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# The European Development Fund: Perspectives and the Changing Landscape of EU-ACP Relations

The European Union is the world's biggest humanitarian and development aid donor. In 2010 alone, the EU committed more than €11 billion to external aid. Africa was the largest recipient with 38% of official development aid, 33% of which was specifically dedicated to sub-Saharan Africa.[1]

Under the newly centralized DG EuropeAid Development and Cooperation (DevCo), the EU has several funding instruments for development cooperation, both geographically focused and thematic. For the financial period of 2007–2013, the geographically focused instruments include the Development Cooperation Instrument (DCI), the European Neighbourhood and Partnership Instrument (ENPI), and the European Development Fund (EDF), which is currently in its 10th cycle (2008–2013). While the DCI and the ENPI are relatively new instruments, operational since 2007, the EDF was originally established as part of the Treaty of Rome in 1957. Although the EDF has been in place for much of the EU's history, the partnership agreements are constantly revised.

## EDF—The Big Picture

The EDF is the EU's main instrument for providing development aid in African, Caribbean, and Pacific (ACP) states (with the exception of South Africa) and Overseas Countries and Territories (OCTs). The Fund runs in five-year cycles with the 10th EDF currently under way and budget negotiations for the 11th cycle about to begin. The EDF is not included in the EU budget but is inter-governmental and acts as a special funding mechanism for ACP countries. Its budget is decided on an ad-hoc basis every five years, and

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[1] "Annual Report 2011 on the European Union's development and external assistance policies and their implementation in 2010", European Commission, 6 July 2011, www.ec.europa.eu.

is taken from the public funds of Member States (MS).[2] The European Commission (EC) manages the Fund on behalf of the EU MS, while the European Parliament (EP) has the power to discharge the funds.

The EDF was created at the request of France, as a condition to the signing of the Treaty of Rome. In 1963, in light of the newly gained independence by African states, the first partnership agreement between Europe and Africa was signed in Yaoundé, Cameroon, establishing the second EDF for a period of five years. In 1969, the Yaoundé Convention was renewed until 1975 (Yaoundé II). The Yaoundé agreements formed the basis of the present EDF, and focused primarily on financial, technical and trade cooperation.

Following the entry of the UK into the EEC in 1973, and critical reviews of Yaoundé's selective French-speaking country policies and its relatively low positive impact on developmental aid, the first Lome Convention was signed. The agreement added the developing commonwealth countries and became a catalyst for the formation of the ACP group of states.[3] The Lome conventions governed the EDF from 1975 to 2000, with a revised agreement signed every five years. The last, Lome IV (1989), was an exception, lasting for a period of 10 years (with a mid-term review after five) and covering both the seventh and eighth EDF. Lome IV introduced a strong emphasis on human rights, democracy and good governance, making these contingencies for continued funding. Furthermore, the inclusion of civil society and phased programming was added for increased flexibility.

The current partnership agreement, signed in Cotonou, Benin, in 2000, has a 20-year term. The convention centres on the objective of eradicating poverty and was created on three pillars: development cooperation, economic and trade cooperation, and the political dimension. As of 2008, the trade component is now based on Economic Partnership Agreements (EPAs) at a regional level.

In order to keep the accord relevant and adaptable to political changes, it is being revised every five years, with the most recent revision finalized in 2010. The two revisions have elaborated on the political dimension, most recently including the African Union in the ACP–EC partnership, underscoring the importance of achieving the Millennium Development Goals (MDGs) as well as acknowledging the increasing importance of establishing peace and security for successful development to take place. The latest revision also adopts the most recent international aid effectiveness principles.

The ACP–EC partnership agreement is the world's largest financial and political framework for North–South cooperation. The partnership is upheld by a number of joint

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[2] "The European Development Fund in a few words", European Commission, February 2002, www.ec.europa.eu.

[3] The ACP Group of States was formally established in 1975 by the Georgetown Agreement and currently includes 79 countries.

institutions[4] with regularly scheduled dialogues and meetings between government representatives of the EU and the ACP. EDF resources are channelled through two instruments: the Grant Facility, which encompasses a wide range of long-term operations including sectoral policies and macro-economic support, and the Investment Facility, which is meant mainly for the private sector and administered by the European Investment Bank.

