

# Development and humanitarian funding in the post-2020 EU Multiannual Financial Framework

## Oxfam position



### Introduction: Existing commitments and the added value of the EU in development and humanitarian cooperation

This position paper summarises Oxfam’s recommendations for the next EU Multiannual Financial Framework (MFF) on issues related to international development aid and humanitarian assistance.

In the first section, we highlight the importance of maintaining and promoting the integrity of EU development aid as a tool to eradicate poverty and enhance sustainable development, including the need to provide targeted support for humanitarian aid and the fight against climate change. The integrity of EU aid is currently at risk especially when it comes to the development-migration nexus and the development-security nexus.

The second section, regarding the quantity of EU development and humanitarian aid, draws attention to the immense funding gap between what is provided and mobilised and what is actually needed to attain commonly agreed development objectives. We call on the EU and its member states to increase aid commitments in the next MFF in order to match the level of need as well as existing political commitments.

The third section focuses on the delivery of EU aid, including finding the balance between flexibility and predictability, the question of budgetisation of the European Development Fund (EDF), concerns about the increased use of private instruments, and a proposal for the architecture of the External Funding Instruments.

The fourth section highlights the crucial role of civil society in development, and the necessity to strengthen the citizen state compact and to protect civic space.

Oxfam bases our recommendations on the existing political commitments of the European Union and its member states, as outlined in the [Lisbon Treaty](#) (2009), the [2030 Agenda for Sustainable Development](#) (2015), the [European Consensus on Development](#) (2017), and other EU policies<sup>1</sup>. The Lisbon Treaty (Art. 21) states that the EU's action internationally shall be “*guided by the principles which have inspired its own creation, and which it seeks to advance in the wider world: democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for*

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<sup>1</sup> Other relevant political commitments of the EU include: the European Consensus on Humanitarian Aid (2007); Council Conclusions - The roots of Democracy and sustainable development: Europe’s engagement with Civil Society in external relations (2012); Council Conclusions on a rights-based approach to development cooperation, encompassing all human rights (2014); The Paris Agreement (2015); Addis Ababa Action Agenda of the Third International Conference on Financing for Development (2015); The Action Plan on Human Rights and Democracy 2015 – 2019; The Global Strategy for the European Union’s Foreign and Security Policy (2016); The Grand Bargain on humanitarian action (2016); as well as EU commitments to aid and development effectiveness under the Paris Declaration (2005), the Accra Agenda for Action (2008), and the Busan Partnership for Effective Development Co-Operation (2015).

*human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law”.* The EU’s Global Strategy (2016) is guided by the same values and principles, and seeks to “*make a positive difference in the world*” and “*act globally to address the root causes of conflict and poverty, and to promote human rights*”.

The development of the next MFF is an opportunity to materialise the Union’s encouraging political commitments outlined above. **While the EU’s financial resources are diminishing, higher investments in development and humanitarian cooperation are strongly justified by the clear added value that they bring.** A recent study<sup>2</sup> confirms that financing development aid from the EU budget can achieve substantive economies of scale by cutting back administrative costs and reducing other inefficiencies associated with the current aid fragmentation. Economic aspects aside, there are important positive social and political externalities which channelling aid funds through the EU can generate, including strengthening the above mentioned common values in Europe and globally. Joint EU efforts in partner countries contribute to achieving agreed objectives more effectively, and enable a response to a wide variety of situations in different country contexts, while providing a solid basis to promote policy coherence across all EU policies; internally and externally.

## **I. The purpose and objectives of EU development cooperation**

### **a) Areas of intervention: Will the EU maintain the integrity of aid?**

**The MFF must maintain the integrity of development and humanitarian aid by respecting the Lisbon Treaty (Art. 21 and 208) and the EU’s commitment to a rights-based approach to development cooperation. Criteria and objectives of the EU’s development policy are distinct and may not be conflated with general foreign policy.**

Official development assistance and humanitarian aid should be distributed to fight poverty, reduce inequality, save lives, alleviate suffering and maintain human dignity during and after crises. Effectiveness should be measured by contribution to the improvement of conditions in developing countries, including access to services, protection of human rights, and improvement in good governance and democratic processes.

