



DRAFT REPORT:
**Background Note on the post 2020 Debate and its
implications for OCTs.**

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TECHNICAL ASSISTANCE TO OCTA, EUROPEAID/130328/D/SER/MULTI

Authors: Veronica White, Carlos Illan.

Readers should note that the report presents the views of the Consultant, which do not necessarily coincide with those of the European Commission.

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LIST OF ABBREVIATIONS

AAAA	Addis Ababa Action Agenda
CARIFORUM	Forum of the Caribbean Group of African, Caribbean and Pacific (ACP) States
CPA	Cotonou Partnership Agreement
CSOs	Civil Society Organisations
DCI	Development Cooperation Instrument
DG DEVCO	Directorate General for Development and Cooperation of the European Commission
DG REGIO	Directorate General for EU Regional Policy of the European Commission
EDF	European Development Fund
EEAS	European External Action Service
ECOFIN	Economic and Financial Affairs Council
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
ENI	European Neighbourhood Instrument
EPAs	Economic Partnership Agreements
ERDF	European Regional Development Fund
ESF	European Social Fund
GNI	Gross National Income
LDCs	Least Developed Countries
LICs	Low Income Countries
MDGs	Millennium Development Goals
MICs	Middle Income Countries
HIC	High Income countries
MFF	Multiannual Financial Framework
NAO	National Authorising Officer for the EDF
OAD	Overseas Association Decision
ODA	Official Development Assistance
ORs	Outermost Regions of the EU
PCD	Policy Coherence for Development
RAO	Regional Authorising Officer for the EDF
SDGs	Sustainable Development Goals
SIDS	Small Islands Developing States
TFUE	Treaty of the Functioning of the European Union
UMICs	Upper Middle-Income Countries
UNFCCC	United Nations Framework Convention on Climate Change
VAT	Value-added Tax

1 EXECUTIVE SUMMARY

OCTs have traditionally operated in a rather stable environment characterized by reliable access to EDF funds and a special partnership with the EU, a situation which stands to be reassessed as a result of changes in the global development landscape. These changes include the new role of emerging economies, the adoption of the 2030 Agenda, the Paris Agreement at COP-21, and future of the ACP-EU relations after Cotonou Agreement on the one hand and the internal questioning by OCTs about the role they can play in this new framework and how to position themselves in the debates that will lead to the post-2020 scenario on the other.

In this framework, this study: a) identifies some of the major issues in the development landscape that will influence post-2020 discussions; b) analyses the implications of some of these trends for the future of the OCTs as a group and; c) helps identify which elements require further reflection by OCTs in the run-up to the post-2020 discussions.

New geopolitical realities: a multipolar world

The last 10 years have witnessed the rise of the emerging economies in a context of overall poverty reduction and a shift from old bipolar distinctions between rich and poor, developed and developing countries. These trends have marked a deep change in the global development landscape. The influence of the emerging economies in the international system has counterbalanced the classic donor-recipient approach and has given way to what is now known as “the rise of the South”.

The implications of these trends on the post-2020 debate are noticeable: on the one hand, the change in the international system reflects a loss of influence of the EU both on the international arena and vis à vis ACP countries. The so-called BRICS economies now offer access to more opportunities in terms of trade, investment, development and technical assistance. Despite this, there is a window of opportunity for the EU to show leadership in tackling global challenges along with emerging economies in the context of the post-2020 debates.

Socioeconomic differentiation in the ACP group (including reflections around similarities with the ORs)

Socioeconomic differentiation within ACP countries has increased in the last 10 years as a result of changes in poverty reduction and economic growth, introducing a new “geography of poverty” where the majority of poor people live in middle income countries. Socioeconomic differentiation has also implications at policy level: the EU “Agenda for Change” adopted in 2012 has reinforced the process of differentiation by focusing development efforts on the poorest countries; graduating aid for high-income countries and proposing a new mix of finance instruments to complement aid (e.g. blending). Differentiation will also be a key feature in 2030 Agenda as high-income countries are expected to graduate from EDF funds after 2020.

Among the EU “overseas”, EU Outermost Regions (ORs) are under a differentiated (but different) approach: the Treaty of the Functioning of the EU (Art. 349) provides for differentiated treatment to ORs so that they benefit from Cohesion Policy funding through the European Regional Development Fund and the European Social Fund in accordance with their respective level of development.

While OCTs are also associated to the EU through the Overseas Association Decision adopted on 25 November 2013, they are only eligible for EDF funding (with the exception of Greenland) as well as EU programmes from the EU general budget (e.g. research, education, innovation and competitiveness, culture and media).

Regionalization dynamics including trends and evolution in EU regional policies towards the Outermost Regions (ORs).

In the last 10 years, the regional approach has gained momentum in the EU to address key policy elements including trade (EPAs), foreign policy (JAES) and security (African Peace facility). This has led to the set-up of a number of regional platforms whose existence and rising influence stands to question the relative importance of the ACP structures and framework and the added value of the ACP block.

In contrast, the evolution in EU regional policies towards ORs has been more consistent over time: since 2004 the “wider neighbourhood policy” has sought to make ORs more competitive and integrated with countries around them. The EU efforts to integrate ORs in the single market and in their immediate geographical environment indicate the ORs are expected to contribute to the Europe-2020 strategy.

Emergence of a new global sustainable agenda: SDGs, finance for development and climate change.

Building on the MDGs’ experience and in view of the changes experienced in the global development and economic landscape since the adoption of the MDGs in 2000, a new agenda for development and sustainability has been agreed for the period 2015-2030. The 2030 Agenda rests on a new Global Partnership characterised by shared responsibility, mutual accountability, and engagement by all to contribute to the achievement of the SDGs. Three main elements of the 2030 Agenda will continue to influence the post-2020 debate:

- The Sustainable Development Goals: all countries at all levels of development, with their different capacities and circumstances, will be responsible for its implementation;
- Third UN Financing for Development Conference in Addis Ababa which provides the means of implementation to achieve the SDGs;
- The Paris Agreement: a legally binding framework to limit global warming to 2C.

Evolution in the EU external policies and the EU budget for development.

The last 10 years have also witnessed changes in the EU external policies with, as landmark, the adoption and entry into force of the Lisbon Treaty in 2009, adopted amid one of Europe's worst economic and financial crisis resulting in substantial and unprecedented cuts in the EU budget (960 billion € for 2014-2020).

In the same vein, the adoption in 2012 of the "Agenda for Change" marked a key policy change in EU development cooperation presenting a clear focus on good governance and human rights; an increasing role for the private sector; a shift towards increasing differentiation and graduation and an emphasis on donor coordination.

Another important element was the adoption of the Strategy concerning **Policy Coherence for Development** which aims to build synergies between different EU policies to benefit developing countries and increase the effectiveness of development cooperation. This is especially important in what has been called the "beyond aid" landscape where development assistance is progressively complemented with a mix of finance modalities for development.

Finally, the adoption of a EU development budget for 2014-2020 in a framework of austerity measures explains the Council's rationale to do "more with less". The idea would be to focus on the impact of the EU's public resources while reducing the scope of operations and the number of sectors and countries. The EU development budget also marks the steady transition towards "beyond aid" scenarios where ODA will be complemented with other sources of international and national public and private finance.

Stock-take of the post-Cotonou debate – emerging issues.

The Cotonou Partnership Agreement (CPA) will expire in 2020. Preparations for the negotiations about the future of the CPA have already began. In this respect, the EU (DEVCO and EEAS) launched various studies to reflect on the potential elements for change including internal and external consultations, and an impact assessment on the possible scenarios of an agreement after 2020. Two Staff Working Documents from the European Commission will be published in mid-June and late 2016. Negotiations with ACP countries will formally open no later than 1 October 2018. Both the EU and the ACP parties seem to concur on the fact that the CPA needs to transform its nature and adapt its content and instruments to contribute meaningfully to the post-2020 world.

A number of issues emerge from the analysis of the current debate:

- The main development framework of reference of any future agreement should be based on the **SDGs**. These goals are indeed more relevant to OCTs than the MDGs as they go beyond poverty reduction to encompass issues of priority to OCTs such as climate change and sustainable energy.
- Development aid will still be necessary but will no longer be the sole source of finance for sustainable development. Other private and public sources of finance (remittances,

- domestic resources, foreign direct investment, private sector and trade) will complement development aid to contribute to the objectives of the 2030 Agenda.
- The discussions emphasise the need to give pre-eminence to strategic issues for the EU, such as **migration, security and trade**. In addition, there is a readiness to see that the Agreement be integrated within the broader objectives of the European external action.
 - The focus on **regionalisation** gains pre-eminence in the discussions: the EU might seek to engage with the three A-C-P regions separately in the future. This raises the question about the added value of the ACP block.
 - The concept of **shared-responsibility** amongst development partners, in line with recent policy developments is gaining momentum in the ongoing debate. This would imply that ACP countries should share, together with the EU, the financial burden of the CPA running and the objectives it seeks to address, most likely through a differentiated approach.
 - The **budgetisation** of the EDF is being envisaged as option for the Commission, the majority of EU Member States and other development stakeholders (CSOs, think-tanks) after 2020.
 - The ACP position is based on the notion that status quo is not an option and that, therefore, the CPA needs to be adapted to the current context. The ACP group has also stated that it needs to diversify its partnerships in order to move “beyond Europe” and build “south-south” relationships and closer cooperation with other developing (and emerging) countries that are not ACP members.

Potential scenarios on the post-Cotonou partnership and implications for the OCTs

Without attempting to presume on the outcome of the discussions on the EU-ACP relations, the literature already consulted allows for the identification of at least two potential scenarios that could be envisaged in the post-Cotonou framework: 1: A “soft revised” agreement with almost the same structure and content and; 2: An agreement with major changes as to its content, scope and instruments.

