International Development Cooperation After Brexit

Written evidence submitted to the House of Lords EU External Affairs Sub-Committee by Mikaela Gavas

This written evidence is submitted by Mikaela Gavas from the Center for Global Development (CGD), an independent, non-partisan think tank with offices in Washington, DC and London, UK. CGD conducts research and analysis on a wide range of topics related to how policies and actions of the rich and powerful affect poor people in the developing world. CGD works closely with thought leaders, policymakers, and others to move ideas to action. CGD Europe is a UK registered charity. For more information and fully transparent disclosure of CGD's sources of funding please see http://www.cgdev.org/page/about-cgd. This submission represents the views of the author alone who responsible for any errors in fact or judgment.

Why should the UK and the EU cooperate after Brexit? In which thematic and/or geographic areas does the EU currently add value to UK development policy? What are the advantages and disadvantages to the UK participating in EU development programmes? What does the UK bring to EU development programmes and how significant would its absence be to the design and delivery of EU aid?

1. The EU and the UK are amongst the largest development spenders and influencers in the world. They have been multipliers for each other's development policies. The UK has brought a development surplus to the EU not only through its financial contribution, but also the technical expertise and experience that it has shared with the EU institutions and Member States. For example, the UK has championed the need for transparency and results in the EU and the EU has now built this into its approach. The UK has been recognised as an important voice in the EU and negotiating as the EU, it was more likely to secure UK objectives than acting alone, especially given the tendency in UN negotiations to adopt a "bloc" approach. For example, a "team EU approach", with a burden sharing agreement enabling individual Member States, including the UK, to lead negotiations on certain issues or goal areas paved the way for successful outcomes on the 2030 Agenda and the Conference of the Parties (COP) climate action agreements. The EU has offered the UK the reach of its extensive presence, access to its financial instruments and the opportunity to shape its policy, programmes and direction along with the other 27 Member States. They share common concerns, interests, values and commitments on development. Their development priorities are closely aligned and have, to a considerable extent, been shaped by the UK. And they both recognise that security and prosperity in Europe will only be guaranteed if peace and development can be fostered in other parts of the world.

2. From a UK perspective, the EU offers many distinct comparative advantages as a channel for UK aid and as a means of securing UK development objectives. In volume terms, the EU is largest multilateral player in the world, disbursing some €12 billion per year, and is present in around 140 countries in the world. The EU is the only donor in the world, aside from the United Nations, which has delegations in all fragile states. The EU's economies of scale reduce administration costs and allow the UK to be involved in many more countries (including a number of Commonwealth countries) than its current 28 priority target countries. The UN and its agencies have a global political authority, but not the capacity to disburse on the scale or with the variety of instruments available to the EU. The World Bank and other multilateral development banks have the financial resources, but neither the voice on trade, nor the role in foreign and security policy that the EU

has. The regional development banks lend long term but generally do not engage in humanitarian crises as the EU does. Furthermore, the EU has a depoliticised persona that enables it to provide aid directly to non-state actors.[1]

3. In 2016, DFID's Multilateral Development Review (MDR) examined 38 agencies which receive more than £1 million of annual core funding from DFID. It assessed their organisational strength and alignment to UK objectives. The EU institutions were rated 'good' or 'very good' among the top 6 multilateral organisation in the MDR.[2]

4. In terms of allocation, development aid through the EU budget has been criticised as a result of the large share (43%) going to Upper Middle-Income Countries (UMIC's). Between 2015 and 2016, only 27% of EU ODA went to Least Developed Countries (LDCs), which is a low proportion compared to the country averages of OECD Development Assistance Committee (DAC) donors at 40%. At the same time, Middle-Income Countries have seen an increase in their assistance from the EU as a result of conflict that has caused massive forced displacement and severe humanitarian emergencies. These countries include Turkey, West Bank and Gaza Strip, Syria and Ukraine.[3]

5. Furthermore, multiplication of actors in the collective increases the likelihood of the EU 'spreading itself too thinly' in order to satisfy Member States' engagement on development issues. Member States try to shape EU development policy by 'uploading' their policies and objectives to the EU level. They usually have different external-relations priorities that influence their preferences concerning where development investments should be directed. Thus, EU policy tends to be a compromise or composite of many Member States' policies.