The majority of EDF financial aid is directed at ACP states and the African continent in particular, with only 1% set aside for OCTs in the 10th EDF. While various documents guide the decisions on funding, it is the EDF Committee, made up of MS, which approves the programming. The current EDF has a budget of €22.7 billion. According to the proposed Multiannual Financial Framework 2014–2020, the European Commission (EC) suggests a €30.3 billion budget for the 11th EDF. MS are now in the process of presenting their positions on the proposed figure, with official negotiations on the EDF to begin in December when the Commission presents a detailed breakdown of the budget.

**The Pros and Cons of Budgetization**

There has been ongoing discussion in the EU about the "budgetization" or inclusion of the EDF into the general EU budget. As noted earlier, the Fund currently has an independent budget negotiated by MS every five years and functions as a separate intergovernmental fund. The contribution key is roughly equivalent to the percentages for the EU budget, with MS that have historical ties to ACP countries contributing more than others. When the Lisbon Treaty entered into force (December 2009), all legal obstacles to EDF budgetization were removed. References to the EDF were eliminated from both the Cotonou Agreement and other EU treaties, making budgetization a matter that can be decided by a unilateral decision of the Council.

There are several arguments for budgetization of the EDF, and the EP has long lobbied for such an inclusion. The symbolic integration of the long-standing partnership and recognition of the importance of development aid as a key part of EU policy is an important element. More significantly, however, it would provide clarity on budgetary rules and grant the EP more oversight into strategies and programming in ACP countries. The EC claims that the inclusion would simplify procedures and increase effectiveness and efficiency of aid delivery. Others argue that a geographic focus on the ACP is no longer needed as regional strategies are created, and therefore the role of the EDF is becoming outdated.

The arguments against budgetization include a possible reduction in resources for ACP countries and development aid in particular, as Europe battles with the eurozone crisis. Furthermore, retaining the current structure under the Cotonou Partnership Agreement seems logical, considering negotiations will need to be held anyway to define the relationship post-2020 when the accord expires. At that point it would be natural to consider

[4] These include the ACP–EU Council of Ministers, Committee of Ambassadors, Joint Parliamentary Assembly, Joint Ministerial Trade Committee and the Development Finance Cooperation Committee.

the budgetization question again. In the meantime, preserving the current form of the EDF as separate from the EU budget seems wise in the face of the strained ACP–Europe relationship. Budgetization would effectively end joint EU–ACP accountability, management and institutions currently in place for the administration of the EDF.

Despite firm arguments for budgetization, the EC argues for sticking with the status quo. According to the Commission, conditions have not yet been met for the EDF to be budgetized, considering that the Cotonou agreement is not set to expire until 2020. It has, however, proposed stronger parliamentary scrutiny under the 11th EDF (similar to the current DCI system), which is in direct response to requests made by the EP over the last several years. It has also suggested bringing the contribution key for the EDF closer to the general EU budget key. [5]

The ACP and the majority of MS, including Poland, are satisfied with this development and will not challenge the proposal for various reasons. Some MS are wary of the increase in their share of contributions to the EU budget that budgetization might mean. While the contribution key to the budget is based on a percentage of each country's GNI, the EDF contributions remain voluntary. Without clear commitment by MS to an increased EU budget to cover the EDF, it is likely ACP related funds would decline drastically. Other arguments include more control over the programming of the EDF by the MS through the EDF Committee along with more reliable and predictable funding.[6]

Based on EDF reviews, it seems that budgetization may not be the most desirable alternative. While it is true that it may promote a more cohesive EU development policy and allow for better internal oversight, both budgetary and programmatic, it also means a much more complex management process of delivering aid, which is less transparent and less effective than the current EDF process. Furthermore, even with the oversight that the current instruments within the EU budget enjoy, duplication of work continues to be an issue.

**EU-ACP—Between Headwinds…**

The ACP states and Europe enjoy a long history of development and trade cooperation. The relationship continues to evolve, and each successive Partnership Agreement has been an improvement on the past. Yet, the EDF faces a number of challenges. These include a deteriorating relationship between the EU and the ACP in the midst of a changing global context, continued incoherence between EU and MS development policies as well as internal EU instruments, and changes in the way the Fund is managed at the EU level.

[5] "A Budget for Europe 2020" (Multiannual Financial Framework 2014-2020), European Commission, 29 June 2011, www.ec.europa.eu.