Option 1 (light revision of the CPA): Revisions will centre primarily around rendering the CPA compatible with the 2030 Agenda. The cooperation with ACP countries will continue along the traditional 3 pillars: political dialogue, cooperation and trade, with the EDF as the main funding instrument but with more active participation of the private sector and further use of innovative instruments such as blending. The focus on differentiation will aim to streamline the future agreement with the EU Agenda for change and EU strategic interests (trade, security, migration...). Finally, the agreement could expand its geographical scope including Northern African countries and/or a limited number of other countries like the BRICS to increase consistency with regional strategic frameworks and forging new alliances.

Option 2 (major changes in content, scope and instruments): Regionalization will be main driver but under “ACP umbrella agreement” that retains the main principles of the ACP-EU relationship. The agreement will be streamlined with the 2030 Agenda but will put particular focus on “strategic” issues such as climate change/sustainable energy, migration, peace and security, trade and growth and investment. The regional scope of the agreement will privilege a special partnership with Africa while enhancing relations with the Caribbean and Pacific regions. Finally, important changes in the current institutional and governance structure of the CPA would be introduced such as more involvement of CSOs, a deep revision (including suppression) of the role of NAO/RAO and further use of innovative sources of finance such as blending.

Issues of the post-Cotonou negotiations of particular interest for OCTs

The analysis of the literature on the post-Cotonou discussions and the potential scenarios envisaged allow for the identification of a number of issues that might be of particular relevance and interest for OCTs for the future:

- The trend in regionalisation could **increase the profile of OCTs, notably those that have established themselves as hubs of technological/know-how transfers**. Regionalization will also call for increasing the efficiency and impact of EU public and private resources (i.e. better articulation between EDF-regional programmes involving ORs and ACP countries and OCTs programmes. The OAD is also expected to deliver more in terms of focus and results). Since EPAs are expected to play a central role in the regionalization dynamics, particular attention needs to be paid to the impact of these agreements in the OCTs;
- **Legal status of OCTs**: the assimilation of OCTs into ORs is not a new issue but the debate is revived in the context of the post-2020 discussions. The post-Cotonou discussions offer the possibility to reflect on the EU regional policies towards the Outermost Regions and raise the question as to **whether the distinction between OCTs and ORs should be abandoned after 2020**. For OCTs, the question at stake is whether OCTs would gain from being associated instead to the European regional policy with their development supported under the EU’s regional structural funds as is the case for ORs. Further analysis needs to be done in order to fully grasp the legal and financial implications of such decision on a case by case basis as it is unlikely that one single scenario would fit all OCTs. It is to be reminded that the ORs, being part of the EU, apply the “acquis communautaire” whereas it is not the case for OCTs in the frame of their current partnership with the EU.
- **Budgetisation** of EDF will have implications in the finance line of OCTs after 2020. This opens the possibility to reflect on setting up a separate instrument dedicated to OCTs;
- Any future agreement should recognise the need for flexibility in order to adapt the EDF rules to OCTs’ needs and capacities.

Crucial questions for OCTs in the post-2020 debate

The background note has highlighted a number of trends that will influence the discussions on the future of the Cotonou Partnership Agreement and, most generally, the development landscape after 2020. Changes at international level, notably the adoption of the 2030 Agenda and its means of implementation and the entry into force of the Paris Agreement, as well as changes at EU level, notably the debate about the future relations between the EU and the ACP group of countries and the forthcoming discussions on the next MFF, will test the ability of OCTs to adjust to and, to the extent possible, influence the post-2020 debate. Against this backdrop, some crucial elements that OCTs may want to consider in designing an OCTA position on post-2020 issues are presented below.

The added value of OCTs: climate change, renewable energy, growth investment and trade

OCTs are often considered as forerunners for ecosystem management in the face of challenges presented by climate change. Their wide biodiversity and geographical location make them privileged testing grounds to define and experiment with new strategies in the adaptation and mitigation to climate change. This experience could serve as a model for the EU and their neighbouring ACP countries. In addition, renewable energies represent a huge opportunity for OCTs willing to make the transition to a non-fossil fuel economy a reality. Some OCTs are now diversifying their economies and attracting private investors which see the islands as a good example of what could be replicated in other realities. There is political willingness of OCTs to serve as regional hubs and centres of excellence in this area. This “Export of Knowledge” could well be the OCTs’ next competitive export product.

The promotion of green growth is one the main areas of EU-OCTs interest as stated in article 5 of the OAD. Many OCTs have been compelled to rethink their development strategies and make the necessary investments to set out a transition towards a model of economic growth which is respectful to the environment. Public-led investments in windmills, solar parks, hydropower and waste to energy plants have attracted private investments and accelerated innovation. Trade can also create positive synergies in this context with the current focus on capacity building measures and the revision of the provisions on the Rules of Origin agreed in the current OAD.

The need to continue with a differentiated and preferential treatment in the management of OCTs’ dossiers

OCTA’s Interim Strategic Plan 2015-2020 and the Joint position paper on the “Future relations between the OCTs and the EU” of 2011 rightly highlight the need for a preferential management of OCTs’ dossiers (i.e., adjustments through derogations on procedures which are less relevant to OCTs). This calls for a better recognition of OCTs as part of the “European family” and implies an equal treatment for OCTs in the programming of funds by the

Commission Head Quarters and the regional European Union Delegations vis à vis the ACP countries.

The fact that differentiation becomes one of the key features after 2020 in the realm of development policy reinforces the OCTs' need for a special, differentiated treatment by the Commission. There is the risk that OCTs might end up being affected by a policy option mainly designed for ACP countries. OCTs are therefore called to use their institutional network to lobby on this particular issue, in particular at Council level through the EU Member States to which they are linked. Against this backdrop, the question of who will be managing the OCTs' dossiers after 2020 becomes crucial and calls for further discussion at OCTA members' level. Under a "business as usual" scenario, OCTs will continue under DEVCO's remit after 2020. This option might not fulfil the OCTs expectations to be treated differently vis à vis ACP countries if the main source of funding continues to be the EDF and OCTs dossier still fall under the EU external action.

Reinforcement of the dialogue instances of the OAD

The Political Declaration of the 14th OCTA Ministerial Conference presented in Brussels in February 2016 clearly identifies the challenge to reinforce the EU-OCTs instances of dialogue (OCTs-EU Forum; the trilateral consultations 4 times a year and; the working parties that follow the implementation of the Decision) by increasing the number of Partnership Working Party (PWP) meetings; reactivating the PWP on Trade, Investment and Growth and on the future OCT-EU partnership; and revisiting the methodology for the preparation of PWPs.

OCTA members may wish to assess to what extent these political instances have been effective in pursuing the objectives of the OAD and if they have been fully exploited in the run-up of the Post-2020 discussions. While OCTA has been rather successful in its lobbying efforts with the European Parliament some gaps still need to be addressed: Firstly, the presence of OCTs in the governance structures of the ACP group needs to be considered as an option. For instance, OCTA needs to be more proactive and further explore building stronger consultation mechanisms with ACP countries. Secondly, OCTA needs to redouble its lobbying efforts at Council level in similar vein to what ACP countries do. One option to explore is to encourage the Commission to engage in more political discussions with OCTs in the framework of trilateral OCTs-EU MS-Commission meetings.

A separate dedicated instrument for OCTs: preliminary reflections

The discussions about the creation of a separate instrument for OCTs date as back as the late 90's with the proposal for a "European Development Fund for the OCTs". This issue was again discussed during the negotiations on the current Overseas Association Decision. The arguments expressed at the time, and which are still valid today, highlighted the mismatch between the EDF's procedures and disbursements and the particularities and management capacities of

many OCTs, but above all the fact that the EDF does not reflect OCTs belonging to the “European family”.

The creation of a separate fund for OCTs deserves careful analysis based on some important considerations: first, if it will be possible to ring-fence at least same amount as the current funding line for OCTs in the EDF and; second, what will be the location within the Commission’s structure of such instrument. Two options would appear natural at this stage: either under Heading IV (“Global Europe) or under Heading I.b (“Smart and Inclusive Growth”). The first option would imply following with the current status quo (EDF line for OCT and management of OCTs dossiers by DEVCO) while the second would entail a change of status to that of ORs in order to have access to regional funds under the DG REGIO umbrella.

Similar options were already considered by the Commission in 1999. The scenarios envisaged included 1) the possibility of OCTs’ eligibility with regard to Structural Funds; 2) a revamped EDF around the guidelines of the Structural Funds and; 3) a Fund specially intended for OCTs in the Union budget. The inclusion of these scenarios aim at highlighting the different possibilities that could inform the discussions with the Commission should OCTs and their Member States decide to reflect seriously on the possibility to set up a separate fund.

Initial elements on innovative means of cooperation funding that are likely to be adopted post 2020 and measures that OCTs can take to ensure their access to such funding

The major conferences held in 2015 including the Addis Ababa Finance for Development, New York UN Sustainable Development Summit and Paris COP-21 have enshrined the future trend in what is known as Financing for Development (FfD). The vast array of public and private mechanisms of finance for development include ODA, the mobilisation of domestic resources, the role of private sector and innovative mechanisms like blending and are expected to be the fully deployed in the post-2020 scenario.

It is also important to bear in mind that, in the post-2020 scenario, ODA - as important as it is - will eventually lose its central role as the main source of finance for development and that, therefore, greater financial involvement from developing countries and the private sector will be requested to contribute to the 2030 Agenda. Since most of these innovative means of finance do not follow the classical cooperation funding mechanism approach of the EDF, careful analysis will be needed with regard to the implications that might derive from accessing them. The challenge lies in strengthening OCTs’ capacities to access to and leverage these resources and use them effectively. This includes also OCTs develop ‘bankable’ projects.