6. Nevertheless, within the EU, the UK has had a discernible influence on the allocation of funding. In terms of countries, the Commonwealth countries have benefitted (particularly in Sub-Saharan Africa). With the UK's departure, France will have a more significant role without the UK and may see an opportunity to reorient the EU's focus towards Francophone Africa. Germany, Denmark and Sweden will remain important. Eastern and Southern European voices in the Council are already becoming relatively more influential and may also skew allocation. The British Overseas Territories will lose access to EU development funding altogether, as they have to date benefitted from financial support based on their link to the UK as an EU Member State.

In its White Paper of July 2018, "*The future relationship between the United Kingdom and the European Union*", the UK Government set out its intention to continue to collaborate closely with the EU on three key development areas: peace & security, humanitarian aid and migration. In your view, in which thematic or geographic areas should the UK seek to cooperate with the EU after Brexit? Please explain your reasons.

7. As a funding channel, the Directorate-General for European Civil Protection and Humanitarian Aid Operations (ECHO) offers a number of advantages. ECHO is the third largest humanitarian donor globally and as such a critical part of the humanitarian system. It has global reach – its scale enables it to maintain field presence in more than 40 countries – including in areas such as the Sahel and Latin America where DFID has little presence, and it funds at scale in UK priority countries such as Syria and Somalia. In recent years the UK has contributed approximately a fifth of ECHO's budget, bringing with it significant influence over this important humanitarian donor.

[1] Gavas, M (2013). The UK & Europe: Costs, Benefits, Options, Regent's University, London

[2] HMG (2016). Raising the Standard: The Multlateral Development Review 2016

[3] OECD (2018). OECD Development Co-operation Peer Reviews: European Union 2018.

DFID and ECHO have worked closely together, with key synergies in agendas such as cash transfers and resilience.

8. The EU is one of the key actors to support good governance, human rights and democracy. As a supranational organisation, the EU's support is seen as more legitimate in this area than that of the bilateral donors. In terms of financial resources, the EU has allocated more funds to support governance, democracy and human rights than any Member States. Due to its worldwide presence, the EU can promote this agenda in cooperation with more partner countries than any Member State. Furthermore, the EU can take higher fiduciary and reputational risks than its Member States and has specific financial instruments and aid modalities that Member States are presently politically unable to implement. This is particularly true for the EU's state-building contracts in fragile states and sector budget support. Evidence suggests that the EU's State-Building Contracts have proved to be a flexible instrument, enabling the EU to develop rapid support mechanisms in line with donor commitments in the New Deal for Engagement in Fragile States.[4]

9. Both the UK and the EU highlight private sector involvement as key to future development assistance, but only the EU has the variety of instruments that allow for meaningful partnership with the private sector, including blended finance and guarantees. The EU has been at the forefront of promoting blended finance, which combines budgetary grants with loans or equity from public and private investors to mobilise additional finance for investment in partner countries by increasing the risk adjusted return of development projects. Since 2007, the EC has established eight regional blending facilities covering the entire geographic range of its development cooperation. Additionally, various thematic initiatives use blended finance, including the Agriculture Financing Initiative (AgriFI) and the Climate Finance Initiative. According to the EC's most recent estimates, €3.4 billion worth of EU grants have financed over 380 blended projects via the facilities. These grant contributions have leveraged approximately €26.2 billion of loans by European development finance institutions (DFIs), unlocking investment with a total estimated value of €57.3 billion in partner countries.[5]

How could the UK and the EU cooperate after Brexit and what could this look like in practice? Would it be desirable for the UK to participate within existing frameworks for third country participation? What alternative frameworks could be devised? How might these be structured and what level of influence might they give the UK over EU development policy?

