Preparation of the multiannual financial framework regarding the financing of EU cooperation for African, Caribbean and Pacific States and Overseas Countries and Territories for the 2014-2020 period (11th European Development Fund)

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PURPOSE: to present the outlines of the future Internal Agreement on the 11th European Development Fund (EDF) for the period of the next financial framework (2014-2020).

BACKGROUND: this Communication and its annex are devoted to the 11th EDF and its financing for the period covering the next financial framework 2014-2020. It is based on the hypothesis of **Croatia's accession and its contribution to the 11th EDF**.

Note: the European Union maintains privileged relations with the African, Caribbean and Pacific (ACP) group of developing countries under the ACP-EU Partnership Agreement. In total, 25 Overseas Countries and Territories (OCTs) with constitutional links to Member States are associated to the EU through a regime based on the provisions of Part IV of the Treaty on the Functioning of the EU (TFEU) and the detailed rules and procedures laid down in the Overseas Association Decision (OAD) of 27 November 2001

The EDF is the main instrument for delivering EU assistance for development cooperation under the Cotonou Agreement with ACP States and for financing EU cooperation with the Overseas Countries and Territories. The EDF is funded outside the EU budget by the EU Member States on the basis of specific contribution keys. Each EDF is concluded for a multi-annual period. The 10th EDF Internal Agreement, establishing the resources of the 10th EDF and their share in broad sub-categories, covers the period 2008-2013, and includes provisions on implementation and financial monitoring.

In its Communication entitled "A budget for Europe 2020", the Commission underlined that it was **not appropriate at the present time to propose that the EDF be integrated into the EU budget** ('EDF budgetisation'). The integration of EU development cooperation with ACP States into the EU budget is foreseen for 2020, at the end of the 2014-2020 multiannual financial framework, coinciding with the year of expiry of the Cotonou Agreement.

This is the general context into which this Communication fits; it describes the main aspects likely to be covered in the Internal Agreement on the 11th EDF for the next period of financial programming.

CONTENT: the Communication presents the legal and strategic framework for the future EDF. The content and wording of the Internal Agreement will be decided by the Governments of the EU Member States. The adoption of this Internal Agreement would be followed by the adoption by the Council of an Implementing Regulation and a Financial Regulation for the 11th EDF.

Policy framework for the EU's development cooperation: the legal and policy context of EU development cooperation is defined by the Lisbon Treaty and includes a series of priorities and sectorial or transsectorial strategies such as, for example, combating climate change.

The overriding objective is still one of **reducing and eradicating poverty in developing countries.**

- As regards cooperation with ACP States, this EU legal and policy framework is complemented by the **Cotonou Agreement**, concluded between the members of the ACP Group of States on the one hand and the European Union and its Member States on the other. It runs for a twenty-year period (from March 2000 to February 2020), and entered into force in April 2003. It was designed to establish a comprehensive partnership, based on three complementary pillars: i) development cooperation, ii) economic and trade cooperation, and iii) the political dimension. The Cotonou Agreement provides for a revision clause which foresees that the agreement is adapted every five years. The second such revision was adopted in June 2010 by the ACP-EU Council of Ministers and has been applied on a provisional basis since November 2010.

- As regards the OCT/EU Association, the legal framework is more complex: i) provisions in Part IV of the TFEU; ii) the conditions and procedures laid down by several Council Decisions, the most recent of which (Council Decision 2001/822/EC) expires on 31 December 2013. The Commission is currently preparing a proposal for a new Council Decision which should enter into force on 1 January 2014 and which will constitute the political and legal framework for the 11th EDF implementation with regard to OCTs.

Main changes compared to the Internal Agreement for the 10th EDF: no major change is proposed compared to the structure of the 10th EDF.

Nevertheless, the main proposed changes are as follows:

- **Member States' contributions:** it is proposed to further align Member States' contribution keys under the EDF with the keys used for the EU budget;
- **Financial allocations:** the overall volumes proposed in Article 1(2)(a) for the 11th EDF for cooperation with ACP countries and OCTs are expressed in current prices to reflect more accurately inflation;
    - **support expenditure:** the requested funding represents 5% of the EDF credits which will be managed by the Commission. This reflects the Commission's wish to take more fully into account the real support expenditures made for programming and implementing the EDF, including the costs associated with the devolution of aid implementation and with enhanced monitoring;
    - **regarding intra-ACP and interregional cooperation**, Article 2(b) proposes to maintain the same share from ACP resources as in the 10th EDF. This envelope will be used in part to finance the new shock-absorbing scheme foreseen by the second revision of the Cotonou Agreement;
    - **following consultation of the European Investment Bank**, it appears that there is no need to replenish the Investment Facility, as sufficient funding is already available from reflows from the allocations of the 9th and 10th EDF, due to the 'revolving' nature of this Facility. However, this does not concern grants for financing interest rate subsidies and project-related technical assistance, for which an increased allocation (compared to the 10th EDF) is proposed to address the insufficient level of funding under the 10th EDF, to increase the scale of current activities and to allow for possible other types of blending mechanisms;
- **Regional B-envelopes and shock-absorbing scheme:** the second revision of the Cotonou Agreement foresees the creation of regional B-envelopes to cover unforeseen needs with a regional

dimension (Article 9(2) of Annex IV to the revised Cotonou agreement). It also provides for the creation of **shock-absorbing schemes to replace the current Flex** and other ad hoc shock-absorbing schemes. These new schemes should build upon the experience of V-Flex and the Food Facility and focus on exogenous shocks with a cross-country dimension. Article 2(c) therefore proposes to include these changes in the internal agreement for the 11th EDF;

- **EDF Committee:** a proposed system of voting weights in the 11th EDF Committee is included, based on the proposed contribution keys.

Resources of the 11th EDF: the proposed allocation is **EUR 34 275.6 million** (in current prices), funded by the Member States. This sum shall be made available to developing partners following the entry into force of the multiannual financial framework.

Of this amount:

- EUR 32 218.4 million shall be allocated to the ACP Group of States broken down as follows: i) national indicative programmes; ii) regional indicative programmes; iii) intraregional cooperation; iv) to cover unforeseen needs and to mitigate adverse short-term effects of exogenous shocks; v) the EIB Investment Facility;

- EUR 343.4 million shall be allocated to the OCTs;
- EUR 1 713.8 million shall be allocated to the Commission for support expenditure as referred to in Article 6, linked to programming and implementation of the EDF.

Specific provisions for the transfer of funds from previous EDFs: provisions are laid down for the mechanism by which **remaining funds for the 10th EDF may be transferred to the 11th EDF**. In any event, after 31 December 2013, or after the date of entry into force of the multiannual financial framework for the period 2014 to 2020 if this falls later, balances from the 10th EDF or from previous EDFs shall no longer be committed. Funds decommitted from projects under the 10th EDF or from previous EDFs after 31 December 2013 shall no longer be committed, unless decided otherwise by the Council unanimously, on the basis of a proposal by the Commission.

Specific provisions regarding the EIB: special provisions are envisaged to define the framework for action by the EIB, besides that already foreseen

In the context of the EIB Facility. A sum of EUR 2 600 million shall be granted by the EIB from its own resources in the form of loans to beneficiary countries to fund investment projects.

Implementing provisions: lastly, the proposal envisages a series of technical provisions laying down the framework for the EDF's implementation and the Commission's responsibilities in this respect (e.g. financial implementation, preparation of accounts, audits and discharge procedure). A review clause is also envisaged.

It should be noted that, to enter into force, the proposed Internal Agreement shall be approved and ratified by each Member States in accordance with its own constitutional requirements.