The EU’s instruments for development cooperation are crucial for the provision of global public goods such as climate change adaptation and mitigation, conflict prevention, stability, and human dignity, including universal access to basic education and health care. Targeted investments are needed for human development; at minimum the EU should recommit to a 20% benchmark on the support for social sector spending as agreed in the MFF 2014-2020. It also must be recognised that the agricultural sector plays a vital role in economic and social development in partner countries, and has a pivotal part in responding to climate change; yet the sector has been largely under-supported and small-scale producers undervalued. Food security, nutrition and sustainable agriculture which supports smallholders must be maintained among the EU’s priorities for development cooperation.

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<sup>2</sup> Bertelsmann Stiftung (2017). How Europe can deliver. Optimising the division of competences among the EU and its member states.

**b) The development-migration nexus: Is the EU promoting its own goals?**

**The new MFF should maintain clear structural distinctions between migration governance policies as related to internal affairs (currently under Heading 3), and external policies on development and human rights, including migration and displacement (currently under Heading 4). The ultimate objectives of these spending costs are – and should be – very different.**

The European response to the increase in arrivals of migrants, including refugees, in 2015-2017 has taken the approach of mainstreaming migration management into foreign policy, bringing closer migration and asylum policies (under Heading 3) and development and foreign policies (under Heading 4). However, this approach has been focused on crisis management and short-term objectives: investing in measures to reduce cross-border movement and cooperating with third countries to increase returns of migrants to countries of origin. However, research shows that, in many cases, achieving short-term objectives such as reducing arrivals and increasing departures comes at the expense of long-term development and resilience, and risks violating human rights and increasing fragility.<sup>3</sup> Replicating the same approach in the next MFF risks sacrificing the EU's long-term global development goals for the sake of addressing immediate concerns.

The EU's recent migration management policies have put the integrity of the EU's aid at risk. It is important for the MFF to address the needs of people on the move, who are often in very vulnerable situations. Migrants, refugees in third countries<sup>4</sup>, and internally displaced persons (IDPs) should be able to access aid and enjoy the effects of Europe's external cooperation with partner countries. However, to be effective in the long-run, the instruments which address migration and displacement should be designed based on needs and priorities relating to the human dimension of migration,<sup>5</sup> and in line with the international human rights law and the European Convention on Human Rights, not European domestic priorities.

Notably, many reports which examine the performance of the 'EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa' (EUTF Africa) reach a similar conclusion about the dangers of mixing domestic and foreign objectives. The pressure on the EUTF Africa to respond to domestic priorities resulted in an instrument that lacks sufficient safeguards to ensure conflict sensitivity and commitment to development aid objectives,<sup>6</sup> its implementation in Libya puts human rights at risk,<sup>7</sup> and its implementation in Niger has been documented as bringing deterioration in development and institutional stability.<sup>8</sup> The lessons learned from the EUTF Africa should inform decisions on the new MFF: the EU's external policies should not be driven solely by a Justice and Home Affairs agenda; the focus of development aid should remain on the people and communities who need it; and migration-focused instruments should aim to make mobility safer and

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<sup>3</sup> See, e.g., the link between border crossing and economic resilience of communities in border areas in Oxfam (2017), *Beyond 'Fortress Europe': principles for a humane EU migration policy* p.9. On returns, see Oxfam (2018), *Returning to Fragility: Exploring the Link between conflict and returnees in Afghanistan*.

<sup>4</sup> Supporting refugees arriving in Europe is both a legal and a moral obligation – but financing measures related to the reception of refugees and asylum seekers in the EU should not be counted as ODA.

<sup>5</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. *Lives in Dignity: from Aid-dependence to Self-reliance*. COM(2016) 234 final, 26 April 2016.

<sup>6</sup> Oxfam (2017). *An Emergency for Whom? The EU Emergency Trust Fund for Africa – migratory routes and development aid in Africa*.

<sup>7</sup> CONCORD (2017). *European Union Emergency Trust Fund for Africa: Partnership or Conditionality?*

<sup>8</sup> Clingendael (2017). *A line in the Sand: Roadmap for sustainable migration management in Agadez*.

cheaper in order to reduce the need of people fleeing wars, persecution and poverty to rely on smugglers and traffickers.