10. The UK contributes around £1.5 billion to EU development programmes every year, 11% of the UK's total Official Development Assistance (ODA) spend. Of this contribution, approximately one-third consists of payments to the European Development Fund (EDF) for African, Caribbean and Pacific (ACP) countries, along with overseas countries and territories (OCTs). The remainder constitutes the contribution towards the development share of the EU budget, which finances a number of thematic and regional external action instruments. The EU is the largest channel for UK multilateral ODA (31.1%).[6]

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[4] See: https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9676.pdf

[5] European Commission. Blending operations. Retrieved from: frhttps://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blendingoperations_en

[6] HMG (2017). Statistics on International Development 2017

11. UK ODA forms a significant component of the total EU aid budget. The UK provides 15% of the EDF's current multiannual funding[7] (€4.5 billion in 2013 prices), and in total, UK contributions made up around 8% of all ODA spending by EU institutions in 2016.[8]

12. The UK has said it will remain a committed partner to the EU - and has called for a deep and special partnership that goes beyond existing third-country arrangements. The Prime Minister has said that the UK will coordinate some of its development aid with the EU budget, but it will not commit to doing so until the exact Brexit deal is settled, after the EU has finalised its post-2020 budget.

13. According to the Withdrawal Agreement, the UK will continue to contribute to the implementation of EU programmes and activities – both through the EU budget and the EDF – until the end of the current Multiannual Financial Framework (MFF), which runs until the end of 2020. DFID expects UK ODA through the EU to continue to represent a similar proportion of the UK's total ODA until 2020, after which it should start to decline in both absolute and relative terms.[9] Based on the spending profile of the last MFF, the tail would come to an end by 2026.[10] However, the level of influence it will hold in this transition period will be reduced. UK participation in management committees will be limited to observer status, without any voting rights.

14. Although third countries may contribute to most of the EU's development finance instruments, they do not allow for governance and oversight by non-Member States. The exceptions are the EU trust funds. Third countries can contribute to and have some management influence over these funds through seats on the strategic boards and operational committees. However, the European Commission has a veto on the decisions of the strategic boards.

15. To facilitate cooperation beyond this post-2020, the UK has suggested that the EU offer "open" instruments to which any donor can contribute; in return receiving rights of voice over funds in line with the level of contribution.[11] However, there is little evidence that this suggestion is being considered by the European Commission. The draft EU Regulations for the Financial Instruments under the next MFF (2021-2027) make no reference to opening up the instruments to non-EU Member States.[12]

16. DFID has identified a case for future cooperation with the EU focused on specific areas of EU advantage. These are humanitarian aid, migration and peace and security. However, DFID has emphasised that any future support to the EU will need to be matched by governance and oversight in order to track UK funds and ensure value for money.[13]

17. It is, however, unclear why these specific areas have been identified. Whereas there is arguably an evidence-based case to be made for continued engagement with the EU in pooling

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[7] https://ec.europa.eu/europeaid/sites/devco/files/internal-agreement-11edf-2013-2020_en.pdf

[8] https://ec.europa.eu/europeaid/sites/devco/files/internal-agreement-11edf-2013-2020_en.pdf

[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/759019/25_November_Agreement_on_the_withdrawal_of_the_United_Kingdom_of_Great_Britain_and_Northern_Ireland_from_the_European_Union_and_the_European_Atomic_Energy_Community.pdf

[10] UK-EU Development Co-operation, HC 1023, Written evidence submitted by DFID

[11] International Development Committee, Oral evidence: UK-EU Development Co-operation, HC 1023, Q1

[12] https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-neighbourhood-development-international-regulation_en.pdf

[13] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/international-development-committee/ukeu-development-cooperation/oral/87000.pdf

humanitarian aid and leveraging on the EU's unique instruments and capabilities to promote peace and security, it would seem that there is less of a clear-cut case on migration. The EU's external response to the migration crisis has been incoherent and fragmented and it has uncovered the tensions between short and long-term objectives when it comes to security, migration and development. For example, return and reintegration policies have diverted attention from the process of wider economic and political reform and obstructed development objectives in partner countries.[14] In addition, the insertion of readmission clauses in certain agreements has complicated negotiations with third countries. The EU has been criticised for lacking a long-term vision on migration and contributing to human rights violations of migrants.[15]

18. On humanitarian aid, the UK has proposed close collaboration with ECHO to continue and to go further than current third country access.[16] The avenue for channelling funds through ECHO is the External Assigned Revenue Facility (a procedure covered by Article 21 of the 2012 Financial Regulation) which provides for contributions to EU programmes by EFTA countries, including Norway and Switzerland. However, the Facility does not confer any governance or oversight authority to non-EU contributors and thus would be incompatible with the UK's 'red line'.