[6] Mikaela Gavas, Svea Koch, Oladiran Bello, Jeske van Seters, Mark Furness, "The EU Multiannual Financial Framework post-2013: Options for EU development cooperation", European Think Tanks Group—Overseas Development Institute, June 2011, www.odi.org.uk.

The EU–ACP relationship has deteriorated in the last few years. Critics argue that it continues to be based on colonial principles, and while the basic values of partnership and equality are entrenched in the agreements, change is happening slowly and reluctantly. Both the EU and the ACP are in the process of reviewing both the relationship and the role of the ACP group as the global context changes and the group becomes less relevant in its current form.

The relationship between Europe and the ACP is further complicated by the EU's trend toward regionalization. Separate strategies with African (2007), Caribbean (2010) and Pacific (2006) states seems to indicate the decline in relevance of the ACP group, while obscuring the framework of the Cotonou Agreement. Although the Joint Africa–EU Strategy (JAES) was meant to cement the Africa–EU relationship, it has highlighted the inconsistencies and challenges on both sides. In direct contradiction to JAES, Europe has not been able to create an integrated approach toward Africa, with financial cooperation with North Africa covered under the ENPI, sub-Saharan Africa under the EDF, and South Africa under the Trade, Development and Cooperation Agreement. While this issue has been addressed in the 10$^{th}$ EDF by an intra-ACP strategy, which provides a dedicated window for pan-African initiatives and cooperation with the African Union (AU), it has not dealt with the original concerns. Africa, however, has long been plagued by inefficient regional integration and governance, and the AU, which should be a voice for the continent, often is ineffective because of political struggles and fierce protection of state sovereignty. Therefore, it is not entirely unexpected that the mid-term review of the EDF found that JAES had not been integrated into national programmes and priorities as hoped.

Furthermore, while the EU offers a unique perspective, particularly in the realm of regional integration, economics and trade, this has been overshadowed by difficulties in EPA negotiations, a lack of transparency and sometimes overly complex procedures for attainment of aid. For example in Africa, the emergence of countries such as Brazil, China, and India as economic partners have further underscored Europe's primarily development and humanitarian view of the continent. China has recently become Africa's largest trading partner, whereas Europe's approach to Africa continues to be characterized by a donor–recipient relationship often seen by Africans as patronizing. While EPAs were meant to enhance the trading relationship between Europe and ACP, they have led to a worsening of that relationship in some regions. Negotiations on many EPAs have stalled with disagreements of imposed EU interests and a seeming lack of common ground.

Conditionality tied to aid delivery is a major point of contention. Civil society engagement is limited, even though the Cotonou accord opened the EDF to a wider group of non-state actors.[7] Delays and bottlenecks in commitment and disbursement of EDF funds, while much better now than in the past, continue to hamper development programming in

[7] "Civil society involvement in the review of the 10th European Development Fund", CONCORD Cotonou Working Group Briefing Paper, February 2010, www.acp-programming.eu.

various ACP regions. Furthermore, funds devoted specifically to classic development aid have been decreasing since the 1980s.[8] The recent mid-term review of the 10th EDF shows that apart from general budget support (expected to be 45%), the majority of funds are being devoted to governance (13%) and transport infrastructure (25%).

Although the EU remains a significant aid donor, its development policies are not unified across the MS. Additionally, there is a lack of coherence between internal EU instruments. This has resulted in duplication of work and a fragmented approach to development aid, with bilateral agreements between EU and African states working in contradiction to Union policies. The advantages of a unified front are obvious and include not only more coherent and effective development programs, but also a significant decrease in transaction costs. Unfortunately, when it comes to MS coordination, since development policies are often an element of a country's foreign affairs agenda, establishing a common approach is not an easy task in a Union of 27 states. Efforts are currently under way to explore joint programming in more detail, with a few countries selected to coordinate their activities more closely. It is also expected that MS coordination will be high on the agenda for the 11th EDF guidelines for programming currently being drafted. It remains to be seen if these trials and the second revision of the Partnership Agreement will help develop the desired harmonization of donor activities.

In addition to the already complex nature of the partnership, a host of changes in development policies at the EU level have recently taken place. The EC published a new mission statement on European development policy[9] and created the centralized DevCo, along with the new European External Action Service (EEAS), which should provide for a more seamless and efficient working relationship with ACP states.[10] While the EDF remains outside of the EU budget, the EEAS will be involved in the next programming cycle. In practice this means that the politically motivated EEAS and the more traditional DevCo will need to reach consensus on programming. It remains to be seen what kind of effect this will have on the negotiations of the 11th EDF allocations.