Conclusions

The background note sets the scene for the discussions that could impinge on the post-2020 debate. Some issues are already well-known to OCTA members while others might prompt discussions on how to contribute to this debate and better advance OCTs’ interests. OCTA members need to create a powerful narrative that underpins their aspirations and what they

want to achieve out of the post-2020 debate. In this regard the background note gives the necessary elements to contribute to this objective.

OCTA members also possess many assets that may play to their advantage, but notably their special relation with EU Member States and their network of diplomatic and institutional contacts in Brussels and outside the EU. In view of the challenges depicted in the background note, there is a clear need for OCTs to increase their institutional visibility. The policy dialogue and other lobbying mechanisms already exist, but it is time to assess to what extent they are contributing to OCTs' benefit and how to render them more effective.

2 MAJOR DEVELOPMENTS AT EU AND INTERNATIONAL LEVELS THAT IMPINGE ON THE POST-2020 DEBATE

2.1 New geopolitical realities: a multipolar world

The period elapsed between the signing of the 2001 Overseas Association Decision (OAD) and the current discussions about the post-2020 agenda has been characterized by a significant progress in the reduction of poverty worldwide challenging the traditional bipolar distinctions between North and South, rich and poor, developed and developing, donors and recipients.

In parallel, a number of countries throughout the globe such as Brazil, Russia, India, China and South Africa (BRICS) have risen to the status of “emerging economies having, as a result, achieved the economic and political clout to influence the international system through, for instance, the establishment of economic and financial institutions such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB).

For some¹, the rise of the BRICS can be seen as emerging in parallel to the loss of influence of the EU in the world, notably since the economic and financial crisis of 2008. For others², the emergence of new economic and foreign policy powers is seen as an opportunity for the EU to play an important role in promoting a common understanding on policy choices and in showing leadership in tackling global challenges.

This shift of economic and political power in the international system also has **implications for African, Caribbean, Pacific (ACP)-EU relations**. While the EU remains the most important trading partner of the ACP countries, the share of emerging countries in terms of investment and trade has grown hugely in recent years. In addition, the BRICS offer an alternative vision of economic development and a counterbalance to the dominant weight of Europe as a former colonial power, which have made it possible to build strategic alliances with many ACP countries.

In sum, the geopolitical repositioning of the main global players in the international arena has changed the rules of north-south relations and the development landscape, providing significant new opportunities for ACP and other countries and territories in terms of trade, investment, increased development aid and technical assistance outside the EU relationship. It also opens the question as to whether the EU has already lost, or is in the process of losing, its status as a privileged partner for many ACP countries.

¹ Peter van Ham (2015), The BRICS as an EU Security Challenge, Netherlands Institute for International Relations, Clingendael Report, September. The Hague.

² European Parliament resolution of 2 February 2012 on the EU foreign policy towards the BRICS and other emerging powers: objectives and strategies (2011/2111(INI))

2.2 Socioeconomic differentiation in the ACP group including reflections around similarities with the ORs

The ACP is a diverse group of states that comprises Low, Middle as well as High Income Countries (LICs, MICs and HICs) according to the OECD and World Bank classifications based on GNI per capita. Differences in developmental levels also become clear when looking at their Human Development Index (HDI)³. This socio-economic differentiation within the ACP group has been accentuated during the last 15 years where the development landscape and the “geography of poverty⁴” have considerably changed as a result of world economic growth.

The socioeconomic differentiation in ACP countries has had also policy implications on aid allocations under the 11th EDF following the adoption of the “Agenda for Change” in 2012. The policy document stresses the need to focus EU efforts on countries where the greatest impact could be achieved (notably least developed countries) and proposes a differentiated mix of policies and instruments whereby certain countries (upper-middle and high-income) would make a transition (“graduation”) from aid-based cooperation to less concessionary aid including blending finance (still with some ODA element in it but less through aid agencies), to finally a OECD-type cooperation where peer-learning, co-financing and technical cooperation are the norm.

The inclusion of the element of graduation, linked to a differentiated approach with respect to access to resources was widely criticized by ACP countries as going against the Cotonou Partnership spirit. With the 2030 Agenda, **differentiation** has become a crucial guiding principle of EU development policy along with the notion of “shared responsibility”⁵. This policy foresees that upper-middle income and high-income states from the ACP group graduating from EDF bilateral envelopes after 2020, which would in principle lead to a reallocation of funds at geographical and thematic levels.

The issue of differentiation is not exclusive to the development aid policy of the EU. Under the terms of the TFEU, the Outermost Regions (ORs) are entitled to differentiated treatment, enabling them to benefit from the maximum level of support from Cohesion Policy funding through the European Regional Development Fund and the European Social Fund in accordance with their respective level of development so that their specific features are adequately taken into account. In similarity with the resources allocated to ACP countries from the EDF, the per capita GDP is the main criterion of eligibility of structural funds for ORs, although other criteria, such as the unemployment rate (which for some ORs is the highest in the EU), productivity or

³ Two ACP countries are classified as very highly developed (Barbados and the Seychelles). The majority of Caribbean countries (9) are classified as highly developed. In addition, one African (Mauritius) and one Pacific (Palau) country are classified in this category. Looking at the lesser-developed classifications, the majority of African countries (37) are classified under low human development; whereas the majority of Pacific countries are classified under medium human development.

⁴ Kanbur, R. and Sumner, A. (2011) Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty, CEPR Working Paper, London: CEPR.

⁵ This principle reflects the idea that advanced countries should provide official development assistance (ODA) as committed while developing nations should make diversifying efforts to contribute to the attainment of the SDGs.

the peripheral nature or population density are already taken into account when calculating total envelopes. The pre-eminence of GDP as the main criteria for the allocations of funds however does not accurately reflect ORs' specific structural social and economic situations.

2.3 Regionalization dynamics including trends and evolution in EU regional policies towards the Outermost Regions.

Over the past 15 years, there has been a trend in the EU in favour of a regional approach to address global challenges related to its foreign policy, security, trade and development policies. The increasing role of the African Union and the Joint Africa-EU Strategy to deal with matters at African level, together with the creation of other frameworks such as the Joint Caribbean-EU Strategy (2012), the EU Strategy for the Pacific (2006), the strategic partnership with South Africa (2007) and the Economic Partnership Agreements with different regions of the ACP group, indicate that the regional approach adopted by the EU in addressing global issues has *de facto* replaced the ACP-EU framework embodied in the Cotonou Partnership Agreement.

An interesting example of this trend is the current discussions around the EU engagement in the Pacific region against the backdrop of the post-Cotonou process. The EU has already stated its interest to support the strengthening of regional integration⁶ through development cooperation. More importantly, it has acknowledged the importance of OCTs present in the region (half a million EU citizens in New Caledonia, French Polynesia, Wallis and Futuna and Pitcairn) to advance EU's geopolitical and economic interests.

The EU has also underlined the importance of the successful integration of the Outermost Regions and the OCTs in the framework of the Joint Caribbean-EU Partnership Strategy⁷ in order to enhance their role both in promoting EU values and becoming hubs or centres of excellence. Mindful of their role in the region, the Caribbean OCTs took an important step in 2012 when they established the Caribbean Overseas Countries and Territories Council (Caribbean OCT Council) to provide a structured dialogue at political level.

Since this trend towards regionalisation is likely to continue beyond 2020, it is therefore logical to question whether the overarching structure provided by the Cotonou Agreement will have the same relevance in the future.

As for the evolution of regional policies towards the ORs, the EU has followed a different and more consistent path. Since 2004⁸, the EU has had an integrated strategy based on active partnership between EU institutions, national governments and the ORs with a view to make the regions more accessible, more competitive and more integrated with countries around them in what was called a "wider neighbourhood policy".

⁶ Towards a renewed EU-Pacific development partnership – Joint communication – JOIN (2012) 6 final

⁷ Council Conclusions on the Joint Caribbean-EU Partnership Strategy, 3199th FOREIGN AFFAIRS Council meeting, Brussels, 19 November 2012

⁸ Communication from the Commission - On a stronger partnership strengthened for the outermost regions: assessment and prospects /COM(2004)543

While the backbone of the 2004 strategy has remained valid, the EU has gradually introduced new elements to modernize it. In 2008⁹ the partnership with ORs included an additional focus on making the most of their unique assets focusing on their potential for tourism, opportunities for the development of space, astrophysics and satellite activities, the important contribution they make to global biodiversity, their ability to develop a range of renewable sources of energy, and their capacity to spread EU influence in the regions in which they are located.

In 2012, the EC proposed a renewed strategy¹⁰ for the ORs based on the already existing policy framework but adapted to incorporate greater emphasis on creating jobs and growth, as well as a comprehensive approach to climate action as part to the steps to be taken to fulfilling the Europe-2020 growth goals. Meanwhile, the European Commission has stressed that continued efforts towards the integration of the ORs in the single market and in their geographical environment must be pursued. By the end of 2017 at the latest, the European Commission is expected to review the implementation of each of the proposed measures.

In this context, the Conference of Presidents of the ORs has already informed the Commission on the need for a new Communication that should replace (and not review) that of 2012. The new Communication, to be published in late 2017, would include a number of points, notably the requirement to conduct impact studies as part of free trade negotiations partnerships with third countries or the exclusion of taxes on emissions for flights to the outermost regions. This might be another example of the successful lobbying approach deployed by the ORs which, together with their success in getting access to EU funds in comparison to OCTs (allegedly as much as 10 times more), may inspire OCTs for their future strategy. Perhaps OCTA members may wish to identify what is special about ORs' differentiation model and what lessons can be learnt for the advantage of the OCTs.