**c) The development-security nexus: Where to draw the line?**

**Stability and peace are important contributors to development, however, it does not mean that security and peacebuilding measures should, or even can be funded by development aid. Instruments with a securitised approach to development bare the risk of offering limited solutions to complex situations. In the next MFF, security instruments need to be designed with care and should not come at the detriment of addressing the multiple dimensions of complex situations or dilute aid.**

Building partner countries' capacity to ensure stability and security is an essential step to achieving sustainable development. But coordination between security and development instruments does not mean integrating one with the other. As noted in the IcSP midterm evaluation, adopting a securitised approach to humanitarian aid, early recovery, stabilisation, and development faces a number of challenges.<sup>9</sup> These concerns are amplified in contexts of displacement and migration, where vulnerability is higher and the interests of concerned groups are not represented by local and national authorities. For example:

- The oversimplification of complex issues leads to an inadequate response (e.g. border closures).
- The exclusion of potential programme participants and local and European civil society from decision-making processes as they are wrongly perceived as less relevant to a debate that is focused on militarised solutions.
- The exposure of European donors to allegations of complicity in human rights violations executed by partner governments when conducting counter terrorism operations, or implementing efforts to tackle migration (for example, accusations that European government are complicit in Libyan authorities' abuse of migrants<sup>10</sup>).

Flexible instruments that adopt a security-focused approach to development are likely to exacerbate the risks listed above. For example, Oxfam's research into the EUTF Africa revealed that the instrument's flexible nature allowed for at least half of the budget allocated to peacebuilding, security and countering/preventing violent extremism to fund securitised projects rather than community and human focused projects. Similarly, the instrument's securitised approach resulted in insufficient safeguards, decisions taken without consultation, and insufficient attention to conflict-sensitive measures and 'do no harm' principles. The EUTF's securitised approach to migration also resulted in 97% of the budget allocated to migration management funding migration containment, rather than projects that enhance migration's positive contribution to development and ensuring migration is safer and more orderly.<sup>11</sup>

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<sup>9</sup> These and other risks were identified in the mid-term review of the Instrument contributing to Stability and Peace (IcSP). See: External Evaluation of the Instrument contributing to Stability and Peace (2014 – mid 2017), Final Report (June 2017).

<sup>10</sup> Amnesty International (2017). Libya's Dark Web of Collusion: Abuses against Europe-bound refugees and migrants.

<sup>11</sup> Oxfam (2017). An Emergency for Whom? The EU Emergency Trust Fund for Africa – migratory routes and development aid in Africa.

To address these risks, security-focused instruments should adopt a ‘do no harm’ approach and include conflict sensitivity reviews, encompassing analysis and mitigation of potential harm and a gender dimension. They must always be centred around *human security* – that is, measures that focus on people’s need to be and feel safe and secure in their environment, not on the needs of states. Human security measures are at the centre of development practice and form the core of the EU’s approach to stabilisation. The EU’s security instruments should also be designed to promote respect for human rights and fundamental freedoms, good governance, national ownership, democratic control and oversight, rule of law, integrity, transparency, inclusiveness, accountability, sustainability, and gender sensitivity<sup>12</sup>. They should be based on assessing, in a participatory way, the security, safety and protection needs of different groups, including the specific needs of women, minors and minority groups<sup>13</sup>.

**d) An independent and robust humanitarian aid instrument: Is the EU doing enough?**

**The next MFF should maintain a separate instrument and budget line for EU humanitarian aid to ensure the independence of humanitarian action and an increased initial allocation to allow a timely, efficient and need-based response to humanitarian crisis. The increased allocation for the humanitarian aid budget line should be at a minimum 2 billion euros per year.**

According to the Global Humanitarian Aid Report, in 2016, 164 million people in 47 countries were in need of humanitarian assistance and over 65 million were forcibly displaced. Recent years have seen an average 40% shortfall between the level of need and funding, while more and more crises are protracted. The needs are increasing due to a number of factors ranging from enduring conflicts to the effects of climate change.