**…and Favourable Currents**

In the changing landscape of EU–ACP relations, it appears that the EDF may be becoming outdated. As a more regional focus supported by separate agreements for Africa, the Caribbean and the Pacific takes shape, the role of the ACP group is unclear. What is clear is that the EU has to commit to the newly formed strategies with the three ACP regions. This likely means a significant change in the way the EDF is managed. In these new

[8] Jonas Fredriksen, "The 10th European Development Fund: Development Funding for EPAs", European Centre for Development Policy Management, February 2006.

[9] Please see: "Increasing the Impact of EU Development Policy: an Agenda for Change", European Commission, 13 October 2011, www.ec.europa.eu.

[10] The EEAS does not have an ACP department, but three separate departments for Africa, the Caribbean and the Pacific.

circumstances, various opportunities arise that could strengthen the Fund in ways that were previously impossible. Restructuring the EDF to suit the new strategies of the three ACP regions, building on positive reviews of the Fund and creating additional similar geographic instruments outside of the EU budget, or creating new DCIs with the flexibility of the EDF, are only some of the possibilities.

While the geographic focus of the EDF may be losing its relevance, the instrument itself continues to function relatively well when compared to other financial instruments. Over the years, the Fund has delivered resources to ACP states predictably and in diverse sectors. Pacific countries seem to be benefiting from the Fund's good performance in particular. Evaluations in African countries show that the EDF programs are generally relevant to national needs and fulfil the poverty-reduction objective. While not always successfully, the Fund has been co-managed, creating a unique form of partnership and encouraging open dialogue between the two parties. Most importantly, however, it has been rated more effective than other EU financial instruments in terms of reaching MDGs, financial resource management, monitoring, transparency and predictability of funding.[11] This is extremely significant considering its unusual status and the autonomy it enjoys. These positive reviews are leading countries such as the UK to show preference for the EDF over other EU instruments.

The EC, along with MS such as France, the Netherlands, and Sweden, continue to argue for budgetization, even though the relative success of the EDF as compared to other instruments seems to point in favour of the status quo or even at the potential advantages of moving other financial instruments outside the general EU budget. The separate budget and voluntary contributions allow MS more control over the amount of funds they are willing to dedicate to development as well as the type of programming the Fund supports. Separation from the already strained EU budget also means that funds are not spread thin over various programs or redirected from their original purpose to cover unexpected costs.

The expiry of the Cotonou Agreement in 2020 opens the possibility for a new and improved version of the EDF—a Fund that would continue to operate outside of the EU budget but would be tailored toward the more regional focus the EU is taking. This may mean clearly separating Africa, the Caribbean and the Pacific within the EDF, and taking the budgetary principles, resource management and unique partnership arrangement of the current EDF and aligning it to the strategy agreements already in place.

Alternatively, and seemingly the route the EC is suggesting considering the proposed pan-African DCI, the EDF could be budgetized and additional DCIs created to cover the ACP and OCTs. However, should this come to pass without reform of the current processes for DCIs, there is a risk the instruments will remain less effective and fragmented and the funding less transparent and predictable than the EDF structures. Whether the change will

[11] See the "Multilateral Aid Review: Ensuring maximum value for money for UK aid through multilateral organisations", Department for International Development, March 2011, www.dfid.gov.uk.

mean creating new financial instruments dedicated to each of the three groups separately, such as the proposed pan-African DCI,[12] or whether the EDF will continue in a form similar to what we have today, remains to be seen. Whatever MS decide in the future, the positive aspects of the EDF should remain at the forefront of plans for the 11th cycle as well as post-2020.

**Focus on Poland**

With regards to Poland's contribution, the outlook is cautiously optimistic. As a new EU MS as well as a relatively new donor state, Poland has just recently finalized its own development cooperation policies to suit the new role it is taking on the global stage. It has taken steps to increase its activities in the development arena by instituting new policies and including CSOs in discussions, yet it is still lagging behind most of the EU-12 states when it comes to dedicated funding for development aid. It decreased its aid in 2010 to 0.08% GNI compared to 0.09% GNI in 2009, not reaching its goal of dedicating 0.17% of GNI to development cooperation by 2010, and it will likely not reach its goal of 0.33% by 2015. In terms of sheer numbers, out of all the EU-12 countries, Poland is contributing the largest amount to the EDF.

