the last 5 years. That trend might continue but it will be very important that the ACP actors and the EU member states take a close look at the legal provisions as they will have serious implications on the quality and speedy use of the 10th EDF. All partners were taken by surprise back in 2000-2002 when the existing Financial Regulations were established. That should not happen again and actors must be well prepared. Again, the ACP group has a crucial role to play as the Financial Regulations is adopted jointly by the EU and ACP. It is expected that the Financial Regulations applicable to the 10th EDF will also be adopted by the joint ACP-EU council in May 2006.
- 2006 will be dominated by the end-of-term review of the current development support and programming of 2nd generation CSP/RSPs in ACP-EU cooperation. By Mid March 2006 will the EC delegations and NAO/RAOs forward the 2005 Annual Report to the EC headquarters where the desk officers for ACP countries and regions will prepare the MTR conclusions. Commissioner Louis Michel will take a global decision on revision of financial allocations and changes to existing programmes in early April 2006 before consultations are made with other EC services and EU member states throughout April and May. The College of the European Commission will then take the (final) decision in August-September before review meetings are held in ACP countries/regions in September and November. All reviews will be completed by the end of 2006. After that only exceptional changes will be made to 9th EDF country/regional allocations and the existing strategies.

The programming of 2nd generation CSP/RSPs and especially the prioritisation of support programmes in the National and Regional Indicative Programmes (NIP/RIPs) run somewhat in parallel with the 9th EDF End-Of-Term Reviews. Obviously the End of term reviews will be the building blocks for the programming of the 2nd generation CSP/RSPs. The current CSP/RSPs come to an end by 31 December 2007 (as does the 9th EDF¹¹) so implementation of the 2nd generation CSP/RSPs will begin by 1st January 2008. Preparation of these strategic documents and the decision on what kind of sectors to support will begin in February

¹⁰ The argument is based on an analysis of the Result Oriented Monitoring-data for 2003, 2004 and 2005.

¹¹ Though the EU has declared, as part of the revision of the Cotonou Agreement, that the 'deadline for the commitment of funds of the 9th EDF, fixed at 31 December 2007, could be reviewed if necessary.' See Declaration XIV of the revised Cotonou Agreement.



2006. Commissioner Michel meets NAO/RAO to discuss programming approaches and priorities in February-March 2006. EC delegations will submit the draft CSP/RSP to the EC headquarters by July 2006 after consultation with NAO/RAOs, NSAs and Parliaments. Country Team Meetings (sep-Nov 2006) and iQSG screening October- December 2006 will take place before the EDF committee gives opinions in February-March 2007. A Commission decision March – May 2007 and signatures of CSP/RSP will follow. By July 2007 the 2nd generation of CSP/RSPs should be ready.

It is during the first 6 months of 2006 that ACP countries/regions and NSAs will have the best chances for getting involved and thus influencing the programming of the 10th EDF. During this phase all the building blocks will be made and in most cases in-country consultations between NAO/RAO and EC delegations will decide how much and what kind of development support that the 10th EDF should allocate for negotiations and implementation of EPAs. After July 2006 it will be difficult to change the main features of the development support channelled through the 2nd generation CSP/RSPs.

The 2nd generation RSPs will be directly linked to the EPA negotiations and progress in terms of regional integration. The EC intends to ensure that if EPAs enter into force by 1 January 2008 then they will be backed up by already programmed development funding from the 10th EDF. It is likely that the 10th EDF will be used as an essential instrument to support the ACP countries and regions which implements EPAs (and regional integration and trade). It is thus clear that the programming of the 2nd generation CSP/RSPs will be done 'in order to maximise the benefits of the EPAs and mitigate (part of) the related transitional costs'. A consequence of this focus is that the regional indicative envelopes (in the RSPs) shall in principle be calculated on the basis of the EPAs configuration. For the ACP it means that the EPA negotiation constellations and regions which make progress in terms of regional integration will receive more development support than other regional organisations

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