2.4 Emergence of a new global sustainable agenda: SDGs, finance for development and climate change.

Between 2000 and 2015, the UN Millennium Development Goals (MDGs) have set the overarching framework for international development cooperation to date. Progress has been purportedly made in halving the number of people living in extreme poverty; 90% of children in developing regions now enjoy primary education, and disparities between boys and girls in enrolment have narrowed. Despite this substantial progress developing countries continue to be confronted with multiple challenges, ranging from poverty and inequality, climate change and the degradation of the environment and security-related issues.

Building on the MDGs' experience and in view of the changes experienced in the global development and economic landscape from 2000, a new agenda for development and

⁹ Communication from the Commission - The outermost regions: an asset for Europe /COM(2008)0642

¹⁰ Communication from the Commission - The outermost regions of the European Union: towards a partnership for smart, sustainable and inclusive growth /COM(2012)287

sustainability has been agreed for the period 2015-2030. The 2030 Agenda embodies the Sustainable Development Goals (SDGs) and rests on a new Global Partnership characterised by shared responsibility, mutual accountability, and engagement by all to contribute to the achievement of the SDGs.

The 2030 Agenda builds on the agreement reached on the Third UN Financing for Development Conference in Addis Ababa in July 2015 for a comprehensive Means of Implementation package for the 2030 Agenda. The Addis Ababa Action Agenda (AAAA) helps establish a new sustainable development paradigm, with good governance at the core and an emphasis on responsibilities for all, the primacy of domestic action, the importance of good policies, the role of the private sector and a commitment to policy coherence for development (PCD). In addition, the principles of aid and development effectiveness apply to all of these areas and can help to ensure that resources are effectively and efficiently targeted.

Although Official Development Assistance (ODA) will continue to play an important role in financing development, is only a small part of a broader landscape that needs to encompass other sources of finance and policies such as investment, trade, domestic resource mobilisation etc¹¹.

The third element that underpins the global sustainable development agenda is the conclusion of the climate change negotiations in Paris during the 21st session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, and the adoption of an ambitious and binding agreement to limit global warming to 2°C compared to pre-industrial levels, and aiming at limiting the increase to 1.5°C. The “Paris Agreement” is the first purely multilateral agreement on climate change, covering 195 countries and 98.5% of global greenhouse gas emissions. OCTs, which host most of the EU’s biodiversity and depend largely on healthy ecosystems for their livelihood and wider economy, have put adaptation and mitigation to climate change at the heart of their development strategies.

The combination of the three main elements of the global sustainable development agenda - the objectives embodied in the SDGs, the means of implementation through public and private resources and the legally binding framework to limit global warming- will certainly continue to influence the post-2020 debate.

2.5 Evolution in the EU external policies and the EU budget for development.

The Lisbon Treaty, which came into force in December 2009, has brought about a number of novelties in the institutional structures of the EU in order to restructure the Union’s external action. One of the aims of the Lisbon Treaty was to strengthen the EU’s international presence

¹¹ For example, the EU is investing EUR 42 million in its flagship Domestic Resource Mobilisation support programme, using its blending facilities to leverage more private sector investment in developing countries and maintaining 'duty free and quota free' market access to the Least Developed Countries (Source: DEVCO webpage).

and to clarify the objectives of the Union's external policies. The creation of the European External Action Service (EEAS), tasked with managing the external policies of the EU that fall under the mandate of the High Representative of the Union for Foreign Affairs and Security Policy was a significant step in that direction. In addition, development cooperation and humanitarian aid have both been recognised as elements of the Union's external actions.

The adoption of the Lisbon Treaty takes place in a particular context with an economic and financial crisis that exposed the political weakness in the EU. In an unprecedented move, EU leaders agreed on a net reduction in the EU budget (3,4%), which was capped at 1% of GNI, leaving a total of EURO 960 billion for the period 2014-2020. In addition, the financial crisis of 2007-2008 further exposed some of the challenges that the European development cooperation is still managing to overcome. The relative difficulty to adjust to novel and complex forms of cooperation and partnerships with emerging actors (especially engagement in South–South and triangular cooperation); a lack of actual coherence between policy areas limiting the effectiveness of development aid; and the lack of coordination between the EU and its Member States to speak with one voice and exploit the shared competencies remain as major bottlenecks in the development policy area.

2.5.1 The “Agenda for Change”

Among the policy documents that underpin the EU development policy the “Agenda for Change”¹² is possibly the policy framework that has brought the most changes in the EU development field since the entry into force of the Lisbon Treaty. While placing poverty reduction as the overarching principle of EU development cooperation, as required by the Lisbon Treaty, it also displays a number of shifts that are directly translated in the diverse instruments for external action:

- An emphasis on good governance and human rights with stricter aid conditionality, and on sustainable growth with emphasis on the private sector (including blending grant finance with loans and guarantees in order to leverage private sector finance);
- Target aid at those countries in which the highest impact can be achieved (through a differentiated approach to aid allocation) and which have the greatest needs;
- An attempt to enhance EU coordination and joint work, especially at the programming and monitoring levels, adding flexibility to these processes.

Perhaps the decision to further differentiation among aid recipients has been the shift that has attracted the most criticism from partner countries benefiting from EDF and the Development Cooperation Instrument (DCI) who felt that graduation from EU aid and differentiation was

¹² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Increasing the impact of EU Development Policy: an Agenda for Change. (COM (2011) 637 final).

unfair for countries that had showed good performance in terms of growth, sound governance and prudent economic disciplines. Although the concept had already been applied in the 9th and 10th EDF, the Agenda for Change has consolidated differentiation as the cornerstone of the EU policy to maximise the impact of development aid¹³.

2.5.2 Policy Coherence for Development

Through Policy Coherence for Development (PCD), the EU seeks to take account of development objectives in all policies that are likely to affect developing countries. The promotion of PCD aims to minimise contradictions and build synergies between different EU policies to benefit developing countries and increase the effectiveness of development cooperation. With the entry into force of the Lisbon Treaty, PCD is a legal obligation of the EU and, together with development policy and effective aid, is a significant and complementary instrument that can have a real impact on supporting human rights and sustainable and inclusive growth.

In a world with fewer low-income countries, and in which official aid is declining in importance relative to other sources of finance, the ability of the EU and its Member States to address the challenge of going “beyond aid” is constantly tested. The recently adopted 2030 Agenda for Sustainable Development emphasises the importance of PCD to increasing the effectiveness of the EU's development cooperation and its contribution to global sustainable development. PCD is therefore one of the issues likely to be part of the post-2020 debates.

2.5.3 EU development budget: increasing the impact, reducing the scope and giving more leeway to private finance

When the European Commission presented the proposal for the 2014-2020 Multiannual Financial Framework, “A Budget for Europe 2020”, the effects of the worst global economic and financial crisis that the EU had suffered from decades were still being felt. It is against this background that the MFF was presented as an austerity budget.

Against this backdrop, the adoption of the “Agenda for change” set the tone of what would be the guiding principles for the main instruments of development aid, the EDF and the DCI in the present MFF (and probably beyond 2020). The general idea is to do “more with less” and set the path for a transition towards “beyond aid” scenarios where ODA will be complemented with other sources of public and private finance. Besides the issue of “differentiation”, the EU has made concentration of spending one of the main objectives of development aid in order to avoid aid fragmentation and sectoral dispersion.

It is expected that this concentration will result in an increased impact of development resources and that the cooperation with the private sector, in particular through a stronger focus on blending EU grants with loans from international financing institutions, will attract more resources for development purposes.

¹³ Herrero, A., Anna Knoll, Cecilia Gregersen and Willy Kokolo (2015), Implementing the Agenda for Change. An independent analysis of the 11th EDF programming, ECDPM Discussion Paper 180, September 2015. Maastrich.

3 STOCK-TAKE OF THE DEBATE SO FAR INCLUDING REFLECTIONS CONDUCTED BY THE ACP, THE EU, MS AND OTHER RELEVANT STAKEHOLDERS

3.1 The Review of the Cotonou Agreement: preliminary remarks

The current ACP-EU Partnership Agreement, the “Cotonou Partnership Agreement” (CPA) was signed on 23 June 2000 and revised in 2005 and 2010, in accordance with its provisions. It was concluded for a twenty-year period and will expire on 29 February 2020. The partnership is comprehensive: it includes a political dimension, economic and trade cooperation as well as development finance cooperation. It is mainly financed by the European Development Fund (EDF) and is complemented in parts by the external financing instruments sourced from the EU budget. The CPA is a legally binding agreement; it establishes joint institutions and provides a framework for dialogue with each of its members.

Currently, the EU is undertaking steps to determine its position in view of the upcoming negotiations with the ACP Group of States. In order to inform discussions, the European Commission and the EEAS launched a Joint Consultation Paper “Towards a new partnership between the European Union and the African, Caribbean and Pacific Countries after 2020”, followed by a public consultation from October to late December 2015. The ACP has also initiated an internal reflection process, among other things about the value of the ACP as a collective player. The new ACP Secretary-General¹⁴ has ambitious plans for the group as the “leading transcontinental organisation” and believes the ACP can be an attractive partner for the EU also in the future.

A European Commission Staff Working Document, which should include findings from the public consultation and the EC's own review of the CPA's implementation, will be published in the first half of 2016. A second Staff Working Document putting forward an EU position will be published later in 2016. Negotiations will formally open no later than 1 October 2018 and it is expected that during the UK EU Presidency in 2017, the process will gain momentum.

The debate on the future relationship clearly points to the need to adapt the EU-ACP relationship to the new realities within and outside the Agreement. The world that witnessed the signing of the CPA in 2000 has changed dramatically: it is more populated, connected, interdependent, complex and with new security challenges.

Also, during these two decades the EU and the ACP Group of States have both evolved, and major developments have taken place within the relationship. The Group of ACP States has grown to 79, and the EU has increased its members to 28. Moreover, whereas the EU has faced

¹⁴ Dr. Patrick Ignatius Gomes of Guyana was elected at the 100th Session of the Group's Council of Ministers, held at ACP Headquarters in Brussels on December 10, 2014.

its biggest financial and economic crisis since its establishment, some ACP countries have managed to achieve higher economic growth and transcend a position of vulnerability. Due to the growing diversity inside the ACP group, the establishment of a common view vis-à-vis the EU has become the real task for the partnership, and vice-versa.