While there are closely recognised linkages between humanitarian crisis response and long-term development aid<sup>14</sup>, a separate instrument and a specific budget line for EU humanitarian aid in the next MFF is crucial to enable humanitarian decision making at the Commission level to remain independent from security and geopolitical interests.

While we recommend keeping a separate instrument for humanitarian aid, we also recognise the need for the EU to address in a more integrated and effective way the underlying vulnerabilities and needs resulting from situations of fragility, conflict, protracted crisis and forced displacement. The implementation of the humanitarian-development nexus approach should allow for the EU to define and deliver collective outcomes, by working collaboratively and in complementarity across institutional boundaries while fully respecting humanitarian principles, and seizing synergies to achieve the SDGs. From a humanitarian funding perspective, it should particularly enable longer term humanitarian funding strategies through multiyear funding and planning and ensure the necessary synergies and connections with development programming.

The next MFF should provide an increased allocation for the humanitarian aid budget line covering all humanitarian aid programmes managed by ECHO, for a minimum of 2 billion euros per year. The current budget architecture and levels of funding, systematically push ECHO to use budgetary

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<sup>12</sup> Council Conclusions on EU-Wide Strategic Framework to Support Security Sector Reform (SSR), Brussels, 14 November 2016, 13998/16.

<sup>13</sup> Joint Communication to the European Parliament and the Council: Elements for an EU-wide strategic framework to support security sector reform. JOIN(2016) 31 final, 5 July 2016.

<sup>14</sup> Council Conclusions on Operationalising the Humanitarian-Development Nexus, Brussels, 19 May 2017, 9383/17.

reinforcements (Emergency Aid Reserve) or other funding sources (EDF, assigned revenues and other EU instruments) to be able to meet humanitarian needs, demonstrating a consistent funding shortage. This negatively impacts the overall timeliness and efficiency of humanitarian responses by delaying funding made available to humanitarian partners to respond to new emergencies, or by releasing funding in multiple rounds throughout the year for protracted crisis. By enacting a robust humanitarian budget from the start, the MFF enables predictable funding for foreseeable needs and crises, as well as the necessary flexibility to react to new emergencies.

Further, the next MFF should foresee at minimum an equal level of commitment and payment appropriations for the humanitarian aid budget line. Due to the nature of humanitarian aid, which responds to emergency situations, the entire commitments are usually contracted and payments must follow during the same financial year. In the past, the gap between the level of commitments and payments has led to a liquidity shortfall in ECHO which has negatively affected the delivery of humanitarian aid operations.

**e) Climate change: Is the EU taking seriously the biggest problem for our planet?**

**The EU should demonstrate leadership in the face of one of the most pressing challenges facing the world today, by ensuring that development funding fully addresses climate change commitments and that climate action is mainstreamed into development funding. Dedicated climate finance needs to be new and additional to pre-defined development aid allocations.**

There has been significant progress in the area of climate change and environment mainstreaming in the EU budget. However, more remains to be done to systematically and effectively integrate these themes across all sectors of EU co-operation, particularly in light of the commitments made under the Paris Agreement. This requires the EU to not only meet its climate specific spending target, but also that the whole EU budget, including the development cooperation instruments, has to be 100% climate proof<sup>15</sup>. Commitments under the Paris Agreement (Article 2, para C) require “*making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*”.

Globally, the most vulnerable people and communities are losing out twice: they are hardest hit by climate change that they did least to cause, and they are being neglected by funds that should be helping them<sup>16</sup>. To support adaptation efforts and climate resilience in the EU’s partner countries the EU should commit to ring-fencing and providing at least half of all public climate finance support to adaptation measures, and guarantee that support provided will target and reach the most vulnerable people and areas facing climate impacts.

As committed to in the Consensus for Development, the EU External Funding Instruments should ensure that climate and environment considerations are embedded in all levels of decision-making and action, which implies mainstreaming of climate change and environment at headquarters and EU Delegation level, and respecting the principles of policy coherence for development in all EU policies.

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<sup>15</sup> We refer to ‘climate proof’ as defined by the Climate Action Network.

<sup>16</sup> Oxfam (2016). Climate Finance Shadow Report 2016: Lifting the lid on progress towards the \$100 billion commitment.