The year 2011 marks the first year that Poland is participating in the EDF. It seems that Poland's initial reaction is a wait-and-see tactic. Being new to the EDF process, Poland has not taken a strong stand on many of the related issues. While contributions to the EDF are typically loosely related to the contributions to the overall EU budget, the EU-12 including Poland, have negotiated a lower initial contribution key for the 10th EDF as they adjust to their new role as donor countries. The current level of Polish contribution to the Fund is 1.3% or €294.8 million,[13] less than half the 3% contribution it makes to the EU budget. In the next EDF, Poland will likely attempt to negotiate a similar contribution level. This is somewhat disappointing as the hope was that Poland would take a more active and decisive role in development, particularly in Africa, where it has had limited reach.

**Conclusion—Staying the Course**

While Africa is optimistic in the midst of the Arab Spring, and its unprecedented economic growth, the recent global financial crisis, paired with the current eurozone crisis, has left Europe feeling particularly vulnerable. At the Informal Meeting of Ministers of Development in July 2011 in Sopot, Poland, where the newly proposed MFF was discussed, a

[12] The idea of a separate financial instrument for Africa (a pan-African DCI) was suggested by the EC in its MFF and briefly discussed at the recent Informal Meeting of Ministers for Development in July 2011, in Sopot, Poland.

[13] "Internal agreement between the Representatives of the Governments of the Member States, meeting within the Council, on the financing of Community aid under the multiannual financial framework for the period 2008 to 2013 in accordance with the ACP-EC Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the EC Treaty applies", L 247/32, 9 September 2006, www.eur-lex.europa.eu.

number of MS expressed the lack of desire for an increase in the development budget. Particularly, the new MS (EU-12) are being cautious.

Nevertheless, it is imperative that MS not shy away from their commitments to development aid. While the current financial crisis encourages internal EU investment, the future advantages of a good relationship with ACP states are hard to underestimate, considering the proximity of the African continent as well as its economic prospects. Political instability and extreme poverty in ACP countries directly affect the EU in a myriad of ways, from increased migration to military involvement in conflicts. The 11th EDF should be a renewed effort to achieve the objectives of the Cotonou Agreement, respecting the position and partnership role of the ACP, involving non-state actors in the process as well as ensuring that the aid channelled through the Fund is managed effectively. Steps need to be taken to finalize the negotiation of EPAs in a manner that will put development, poverty eradication, and democratization at the forefront.

As financial negotiations begin, it is important that MS not lose sight of the programming aspect. As we wait for the EC to propose a detailed breakdown of the 11th cycle, it is likely that as with the previous EDF, regional development aid to sectors such as health, education, and agriculture, will be marginalized in favour of regional economic integration supporting EPAs. While economic integration and trade clearly have an important role to play in development, a more balanced approach that includes social sectors is needed to ensure stable and sustainable growth in developing countries. On one hand, the hope is that national budget support will fill this need. On the other hand, regional political integration, including good governance and peace, continues to be an important focal area and should remain at the forefront for the next EDF cycle.

Following the resignation of the EC in 1999 after a report on fraud and corruption in its ranks, the EU instituted an increasingly complex set of procedures and checks to satisfy its watchdogs. These are quickly becoming more cumbersome than they should. The EU has to reconsider its complex procedures for aid attainment as well as some of the less practical conditions associated with delivering aid since these hurdles often cause extensive and costly delays in the delivery of aid programs. One of the major strengths of the EDF is that it is the only cooperation instrument designed to be somewhat flexible in addressing sudden changes in the political and economic climate. A debate is currently under way about whether a similar structure for a separate budget envelope for changes and unexpected shocks should be included in the DCI. The 10th EDF performance review found that while this is a unique and positive feature of the Fund, the EDF is not flexible enough, considering the delay in responding to crises, often associated with the time needed to agree on a new instrument of response.

Finally, it is important to point out that while a budget of €30 billion for the 11th EDF is substantial, it will be spread over 79 countries and five years. Poland alone will receive more than €80 billion in regional funding before 2020. It is therefore extremely important that EDF funds be spent in a well-thought-out fashion and efficiently on interventions that will be most effective in promoting development, rather than be just politically motivated.