In addition, the Agreement has strengthened both politically (through the different strategic partnerships with Africa, the Caribbean and the Pacific Islands) and economically (through the Economic Partnership Agreements), and the international framework in which the CPA is anchored has significantly changed with the adoption of the 2030 Agenda and the “Global Partnership” where all countries are responsible for contributing to the SDGs.

In a nutshell, the global challenges in 2000 have significantly changed and the CPA needs to fundamentally transform its nature, content and instruments if it wants to contribute meaningfully to the post-2020 world.

Reflections on the political value of the CPA (i.e., its added value to promote political dialogue and shared values like democracy and human rights) and its effectiveness to tackle global challenges have taken place in the form of public consultations, internal surveys at EU level, policy documents by EU MS and think tanks. The analysis of these documents reveals the following trends:

- The legal and institutional architecture of the CPA to engage with the ACP around “shared values” has often been perceived to be one of the added values of the Agreement compared to other EU policy frameworks with partner countries. However, there seems to be a mixed track record on these areas and, therefore, it is not possible to make a final judgement about the effectiveness of the CPA in this regard.
- A trend emerging from the studies reviewed is that the EU needs to clearly define and formulate what are its interests in a future partnership, notably with respect to its commercial and political interests besides the need in promoting the respect for universal values and human rights. This would also help the EU affirm its position on the international stage facing emerging donors and establish a partnership on a more equal footing.
- EU development stakeholders agree in CPA’s positive contribution to human and social development, including poverty reduction. However, the absence of evidence-based data makes it more difficult to establish a clear link between the CPA and the promotion of a sustainable and inclusive economic development in the ACP countries.
- A Political Economy Analysis conducted by ECDPM in 2016¹⁵ concluded that the ACP-EU framework, as presently structured and operated, does not prove a suitable vehicle for organising effective collective action and obtaining mutually beneficial results.

¹⁵ ECDPM (2016) The future of ACP-EU relations: A political economy analysis. Final Report. Maastricht: ECDPM.

- The post-2020 debate will need to transcend the main focus of the current CPA on development assistance and turn the spotlight on global issues, in particular the nexus climate change-energy; Migration; Peace and security (including anti-terrorism); Democratic governance; the nexus Poverty reduction-inequality and; Trade.

Other relevant topics in the current discussions about the future of the CPA are the added value of the ACP-EU framework in view of the regionalization dynamics at A-C-P levels, and the relevance of the EDF as the main source of funding to tackle the global challenges that will contribute to shape the post-2020 framework. Some of the main conclusions derived from the analysis reveal that:

- Regional cooperation is already embedded on various levels in EU External Action and provide for alternative and more effective solutions than the ACP-EU framework (e.g. Regional Indicative Programmes on the EDF, cooperation with the African Union, ECOWAS, SADC, CARIFORUM).
- The poor effectiveness of the CPA to forge alliances and the weak added value of the ACP block (due mainly to its heterogeneity) has been often cited as reasons for change.
- The ineffectiveness of the ACP-EU joint institutions is one of the bottlenecks of the current ACP-EU partnership. Arguably, the poor track record of the existing ACP-EU institutional framework in dealing with common challenges is behind this criticism. The joint institutions have functioned in a rather bureaucratic way, focusing mainly on financial and technical cooperation and side-lining the political substance of the partnership.
- In view of the global challenges that the EU and the ACP states will have to address, the EURO 30 billion allocated to development aid will need to be complemented with additional funding from other sources of finance like blending, concessional lending and technical assistance. In this scenario the European Investment Bank (EIB) and private sector investment will have an increasingly key role¹⁶.
- In this context, the EDF role might be fine-tuned to better tackle the challenges that are more relevant to Least Developed Countries while contributing to implement the global public goods agenda in Middle Income Countries. This move will have implications in the allocation criteria of the next EDF¹⁷.

3.2 Issue of differentiation and implications for aid allocation

The Agenda for Change proposes a series of major modifications in the way EU assistance is delivered, including a differentiated approach to ensure that grant aid is directed where it is

¹⁶ House of Commons. European Scrutiny Committee. Documents considered by the Committee on 10 February 2016. DFID: (37188) *Towards a new partnership between the European Union and the African, Caribbean and Pacific countries after 2020*

¹⁷ Herrero, A., Anna Knoll, Cecilia Gregersen and Willy Kokolo (2015), op.cit

most needed and can have the greatest impact in terms of poverty reduction. This process is combined, among others, with a reduction on the focus on a maximum of three sectors per country and a greater use of innovative financing mechanisms. According to the EC, the differentiation process has been based on the transparent use of internationally recognised indicators reflecting the criteria of needs, commitment, performance, capacity and potential EU impact.

The differentiated approach has been applied for bilateral allocations within the context of the Development Cooperation Instrument (DCI) and the EDF for the period 2014-2020. Bilateral aid to most upper middle-income countries and certain large emerging economies, which have sufficient domestic resources to address poverty, will be stopped or significantly reduced and new forms of partnership with these countries will be developed. The rationale behind is the transfer of resources from upper middle-income countries to least developed countries in what has been called graduation from ODA or “phase out”.

But differentiation also means a flexible use of implementation methods. Innovative financial instruments such as blending will help graduating partner countries to tap into capital markets and close financing gaps in the poorest countries.

The 11th EDF used a combination of criteria from two main sources: the Cotonou Partnership Agreement and the Agenda for Change. The Cotonou Partnership Agreement requires the indicative resource allocation among ACP countries to be based on standard, objective, transparent needs and performance criteria. Its article 2 states that cooperation arrangements and priorities shall vary according to a partner level of development, its needs, its performance and its long term development strategy. In addition, article 3 of Annex IV of the Agreement states that needs shall be assessed on the basis of criteria pertaining to per capita income, population size, social indicators and level of indebtedness and vulnerability to exogenous shocks, and that performance shall be assessed on the basis of criteria pertaining to governance, progress in implementing institutional reforms, country performance in the use of resources, effective implementation of current operations, poverty alleviation or reduction, progress towards achieving the Millennium Development Goals.

The Council Regulation on the implementation of the 11th EDF mirrors the Agenda for Change and introduces additional criteria for assessing the potential impact of EU aid as well as tailor-made cooperation with countries based on (i) their needs; (ii) their capacities to generate and access financial resources and absorption capacities; (iii) their commitments and performance; and (iv) the potential impact of European Union assistance.

The focus in most vulnerable countries with poor access to other sources of finance and the division of labour between the EU and its Member States following the reduction of countries and sector fits really well with the current aid and development effectiveness agenda. However, the real issue is political, notably in the case of the EDF. The major reservations about the differentiation policy expressed by the ACP group were based on the fact that the CPA

might not provide a sound legal basis for applying differentiation in accordance with the same criteria as the DCI¹⁸, but above all that any application must always take into account the special spirit of the ACP-EU partnership. Furthermore, graduating higher income countries from the EDF would have been complicated as the nature of the CPA makes graduation dependent on ACP approval. The recent Report by the Eminent Persons Group¹⁹ recognizes differentiation as a challenge in the context of the post-Cotonou negotiations and alerts on the consequences for certain countries that depend on external aid if the principle of differentiation is not carefully applied.

Although the process of differentiation was not fully applied in the 11th EDF, the trend towards a “differentiation in the volume of aid” can be seen in the allocation of resources²⁰: an increase in the share of resources allocated to the least developed and low-income countries from 79.5% under the 10th EDF to about 85% under the 11th EDF. Seemingly, UMICS have seen their allocations fall from 5% to about 2% and HICs from about 0.3% to 0.1%.

Many MICs that have seen resources decline under the 11th EDF include Small Island Developing States facing specific challenges and vulnerabilities despite their higher level of income. There is also a general tendency in the Caribbean and Pacific to focus on one single priority sector and this is often sustainable/renewable energy and energy efficiency, or climate change resilience.

Some examples²¹ illustrate this shift away from upper middle-income countries (UMICs): As a UMIC, Namibia has seen its share of the EDF bilateral envelope decline by about 50% from the 9th to the 11th EDF. Mauritius saw its share of total NIP allocations decline by about 80% from 0.5% under the 9th EDF to 0.1% under the 11th EDF. In the Caribbean region, greater differentiation translated into a reduction of 11% in the allocation for NIPs in the region.

A final reflection about the issue of country allocation: recent studies²² suggest that the allocations of multilateral donors in general and the EU in particular are interest driven; in other words, aid allocation is often subject to vested national and political interests. Thus, even if the allocation model proposed in the EDF is based exclusively on standard, objective and transparent criteria it may still accommodate subjective judgements and political interests

¹⁸ Article 3 of the DCI states that a differentiated approach amongst partner countries shall be pursued based on: (a) their needs, based on criteria such as population, income per capita, the extent of poverty, income distribution and the level of human development; (b) their capacities to generate and access financial resources and on their absorption capacities; (c) their commitments and performance, based on criteria and indicators, such as political, economic and social progress, gender equality, progress in good governance and human rights, and the effective use of aid, in particular the way a country uses scarce resources for development, beginning with its own resources; and (d) the potential impact of Union assistance in partner countries.

¹⁹ Eminent Persons Group. “ACP: A vision for the Future”. Final Report March 2016.