## **II. Quantity of EU development and humanitarian aid: How much is enough?**

**There is a wide funding gap between what is provided and what is needed to attain commonly agreed development objectives. The appropriations for development cooperation and humanitarian assistance must be significantly increased, in real terms, in the next MFF for the EU and its member states to match existing political commitments with financial resources, and to respond to pressing needs. The EU and member states need to respect the 0.7% target and develop a roadmap on how it will be achieved in a timely manner.**

The consistent “topping up” of the current MFF in the past years demonstrates that the initial Global Europe allocations (Heading 4) were insufficient both to deal with the additional needs of unforeseen crises, and to live up to the EU’s long-term development commitments. This is why the post-2020 MFF must be of a scale sufficient for the EU to tackle emergencies as they occur while delivering the role the EU member states have assigned to it, including its role in the implementation - internally and globally - of the Sustainable Development Goals (SDG).

Collectively, the EU and its member states are the world's biggest provider of official development assistance (ODA). However, the commitment to the SDGs have significant resource implications. [The United Nations Conference on Trade and Development \(UNCTAD\)](#) estimates that achieving the SDGs by 2030 will take between US\$5 to \$7 trillion per year. Total investment needs in developing countries alone could be about \$3.9 trillion per year. At the same time, the current investment levels in developing countries leave a gap of about \$2.5 trillion annually.<sup>17</sup> While aid alone will not suffice to achieve the SDGs, aid holds a crucial role especially in Least Developed Countries and is key to upholding the principle of ‘leaving no one behind’ of the 2030 Agenda.

Besides the SDGs, other existing international commitments, including those set out in the Paris climate agreement, the Addis Ababa Action Agenda, and the Grand Bargain need matching resources. New commitments will require new resources, which needs to be foreseen in the financial framework to avoid the multiplication of new ad hoc instruments. In order to act responsibly in a volatile world, the EU and its member states must demonstrate strong and positive leadership. This also implies that the outcome of the negotiations between the UK and the EU-27 on Brexit should not negatively impact people in need as there is a shared objective and commitment to fight poverty and relieve suffering.

The [most recent OECD DAC report](#) shows that in 2016, the EU institutions provided \$15.7 billion in net ODA. The EU ODA grew steadily between 2003 and 2012, when it peaked at \$17.5 billion. This trend was however reversed in 2013. The EU institutions’ share of untied ODA (excluding administrative costs and in-donor refugee costs) was 62.3% in 2015; down from 65.6% in 2014.<sup>18</sup>

In 2016, the costs collectively by the EU and its member states for migrants, refugees and securitisation, all reported as aid, increased by 43% compared to 2015. This type of inflated aid spending either never leaves the EU and is spent in-country or illustrates the conditions imposed by the EU on third countries. The real aid gap between today’s spending and the 0.7% target, to which the EU and member states have collectively committed to and most recently re-endorsed in the 2017

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<sup>17</sup> UNCTAD (2014). World Investment Report 2014, p. 140.

<sup>18</sup> OECD (2017). Development Co-operation Report 2017: Data for Development.

EU Consensus for Development, actually amounts to 29.25 billion euros.<sup>19</sup> The EU and its member states should develop a clear and concrete roadmap on how the 0.7% commitment will be achieved in a timely manner.

### **III. How to build and deliver EU aid**

#### **a) Flexibility and predictability: Where is the right balance?**

**Flexibility and predictability are not necessary mutually exclusive. They can be complementary measures but have to be used in a balanced way to allow long-term planning and the ability to react in the short-term to changing circumstances. Flexibility measures should not allow any reallocation of committed development aid funds to serve non-development objectives. Flexibility should not be a substitute for additional funds when new needs arise.**

Flexibility and rapid response enable complementarity and cooperation between humanitarian and development interventions. However, the approach of mixing funds and adopting flexible ways of operating can also be manipulated to promote internal political agendas if there is insufficient accountability, supervision and consultation.<sup>20</sup> To maintain a balance between the flexibility and predictability of EU development aid, and to respond to unforeseen situations without overlooking emergency situations elsewhere, the following principles should be respected:

- In accordance with development effectiveness principles, flexibility of ODA spending must be justified by changes in the situation to serve a crisis-affected population in partner countries, and not by changing political priorities within the EU.
- The need for separate, additional funding cannot be substituted by increasing the flexibility of development instruments (as with EUTF for Africa) which risks depleting the resources needed to fight poverty and inequality.
- Exceptional unforeseen needs should be covered by a more substantial flexibility instrument and by global margins – on both commitments and payments – that apply to the whole MFF, not by relying on the possibility of reallocating funds between MFF Headings.
- Flexibility under each MFF Heading should be ensured by establishing contingency reserves for the main financing instruments, and harmonising the levels of reserves across those instruments. It should be ensured that, despite transfers of funding, they still support the initial objectives of each one.
- Uncommitted funds or de-committed funds in one year should be used to increase the volume of the contingency reserves for the following year.
- A separate reserve should be maintained specifically for humanitarian aid, and the relevant budget should be increased to take into account the fact that the humanitarian aid reserve has been constantly mobilised during the current MFF period, indicating an insufficient level of initial commitments.

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<sup>19</sup> CONCORD Aid Watch (2017). EU Aid Uncovered. How to reach the Target on Time.

<sup>20</sup> Oxfam (2017). An Emergency for Whom? The EU Emergency Trust Fund for Africa – migratory routes and development aid in Africa.



- Ensure that flexible aid modalities are supplemented by transparent and rigorous reporting and scrutiny to ensure that development aid objectives and principles are respected. This is especially important in relation to the migration, security and development nexus.

**b) The EDF: Budgetised or not – and under what conditions?**

**The question of whether the European Development Fund (EDF) should be budgetised or not must be guided by considering what the implications of either option on the quantity and quality of the EU's development and humanitarian cooperation resources are.**

The outcomes of the negotiations related to Brexit and the future of the Cotonou Agreement will inherently impact the EDF. In this process, the EU and its member states should not lose sight of the long-term development goals of the EU, as formulated in the Lisbon Treaty and the new Consensus on Development.

Integration of the EDF in the MFF and the EU budget would allow a simplification of financial instruments, and an increased political scrutiny by the European Parliament, which could lead to an increased democratic accountability. However, it is crucial to ensure that the EDF budgetisation does not lead to an overall decrease of EU development aid, which would be detrimental to the achievement of the development objectives, including under the Agenda 2030. In our experience, the development budget (Heading 4) has been the first to be reduced when the EU institutions negotiate the annual EU budget. If brought into the MFF and the EU budget, the EDF should not be subjected to political negotiations with other Headings in order to serve the EU's internal objectives. Funding should remain, at minimum, at the same level as currently (30.5 billion euros for the period of 7 years).

If the EDF is to remain outside the MFF and the EU budget, there is a need to ensure increased accountability and transparency of funding decisions. Recently, we have observed allocation of EDF resources to the 'EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa' (EUTF) - a fungible instrument that mixes together several budgets and objectives. One of the concerns is that the EDF resources are mixed with DG HOME funds for stemming irregular migration towards Europe, hence obscuring the development objective of the EDF. Greater accountability and transparency is needed to guarantee that funds will not continue to be diverted to objectives other than poverty eradication and supporting partner countries in their efforts towards sustainable development.

If the EDF remains outside the MFF it is also essential to ensure consistency with other EU External Funding Instruments which are directly regulated by the MFF structure. Currently being outside the multiannual financial framework and the legislative pieces governing it, the EDF has had the benefit of greater flexibility and fast reaction in case of unexpected events. However, the flexibility bears a risk of insufficient safeguards to ensure continued commitment to development aid objectives; as was witnessed in the case of the EUTF. Also, the Instrument contributing to Stability and Peace (IcSP) funded by the EDF, allows for military-related spending that otherwise could not be allowed under the MFF and the EU budgetary framework. The nexus between development and security needs to be clarified and be subject to a transparent decision-making process involving all stakeholders, including the civil society (cf. Sections 2 and 3 above on the development-migration and development-security nexuses).