19. On migration, the UK has proposed open and enabling partnerships which give a voice to key actors and pooling of resources.[17] DFID's rationale for continued engagement on migration is that the EU has well-developed frameworks for dialogue and cooperation with partner countries on the African and Eastern Mediterranean/Western Balkan routes and, in the last three years, it has more than doubled its funding to meet the migration challenge.[18] Most of the EU's resources for the external aspects of migration are channelled through trust funds which receive contributions from non-EU donors like Norway. Three trust funds have been set up to provide humanitarian relief and tackle the root causes of migration in Africa, Syria and Turkey: the Facility for Refugees in Turkey (UK commitment of €327.6 million); the "Madad Fund" for the Syrian crisis (UK commitment of €3 million); and the Emergency Trust Fund for Africa (UK commitment of €3 million). However, although non-EU donors may sit on the strategic boards and operational committees of the trust funds, the Commission has a veto on the decisions.

20. On peace and security, the EU's geographical reach extends far beyond the UK's bilateral footprint with programmes in North and West Africa and the Eastern Partnership where the UK has limited presence. The proposed European Peace Facility (EPF), whose stated objectives include capacity-building for security forces in developing countries and support for peace support operations led by non-EU bodies (such as the African Union), has been discussed as an avenue for future cooperation on the peace and stability objective. Open to third country contributions for specific activities, the UK has expressed an interest in using this as an avenue for continuing support for peacekeeping operations in Africa, which it currently supports – in part – via the EU's African Peace

[14] See: https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/10166.pdf

[15] See: https://www.amnesty.org/en/latest/news/2017/12/libya-european-governments-complicit-in-horrific-abuse-of-refugees-and-migrants/

[16] https://static1.squarespace.com/static/57610ac3f699bbc20e893f0a/t/5b3f6fb1aa4a990f94399316/1530884017962/UK+non+paper+May+24+.pdf

[17] Ibid.

[18] The EU has contributed €5 billion to three EU Trust Funds that have been set up to provide humanitarian relief and tackle the root causes of migration, in Africa, Syria and Turkey. The Member States have made voluntary contributions of approximately €2.3 billion to the Trust Funds. See: https://ec.europa.eu/commission/sites/beta-political/files/eu-trust-funds-factsheet-tallinn_en.pdf

Facility.[19] However, the EPF excludes third countries from votes taken by the EPF Committee even if it concerns operations to which they have contributed financially or in kind.[20]

21. According to DFID, the EU's financial instruments provide some added value by using the EU budget to leverage additional investment from the European Investment Bank (through the External Lending Mandate) and the private sector (through the European Fund for Sustainable Development) at scale, including in DFID priority countries. The European Commission's proposed new investment platform – the EFSD+ and the External Action Guarantee – will be open to all public and private investors, including those from third countries (though they would need to first undergo a "pillar assessment" to sign a guarantee agreement with the European Commission). However, the European Commission will have sole responsibility for oversight and management of the guarantee mechanisms.

22. Beyond financial contributions to EU instruments, the UK should find a way of contributing to and benefitting from the combined efforts of the EU. Joint efforts, joint mobilisation of financial resources and political efforts can enhance impact, leaving open possibilities for pragmatic workarounds for the UK and the EU to cooperate. Development being a parallel competence means that the connections depend on the voluntary acceptance of joint strategies, analysis and activities. This also means that those connections can exist after Brexit and indeed they already exist between the EU institutions and other European states such as Switzerland and Norway.