²⁰ Herrero, A., Anna Knoll, Cecilia Gregersen and Willy Kokolo (2015), op.cit

²¹ Herrero, A., Anna Knoll, Cecilia Gregersen and Willy Kokolo (2015), op.cit

²² Bigsten, A.L., Plateau, J.P. and Tengstam, S. (2011), The aid effectiveness agenda: the benefits of going ahead. Brussels: European Commission; Oxfam (2011) Whose aid is it anyway? Politicizing aid in conflicts and crises. Oxfam Briefing Paper 145. London: Oxfam.

regarding the volume and distribution of country allocations. This will be indeed one of the major issues of discussions in the next MFF.

3.3 Future of the EDF and the Multiannual Financial Framework (MFF)

One of the issues that have been in the agenda for some time is the integration of the EDF into the EU budget (the so-called “budgetisation”). The European Council conclusions of 7-8 of February 2013 contained a clear reference to the European Commission’s intention to propose the budgetisation of the EDF as of 2021. However, no agreement on the matter exists yet. It is perhaps worth reminding that the EC on must make a proposal in order for Member States²³ to negotiate not just on whether to budgetise the EDF or not but also on the format of any successor to the EDF within the EU budget.

The notion that all forms of support that the EU gives to third countries should fall under the same legal framework and be subject to the same democratic checks of the European Parliament gains ground among EU Member States and has been a claim from CSOs and the European Parliament for years. Incidentally, this is wholly in line with the desire expressed by the Juncker Commission to work towards a coherent and integrated external policy.

In any case, the debate on the budgetisation of the EDF must be put in the context of the wider MFF discussions and the financial implications for the Members States own overall contributions to the EU. The contribution to the EDF of each EU Member State is determined by a different distribution key and calculation than their contribution to the EU budget, which is based on a percentage of GNI and VAT.

The negotiations over the next MFF are still far away. While the mid-term review will take place as of mid-2016 under the Slovak Presidency, the Dutch Presidency has already launched several discussions on the principles that should guide the future EU budget. Several issues stand out:

- First, the need for a flexible budget, without losing the certainty of long-term investments for Europe. Some ideas have been informally advanced like reserving a larger part of the budget for unforeseen circumstances (e.g. migration), next to funds and new financial instruments for long-term investments and/or Cohesion policy.
- Second, the opportunity to cooperate as close as possible with private institutions, combining EU sources in funding and investing in the future of Europe and increasing investments over subsidies.
- Third, financing needs to be fair and transparent. The current financing of the EU-budget is too complicated, and not transparent enough. The EU budget is financed via different sources, using different methods to calculate EU Member States contributions. This limits its transparency and efficient manage and oversight.

²³ Although the position of each Member State might vary according to particular political and economic circumstances, a number of key contributors to the EDF that have implicitly or explicitly expressed their option for budgetisation are France, Germany, The Netherlands and the United Kingdom.

- Fourth, the need to turn to new “own resources” for the financing of the EU budget. The Financial Transactions Tax (FTT) has been most often cited as a new source of revenue for the EU budget. In addition, the possibility to replace the current system of grants with innovative financing based on guarantees for innovative projects, which would otherwise struggle to attract funding

The Dutch Presidency hosted an open discussion on the MFF and the EU Budget during the informal General Affairs Council, and at the informal ECOFIN Council, both in April 2016. The meetings helped to analyse the challenges of the EU budget caused by unforeseen events and whether the Multiannual Financial Framework is adequately prepared to deal with these challenges. They also served to assert that the future EU budget should notably seek to boost growth, promote employment and create jobs. The Dutch Presidency will also work towards improving the transparency, simplicity and predictability of the budgetary process. The EC will launch the legislative process by means of a formal proposal in 2018.

3.3.1 Conclusions on main issues that stand out and main positions by stakeholders

There is a common agreement amongst EU institutions and development stakeholders on the necessity to critically review the level of effectiveness of CPA implementation, with regard to the partnership but also in relation to both the EU’s development and wider external action objectives as specified in the Lisbon Treaty.

While different perspectives and positions exist among EU Member States, they share a common interest in having an effective framework for international relations beyond a donor-recipient relationship and that is fit for purpose in order to implement the Agenda 2030.

A tentative classification²⁴ of the position of EU Member States *vis à vis* the future of the CPA shows the following results:

- A first of group (the so-called “new Member States”) with little interest in relations with ACP countries that favour the need for reciprocal benefits and the opportunity to further advance EU interests;
- A second group (Scandinavian countries and other EU15 countries without colonial past), with a strong interest in a reframed CPA based on the 2030 Agenda;
- A third group (mainly those Member States with former colonies), with strong bilateral interests in cooperation with ACP countries that favour a less drastic reframing of the existing CPA but preserving the legally binding proviso.

Also influencing the post-2020 debate will be the integration of any future ACP-EU relations within the broader objectives of the European external action. Some elements that underpin this trend are the recent and future changes in the EU external action framework (creation of

²⁴ Tindemans, T. and Dirk Brems (2016), Post-Cotonou: Preliminary positions of EU Member States, ECDPM Briefing note 87, February. Maastricht: The Netherlands.

the EEAS and forthcoming adoption of the EU Global Strategy on foreign and security policy) and the growing consensus around the idea that any future agreement should better reflect EU interests in key areas such as migration, security and trade.

Regionalisation dynamics and the EU preference for sub-regional approaches in dealing with its foreign, trade and security interests seriously questions the added value of the ACP block and opens the possibility that the EU might seek to work with the three A-C-P regions as three distinct regional partnerships in the future. This trend would be reinforced by the idea that there is no longer any justification for maintaining fundamentally different relations with one group of developing countries exclusively on the basis of a shared colonial past.

The ACP states acknowledge that their diversity could be a potential source of weakness, but they also recognise that the added value of the group lies in the growth potential of ACP economies, the negotiating experience gained in the multilateral front, and their support of regional integration. For the Caribbean region this would entail unleashing key economic growth drivers with an emphasis on tourism, financial services, ICT, professional services, construction, education, health and wellness, and cultural, entertainment and sporting services. In the Pacific region, the ACP group sees the potential to exploit the maritime resources and opportunities in the form of deep-sea and raw materials for pharmaceuticals, and alternative renewable energy sources which to this day remain largely untapped²⁵.

The EU regional policies towards the Outermost Regions have also implications for the OCTs. A link with the future of the OCTs and the EU regional policy post-2020 can be made regarding the debate about whether the distinction between OCTs and ORs should be abandoned. The rationale behind this thinking would be for OCTs to be brought under European regional policy, and their development be supported by the EU's regional structural funds as happens with ORs.

While studies have put forward this proposal²⁶, further analysis needs to be done in order to fully grasp the legal implications of such decision on a case by case basis as it is unlikely that one single scenario would fit all OCTs. The cases of Mayotte (which turned to ORs in 2011) and St Barth (which turned OCT in 2012) are examples to be analysed and compared in order to identify the potential impact and implications of such a change of status for OCTs.

In similar vein, the idea to encompass the ORs and the OCTs within the European Neighbourhood Instrument (ENI) has also been advanced²⁷. This proposal is underpinned by two elements: first that the "external borders" of the EU should encompass ORs and OCTs and; second, that the ENI would suit those ORs and OCTs that possess some of the characteristics of

²⁵ Eminent Persons Group (2016) *op.cit.*, p.27

²⁶ European Commission (2011), Region Level Evaluation. Overseas Countries and Territories (OCT). Final report. Brussels: EU; Advisory Council on International Affairs (2015) ACP-EU cooperation after 2020. Towards a new partnership? N° 93, March. The Hague.

²⁷ Tatiana Cayne, "An extended neighbourhood; beyond the reach of the European Union?", European Public Affairs, 3 February 2016. Accessible at <http://www.europeanpublicaffairs.eu/an-extended-neighbourhood-beyond-the-reach-of-the-european-union/>

emerging economies. However, such move would entail, in the case of OCTs, the need for a progressive legislative harmonisation with the *acquis communautaire* with the support of the Member States to which they are linked.

Development aid is at a crossroads. The post-2015 agenda will test the capacity of the EU and its partners to effectively address the challenges inherent to the SDGs. Aid will still be necessary but it will not be the main source of finance. The EU "offer" in the post-2020 will include a range of development tools and modalities moving away from grant aid towards blending, concessional lending and technical assistance. In this scenario the European Investment Bank (EIB) and private sector investment will have an increasingly key role.

In line with the above, the idea of requesting a higher degree of self-financing by the ACP states is gaining ground among EU Member States and other development stakeholders. The current high dependency on EU funding for sustaining the ACP structure is incompatible with the principle of ownership and the ambitions to address global challenges in the post-2020 framework, especially the credibility of the ACP Group as an international player, which hinges on its mandate and its ability to finance its own institutions and initiatives.

The budgetisation of the EDF seems to be an option for EU Member States and other development stakeholders (except for those Member States whose contribution is lower than for the EU budget). The need to have all EU resources to third countries under the same legal framework and subject to the oversight of the European Parliament seems logic. The possibility of a ring-fenced budget line for ACP countries in the EU budget securing the same amount as under the EDF could be part of the negotiations of the next MFF.

The ACP group will discuss the recent Report by the Eminent Persons Group at the 8th Summit of ACP Heads of State and Government from 30 May-1 June in Port Moresby (Papua New Guinea). The Summit is expected to be a watershed event for the ACP Group of States, in terms of providing the necessary political mandate to reorient the organisation, and a basis for more concrete engagement in discussions on the future of ACP-EU relations. The Report by the Eminent Persons Group, which will be tabled at the Summit, includes recommendations to reform the organisation and reposition it as a more effective international force on the global scene.

The ACP group has in the meantime made it clear that it needs to diversify its partnerships in order to move "beyond Europe" and build "south-south" relationships in addition to establish closer cooperation with least developed countries that are not ACP members, and make joint efforts based on common trade-related issues such as fisheries management.