**c) Blending and private finance instruments: What role for the private sector in EU development cooperation?**

**The new MFF should ensure that where the EU seeks to leverage or co-finance programmes with the private sector, financial and development additionality is demonstrable, risks for people and the environment are effectively minimised, women's rights and economic opportunities are enhanced rather than reduced, and the public sector is strengthened rather than undermined.**

With the creation of the External Investment Plan (EIP) and the European Fund for Sustainable Development (EFSD), blending is becoming a larger part of how the EU delivers its external assistance in partner countries. What will be different about this new MFF is that blending has gone from one of many modalities in the toolbox – such as budget support, grants or loans – to an instrument in itself. Blending is now designed, by way of the EIP, to mainstream the focus of development cooperation towards building a favourable investment climate in partner countries and then to provide guarantees and blending mechanisms to enable investments.

Increased reliance on private finance and blending facilities brings about a number of risks to future European development cooperation. In particular, there is poor evidence on impacts, including data on financial, development and value additionality, as well as poor monitoring and evaluation of current blending facilities<sup>21</sup>.

Blended finance has an opportunity cost: every euro invested in blending is a euro taken away from other uses such as investments in public services that are equitably accessible to all; in institutions such as the judiciary that challenge discriminatory norms; in representative civil society organisations that elevate marginalised voices. Yet none of these investments lend themselves naturally to blended finance, so an increase in blending is also a missed opportunity to support development outcomes that matter most to marginalised people.

The opportunity cost of blended finance is made even more acute by the fact that blending tends to draw concessional public resources to middle income countries, at the expense of least developed countries where alternative financing options for essential public services are especially scarce.

Therefore, the EFSD should not be increased in terms of guarantees higher than in the current MFF until an independent evaluation is carried out showing that development effectiveness principles, as laid out in the Busan Partnership, have been adhered to, and that robust environmental, social and human rights safeguards are in place. It remains crucial that the majority of EU aid continues to be directed to support the public sector, conflict prevention, good governance, small-scale agricultural producers and civil society. These investments help countries develop so that they will be in a position to attract private sector investment. For example, a healthy, educated workforce and well-functioning governance systems are key factors as to where responsible firms choose to invest. The EFSD regulation explicitly stipulates: *“The EFSD guarantee should not be used to replace government responsibility for providing essential public services”* (Art. 23)<sup>22</sup>. It will also be important to promote

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<sup>21</sup> Oxfam (2017), *Private Finance Blending for Development: Risks and opportunities*; ADE and COWI (2016), *Evaluation of Blending. Final Report Volume I – Main Report*; Eurodad (2017), *Mixed messages: The rhetoric and the reality of using blended finance to ‘leave no-one behind’*.

<sup>22</sup> Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund.

an enabling environment not only for (local) private sector to flourish – but for CSOs and trade unions to operate freely which helps to hold up high standards for corporate behaviour.

#### **d) Architecture of External Funding Instruments (EFI)**

**Simplification of the External Funding Instruments should not dilute the priorities of the current EFIs, already proved relevant, and should not sacrifice the need to explicitly outline thematic and geographic priorities. The new EFI architecture should include a 100 percent ODA eligible instrument. Simplification should not lead to a reduction of the budget of the existing ODA-focused instruments.**

The current External Financing Instruments (EFIs) have generally proved fit for purpose<sup>23</sup> but have also faced enormous challenges, including political trade-offs between the promotion of development in partner countries and EU internal interests. The limited aid resources and the combination of internal and external crises leading to financial transfers among Headings and instruments have stretched the EFIs to their limits.

The new MFF should guarantee more transparency and accountability through the development of solid and consistent evaluation mechanisms and systems to measure progress and impact on development, using human rights comprehensive approaches.

The simplification of the existing architecture represents an opportunity to avoid duplication and ensure greater coherence and complementarity among the existing instruments. Simplification should not however dilute the goals and priorities of the current EFIs, already proved relevant. Simplification should not sacrifice the need to explicitly outline thematic and geographic priorities to address the complexities and different nature of development challenges worldwide. Simplification should also not lead to a reduction of the budget of the existing ODA-focused instruments.

The new architecture should include a 100% ODA-eligible instrument for development cooperation in all developing countries, regardless of GDP, and should include a combination of geographic and thematic programmes with local, national, regional and global coverage.