23. Joint Programming is a process in which the EU along with development partners (which can include both Member States and non-EU countries) carry out a joint analysis of a developing country, and then formulate a response which includes indicative financial commitments and a division of labour between partners based on their comparative advantages. Replacing EU contributions with Joint Programming would mean the UK spending this money bilaterally instead, albeit in coordination with the EU, Member States and other partners. This may increase the cost of administering these funds, and the level of influence the UK could command as a third country in the drawing up of these strategies will be significantly reduced. However Joint Programming can at least offer a setting where the UK can leverage EU and Member State expertise and networks, and vice versa. The EU allows third countries to contribute to 'joint programming' of aid at the country level.

24. EU Delegated Cooperation is a mechanism whereby the EU entrusts funds to a member state or third-party donor that is in a better position to lead on and implement a project. Delegated Cooperation might be particularly appropriate if one party or the other has specialist geographical or sectoral expertise which the other party does not. The EU has, to date, channelled around €190 million to Delegated Cooperation Agreement projects with the UK.

25. New country-level or regional-level joint UK-EU initiatives could be developed following France's initiative in the Sahel. In July 2017, France launched the Sahel Alliance, a joint initiative with Germany, the EU, the World Bank, the African Development Bank, and the UN Development Programme. The initiative aims to increase, better coordinate and accelerate international development assistance to the Sahel in order to address development and security challenges in the region. Its priority sectors are youth employment, rural development and food security, energy and climate, governance, decentralization and access to basic services, and security. Unique features of the Alliance include a focus on the most vulnerable populations, a donor accountability system and an emphasis on short-term, rapidly implemented projects with

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[19] Ibid.

[20] https://publications.parliament.uk/pa/cm201719/cmselect/cmeuleg/301-xxxvii/30112.htm

immediate impact. Italy, Luxembourg, Spain and the UK have subsequently joined the Sahel Alliance, a sign that the initiative has been successful in mobilising donors to support the region. In February 2018, the Alliance announced that it would invest €6 billion in aid in over 500 projects in the G5 Sahel countries between 2018 and 2022, an increase of 40 percent over current levels. These types of initiatives could be the groundwork towards forging a "special partnership" between the UK and the EU, recognising institutional and legislative constraints, and playing to the strengths of the various parties. They provide an opportunity to reduce transaction costs (for recipients as well as donors) and multiply impact.

What is the likely impact of the EU's proposed new Neighbourhood, Development and International Cooperation Instrument (NDICI) on future UK participation in or cooperation with EU development instruments? Could it make UK participation on a case-by-case basis easier or more challenging?

26. The draft NDICI Regulation contains a wide menu of options reflecting the contents of Agenda 2030 on sustainable development. In an effort to streamline existing financing instruments, it proposes merging eight external actions instruments into a single all-encompassing instrument, covering a geographic pillar focused mainly on the neighbourhood and Africa, a thematic pillar addressing global issues, a rapid response pillar for crisis management and conflict prevention, and a new investment architecture to crowd in additional resources building on the European External Investment Plan. This is an interesting construct which attempts to untangle the hybrid constellations of geographic and thematic cooperation, to break down the silos inhibiting collective action and greater impact, and to reconcile a values-based rationale for development with an interests-based one. It will entail a significant change in the way the EU engages with the rest of the world.

27. In terms of management and oversight of funds, this new construction will reduce the number of management committees in the Council. The European Commission foresees the creation of a single NDICI Committee of Member States. The draft NDICI Regulation contains no reference to arrangements for non-EU countries to participate in the management of EU programmes. However, it does note that a variety of actors from Member States and from outside the EU may have access to its funds and/or become partners to implement them at the EU's discretion.

28. The NDICI Regulation is still subject to amendments by the European Parliament and the Member States before its formal adoption. It is unlikely, however, that there will be an agreement that allows the UK to participate in the governance of EU funds at a strategic level. This is a reserved privilege for Member States. It is more likely that the EU agrees to participation by third countries at a working level in the Council, however without a vote on the multiannual and annual work programmes underpinning spending. Nevertheless, there is a balance to be struck between control and discretion of spending. If the UK were to contribute financially to a particular programme or instrument, a written clause in the agreement could allow for the UK to withdraw funding if it deemed the spending to be poor value for money.