4 POTENTIAL SCENARIOS ON THE EU-OCT PARTNERSHIP

4.1 Possible post-Cotonou scenarios

While no decision has been taken yet as to the different options and scenarios to be presented by the EC to EU Member States for a Post-Cotonou Agreement, the literature consulted allows for the identification of at least three scenarios that have been envisaged for a future CPA:

1. No agreement after 2020. This option has been already ruled out because of the political risk of losing an established partnership, which could be improved to serve as an important channel of cooperation to implement the 2030 Agenda. Having been ruled out, this option will not be developed any further in this study;
2. A “soft revised” agreement with almost the same structure and content and;
3. An agreement with major changes as to the content, the scope and the instruments.

4.1.1 Revised Agreement with minor adaptations.

This option whereby the structure and contents of the CPA would be maintained in substance and only minor modifications effected would basically aim at rendering the current CPA compatible with the 2030 Agenda. The overarching nature of the current CPA would continue to remain based on a legally binding treaty and the specific features of the partnership (such as joint institutions and joint management of funds for example,) would only be revised in so far as strictly necessary to align to the spirit of the 2030 Agenda.

This scenario also provides guarantees to the ACP group that cooperation will continue along familiar lines with the three pillars i.e., political dialogue, cooperation and trade with the EDF (or its substitute in case of budgetisation) as the main instrument of financing. This scenario would also see more active participation of the private sector and further use of instruments such as blending.

The process of differentiation would also streamline the future agreement with the EU Agenda for change, and the content could probably better reflect the EU interests in line with the EU Global Strategy on foreign and security policy, but also the need of ACP countries to develop other forms of partnerships based on south-south cooperation, therefore opening the possibility to extend the EU-ACP relations to other important countries.

The geographical scope of the future agreement could expand to include Northern African countries and/or a limited number of other countries (non-ACP SIDS²⁸, non-ACP countries from Caribbean and Pacific including emerging economies²⁹...), with a view to increasing consistency with regional strategic frameworks and forging new alliances.

²⁸ e.g. American Samoa, Northern Mariana Islands, Maldives or the United States Virgin Islands

²⁹ e.g. Brazil, Colombia, Indonesia or New Zealand.

4.1.2 Agreement with major changes in contents, scope and instruments.

This scenario is based on the notion that, whilst recognising the existence of alternative institutional frameworks at continental/regional level, there is enough scope for using the existing EU-ACP framework to accommodate these regional dynamics, adapt it to the 2030 Agenda and use new instrument to deliver results in addition to the existing ones. This new framework would be underpinned by setting up a kind of “umbrella agreement”.

The SDGs would constitute the core of the “global challenges” to be addressed by the partnership. Special attention might be given to issues of particular interest for both parties: climate change, sustainable energy, migration (e.g. VISAS, readmission, remittances and trafficking in human beings and smuggling of migrants), peace and security (including terrorism and global drug trafficking), trade and growth and investment.

The geographical scope would cover the A-C-P groups of countries with their respective regional agreements including other strategic countries (BRICS, SIDS, LDCs). The main features of the regional scope would be:

- A stronger partnership with Africa (including Northern African countries) would be favoured in the interest of the EU, notably in the light of a stronger focus on peace and security, on the fight against terrorism and transnational organised crime and the tackling of root causes of irregular migration.
- An enhanced partnership with the Caribbean region which, security wise, is strategically located to fight the global drug trafficking routes whilst threatened by climate change and bearing one of most advanced trade regimes with the EU.
- The Pacific region shares some of the regional features and challenges of the Caribbean region (trade, climate change, fisheries and growth and investment), whilst bearing greater diversity and complexity in geopolitical, environmental, and cultural terms. Expanding the geographical scope of the future partnership to all SIDS would increase overall consistency of the Caribbean and Pacific regional frameworks.

Finally, the backbone of the institutional and governance structure of the future agreement would remain although with some changes, notably: a) opening the space for greater involvement of CSOs, local and regional authorities and the private sector; b) revising the procedures in Brussels and the field in order to make EDF more flexible and less cumbersome and improve the effectiveness of the NAO/RAO and; c) increasing the use of blending mechanisms together with other tools such as twinning.

4.2 Elements of the post-Cotonou negotiations that might be particular interest to OCTs

The regionalisation dynamics set the scene for an increasing role of OCTs in the strategic partnerships with the Caribbean and the Pacific regions and for furthering the territories’ links with regional organisations. This is particularly relevant for OCTs that have gained experience as

research hubs on marine science, agricultural research, production and processing of renewable energy and tropical diseases and which, together with ORs, have shared projects with neighbouring ACP countries. At regional level, the option for A-C-P regional agreements under an “umbrella agreement” will definitely have implications for those regional integration projects where some OCTs are associated members or participate (e.g. CARIFORUM, the Pacific Islands Forum, the Indian Ocean Commission or the Arctic Council).

An issue related to regional cooperation is the trend of increasing the efficiency and impact of EU public and private resources. This approach was already introduced in the 11th EDF and could be reinforced in the future both through better articulation between EDF, EU regional cooperation resources and through the participation of OCTs in regional programmes with ACPs. This is particularly important in the case of regional and thematic programmes, where improved coordination by the OCTs concerned will be required by the EC³⁰. The search for more efficiency and impact of EU resources is also reflected in the OAD, which is expected to deliver more in terms of focus and results³¹.

The **legal status of the OCTs in relation to the EU** is one of the subjects that might come up at some point during discussions on the future of post-Cotonou and the future of the EU following the referendum on Britain's membership. For instance, a recent study³² has recommended abolishing the distinction between OCTs and ORs, which would seem logic in OCTs that want to emphasize the similarities between OCTs and ORs vis à vis the particularities of the ACP group. A case by case study to assess the legal implications of such decision would be needed due to the different context and interests within the OCTs group.

The results of the **referendum on Britain's membership** to the EU might also pose challenges to the British Overseas Territories with regard to future funding from the EDF and continuing access to its Investment Facility and to the European Investment Bank, as well as retaining access to other European programmes relating to the environment, education and training.

The possible **budgetisation** of the EDF raises the issue of the future finance for OCTs. The EDF currently foresees a budget line for OCTs, complemented by support from the EU budget, but future options could include negotiating a stand-alone finance line with special characteristics for OCTs.

The implications of widening the scope of a future agreement to other non-ACP countries, and the process of differentiation and graduation of EU aid on the budget line allocated for OCTs

³⁰ European Commission (2016) REPORT FROM THE COMMISSION TO THE COUNCIL on the implementation of the financial assistance provided to the Overseas Countries and Territories under the 11th European Development Fund COM/2016/079 final

³¹ Statement by Commissioner for Development Andris Piebalgs during the 12th OCT-EU Forum, 5 December 2013, Brussels

³² Advisory Council on International Affairs (2015), *ACP-EU cooperation after 2020. Towards a new partnership?* N° 93, March. The Hague. More specifically, the study recommends to support any Dutch OCTs within the Kingdom of The Netherlands that may seek to join arrangements applying to ORs, or make the full transition to that status. Up to now the three autonomous countries of the Kingdom in the Caribbean have not expressed any intention of abandoning OCT status in favour of OR status. To do so would mean, among other things, an obligation to introduce the *acquis communautaire* and, in time, the euro.

are still difficult to figure out. An increase in the number of countries which could potentially benefit from the EDF, together with the transfer of resources from high-income to low income countries might lead to a scenario where more countries in the high-income/low income ranks would compete³³ with OCTs for EU resources (whether public or private), foreign investment and trade opportunities.

The promotion of the **EU's Policy Coherence for Development** will be a key feature in the post-2020 scenario. Policies of the Union such as migration, trade, agriculture, energy or climate change can either hamper or enhance development and economic growth, and are therefore key to ensure that efforts carried through EDF and other programmes of the EU budget pay off. It is in the interest of the OCTs to make sure that this issue is duly raised with the EU and the Member States to which they belong during the post-2020 discussions and that OCTs are taken into account in the impact assessments carried out by the EC.

Any future partnership will call for new methods of work involving more flexibility and tailoring to the context and specificities of EU's partners. The need for a less cumbersome EDF may also require a revision of EC's procedures, systems and processes in relation to OCTs which have in some cases in the past been perceived as hindering the effectiveness of OCTs programmes.

In the scenario based on regionalisation of the EU-ACP relations, the trade element of the partnership in the form of EPAs, would play a more prominent role. The EU-ACP EPA negotiations have already represented challenges for the OCTs in the past by levelling trade advantages to ACP-countries closer to the OCTs' preferential terms, notably in the Caribbean region. This is an area where further analysis could be done in the run-up of the negotiations of the post-Cotonou Agreement.

In any event, any post-Cotonou scenario will be embedded in the 2030 Agenda and will call for a targeted focus of resources in strategic sectors. Two specific targets under SDG 13 on Climate Action are particularly relevant for OCTs, namely to increase the share of renewable energies and to improve the rate of energy efficiency by 2030. These targets rely on policy interventions and have proved a remarkable challenge. The post-2020 discussions offer a window of opportunity to raise the profile of OCTs in the field of renewable energies but also to strengthen OCTs partnerships with the EU and its Member States in this field.

4.3 Legal provisions related to development aid and regional integration might be affected.

This section aims at tentatively identifying some of the legal provisions related to development aid and regional integration of the Cotonou Agreement and the Overseas Association Decision that might be affected as a result of the negotiations of the post-Cotonou agreement. However, the documents available are limited and do not suffice to provide a solid basis for analysis.

³³ The "competition" for public resources is in line with the trend of EU external action to go "beyond aid" and make use of other public and private sources of finance, including domestic resource mobilization.

Further research could be envisaged by OCTA members when additional elements become available, including if and when the EU shared the results of the impact assessment currently underway on the Review of the Cotonou Agreement.