External evaluations have pointed to the difficulties of geographic instruments in promoting human rights and democratic values and have emphasised the relevance of thematic instruments and their ability to engage in crisis response, human rights and democratisation in deteriorating contexts without approval of national authorities. The new architecture should also include a Human Rights and Democracy Instrument. The worldwide and comprehensive approach of the current European Instrument for Democracy and Human Rights (EIDHR) despite its small budget, has been crucial to advance and consolidate human rights in the EU's external action. It needs to be preserved and enhanced in the new architecture, including the wide array of mechanisms and grant types applied.

The architecture of the EFIs in the next MFF should ensure greater responsiveness, efficiency and impact to countries' development priorities and needs. However, the new MFF should reconsider the way the "differentiation principle" is currently applied to developing countries "on sustained growth

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<sup>23</sup> Report from the Commission to the European Parliament and the Council. Midterm Review Report of the External Financing Instruments. COM(2017) 720 final, 15 December 2017.

paths". Gross domestic product (GDP) should not be the sole criteria to exclude middle-income countries from EU development bilateral grant aid. Paradoxically, these countries are the most affected by inequality, violence, human rights violations and the shrinking space for civil society. The new EFI architecture should pursue cooperation with all developing countries, regardless of their GDP, and should continue supporting the capacities and work of local and international CSOs in middle-income countries to i) reach out to populations increasingly affected by dire rates of poverty, inequality and human rights violations; and to ii) hold governments accountable for inclusive democracy and good governance.

The EU acknowledgement<sup>24</sup> of civil society's crucial contribution to lasting development and democracy, combined with the increasingly restricted space for civil society worldwide, needs to be reflected in the new architecture of the EFIs. As discussed in the EU CSO Structured Dialogue in 2017, the new architecture should integrate CSOs as crucial actors in the whole cycle of EFIs, from conception to evaluation. More funding and support should be channelled to CSOs through all thematic and geographic instruments and a specific and dedicated instrument to support CSOs should be kept in the new architecture. The new architecture needs to diminish the difficulties and bureaucratic obstacles encountered by civil society organisations in securing funding under the current instruments, and should complement Calls for Proposals with new funding mechanisms better adapted to the needs of all types of CSOs – small and large, local and international. The goal of long lasting and inclusive development will only be achieved through a solid architecture of EFIs based on strong partnership with an empowered civil society at global, regional and local levels, inside and outside Europe.

#### **IV. Where we come in – the crucial role of civil society**

**The MFF should support and finance active citizenship as a critical enabler in the fight against poverty and in pursuit of social justice and equality. Dedicated funding and political support is required to strengthen the so-called citizen-state compact in partner countries, which is necessary to drive development progress.**

How a government supports and responds to the needs of its citizens, and how citizens engage with and hold their governments accountable, are at the core of development. The MFF should support initiatives that increase empowerment, active citizenship and policy influencing rather than favouring 'service delivery' projects. The MFF should make funds available to development programmes that explicitly address threats to civic space in partner countries, and work on issues such as freedom of expression and association. Ultimately, EU aid should enable countries to be owners of their development process. To promote democratic governance and human rights, the EU should take measures to strengthen the citizen-state compact; a compact between active citizens and effective, accountable governments. This entails actively breaking down barriers to participation, decision-making and accountability. It also entails supporting citizens, including marginalised groups, in partner countries to organise and demand that their governments invest resources wisely and accountably, for the benefit of all people. The MFF must help the EU counter the alarming decline in civic space in

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<sup>24</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. The roots of democracy and sustainable development: Europe's engagement with Civil Society in external relations. COM(2012) 492 final, 12 September 2012.

recent years – both in the global North and South. Policy dialogue with civil society should be institutionalised at partner country level as well as within the EU.

As outlined in the previous section, to ensure that civil society can play its role effectively, more funding and support should be channelled to CSOs through all thematic and geographic instruments, and a specific and dedicated instrument to support CSOs should be kept in the new architecture. The MFF must also entail sufficient resources to operate the EU External Action Services, at headquarters and in EU delegations. Adequate staffing, both in terms of numbers as well as development and humanitarian aid expertise is required to manage and engage meaningfully in humanitarian and development programming, including consulting and cooperating with local civil society and providing support to small-sized CSO projects.