5 Crucial issues for OCTs in the post-2020 debate:

5.1 Introduction

The background note has highlighted a number of trends that will influence the discussions on the future of the Cotonou Partnership Agreement and, most importantly, the development landscape after 2020. Changes at international level (notably the adoption of the 2030 Agenda and its means of implementation and the entry into force of the Paris Agreement) and at EU level (the debate about the future relations between the EU and the ACP group of countries and the forthcoming discussions on the next MFF) will test the ability of OCTs to adjust to this framework and, to the extent possible, influence the post-2020 debate. In view of the analysis carried out in the precedent sections, the study identifies some of the crucial elements that OCTs may want to consider in designing an OCTA position on post-2020 issues.

The selection of the issues is based on the following considerations: first, the environment in which the OCTs have traditionally operated might shift as a result of the trends described in the study. OCTs need to be prepared in order to make informed decisions as to how to adapt to the post-2020 scenario; second, there are a number of added values that OCTs may wish to play to their advantage in order to seek a special relationship with the EU in the framework of the post-2020 debates and; third, in order to strengthen OCTs' relationship with the EU and consolidate their position after 2020, a number of issues need to be further advanced, notably the need for special and preferential treatment of OCTs' dossiers and the access to secure sources of finance. In this context, OCTs might also want to explore the possibility to access other innovative funding instruments that will complement development assistance in the future.

5.2 The added value of OCTs: climate change, renewable energy, growth investment and trade.

OCTs are often considered forerunners for ecosystem management in the face of challenges presented by **climate change**. As a result of their wide biodiversity and geographical location, they are testing grounds to define and experiment with new strategies in the adaptation and mitigation to climate change. Such measures could serve as a model for the EU and their neighbouring ACP countries.

With further support of the EDF and the private sector, scientific posts all over the world can provide valuable information about sea level rise, changes in ocean currents and seismologic activity. Additionally, in view of the challenges arising from climate change and its related goals in the 2030 Agenda, the exchange of research and know-how between the EU and the ORs and

OCTs calls for further support. In that regard, there is a need for ORs and OCTs to be more effectively incorporated into EU Research Framework Programmes.

The Paris COP-21 Conference on Climate change has shown that OCTs have made significant progress to shift their image as victims of climate change to that of “hubs of innovation and solutions³⁴”. This is an important argument to advocate for more focused political consideration and adequate financial means, as OCTs have often been overlooked in European political debates in the past. While the current OAD recognises the important role of OCTs in contributing to the Union’s commitments under Multilateral Environmental Agreements and makes climate change one of the priorities in the EU-OCTs partnership, the fact that many OCTs are not part of UNFCCC or its Kyoto Protocol and its future successor yet, is currently perceived by some OCTs as an unsatisfactory situation. At a time when objectives for emission reduction are challenging, it could be of interest for both the EU and for the OCTs that the latter commit to meeting the relevant emission reduction targets.

The geographical situation of OCTs, located in such diverse climates provides for huge opportunities to tap into **renewable energies**. OCTs recognize that an energy transition strategy is critical to ensure a sustainable energy system and therefore, have begun to look into alternative non-fossil fuels and energy. They are also gradually reaping the benefits associated with this transition in terms of know-how and technology generation that can be scaled up in other contexts. Some OCTs are now beginning to diversify their economies by attracting private investors which see the islands as a good example of what could be replicated in countries with similar characteristics. This path may advantageously be strengthened in the future as it reflects one of the true added values of the EU-OCTs partnership.

The political willingness of OCTs to serve as regional hubs and centres of excellence was made explicit in June 2015 when Energy Ministers from the OCTs gathered in Brussels to adopt a Sustainable Energy Roadmap. The fact that this was the first ever OCTA ministerial meeting on a specific sector shows that OCTs can pave the way to become key players in the field of Sustainable Energy and reliable partners in the implementation of the EU energy policy. It also sends a strong signal to OCTs neighbour countries that the islands can actively contribute to finding solutions to fighting climate change and are also reliable partners in joint ventures seeking to achieve common goals. In this regard, the “Export of Knowledge” can be the OCTs’ next export product.

The **promotion of green growth** is one the main areas of EU-OCTs interest in the OAD (Art. 5). With the uncertainties cast by climate change and the need to diversify their economic basis, the green economy is seen as a critical pathway to achieving sustainable development. This move towards a model of economic growth respectful with the environment has led many

³⁴ The “Green Aruba” commitment of 100% sustainable energy by 2020, the extensive hydropower activities in the Arctic Greenland and the innovation projects in French Polynesia with Ocean Thermal Energy Conversion are only some examples of this trend.

OCTs to rethink their development strategies and make the necessary investments to set out that transition. Public-led investments in windmills, solar parks, hydropower, waste to energy plants have attracted private investments and accelerated innovation. This move is in line with the Europe 2020 Strategy and the aspirations of the EU to become a catalyst of Green Growth (and also of Blue Economy) through global coordinated action, including its ORs and the OCTs³⁵.

The OAD also recognises the importance of **trade** to the economic prosperity of OCTs (Part III, Artl.42 to 73). In addition, the focus on capacity building measures in the field of trade and amending the Rules of Origin provisions is expected to bring real practical advantages³⁶. Important challenges remain in order to take advantage of the added-value in the trade chapter of the OAD, including how to better use existing possibilities and trade preferences, including the European Fund for Strategic Investments (EFSI), the European Investment Bank (EIB); the need to continue OCTs efforts towards achieving high added value in high quality services and; overcoming the (rather complex) bottleneck of shipping in order to access regional markets³⁷ amongst others.

5.3 The need to continue with a differentiated and preferential treatment in the management of OCTs' dossiers.

OCTA Interim Strategic Plan 2015-2020 clearly identifies the challenges of managing the current 11th EDF programming process. The document states that *“special attention will be given to EDF procedures, from the programming to all the “in itinere” process (including daily management of the funds, annual execution reports, financial controls, mid-term review, evaluation and so forth; this, in order to facilitate the OCTs’ absorption capacity”*³⁸. Indeed, the need for a preferential management of OCTs’ dossiers (i.e adjustments through derogations on procedures which are less relevant to OCTs) have been highlighted in the past by independent evaluations³⁹ and political declarations⁴⁰.

The Political Declaration of the 14th OCTA Ministerial Conference held in Brussels on 25 February 2016 further highlights the need to *“reinforce the necessary preferential and differentiated treatment of the management of OCTs’ files, in close cooperation with all*

³⁵ de Bettencourt, J and Helena Imminga-Berends (2015), Overseas Countries and Territories: Environmental profiles. Final Report. EC-OCTA. Brussels, Belgium.

³⁶ COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document COUNCIL DECISION on the association of the overseas countries and territories with the European Union ("Overseas Association Decision"), WD/2012/0194. The Staff Working Document highlights the advantages of revising the preferential rules of origin, such as the lighter administrative requirements regarding evidence of direct transport of OCT goods between the OCT's territory and the EU, new possibilities for cumulation, more flexible administrative procedures for granting derogations to the rules of origin with period of validity determined on a case by case basis, etc.

³⁷ European Commission (2011), Region level evaluation. Overseas Countries and Territories (OCT). Final Report. Commission services. Brussels.

³⁸ OCTA (2015), OCTA Interim Strategic Plan 2015-2020. Brussels. p.13.

³⁹ European Commission (2011), *op.cit*

⁴⁰ Political Declaration of OCTA's Ministerial Conference. Brussels, 4 December 2013; Joint Position Paper of the Governments of Denmark, France, the Netherlands, The United Kingdom of Great Britain and Northern Ireland, and the Overseas Countries and Territories on Future relations between the OCTs and the EU. February 2011.

relevant General Directorates and services of the Commission as to the specific challenges and opportunities faced by OCTs in the implementation of the provisions of the OAD”.

This differentiated treatment vis à vis other partners of the EU relates to the call already expressed by OCTs and their Member States for a better recognition of the OCTs as part of the “European family”, and an association further based on the mutual interests of the Union and the OCTs which, inter alia, further facilitates the access to Union's horizontal programmes for which OCTs are eligible.

Also, in view of any future changes in the realm of the EU external action, it is worth recalling the proposal included in the Joint Position Paper of 2011 as regard the equal treatment for OCTs in the programming of funds by the Commission’s HQ and the regional European Union Delegations, as well as the importance to appoint a referent OCT in each delegation concerned.

A final element that highlights the need for OCTs to seek a preferential treatment vis à vis the ACP countries is the process of differentiation and its importance in the post-2020 scenario. In this regard it would perhaps be worth recalling that the option to fully apply the process of differentiation to OCTs has already been considered by the Commission in the past⁴¹. Under this scenario, only the least developed OCTs would be guaranteed to receive a territorial allocation. The concept of least developed territories could be adapted so as to take into account specific challenges of OCTs such as fragility, isolation and structural problems. OCTs other than the least developed ones would have to rely on other types of financing, such as loans to the private sector. The more developed OCTs could be granted a territorial allocation in case of external shocks, to be mobilised from a reserve of non-programmed aid and implemented through budget support.

This scenario reinforces the OCTs’ need for a special, differentiated treatment by the Commission if they want to avoid the risk of falling under a policy option that has been mainly designed for ACP countries. In this regard, OCTs are called to use their institutional network to lobby on this particular issue, in particular at Council level through the EU Member States to which they are linked.

5.4 Reinforcement of the dialogue instances of the OAD.

The OAD provides the framework for the EU-OCTs policy dialogue in its Article 14, which lays down the three main instances for such objective: the OCTs-EU Forum; the trilateral consultations 4 times a year and; the working parties that follow the implementation of the Decision. The Political Declaration of the 14th OCTA Ministerial Conference already advances some elements to reinforce the EU-OCTs instances of dialogue: increasing the number of

⁴¹ Commission Staff Working Paper - Impact assessment accompanying the document - Communication from the Commission to the European Parliament and the Council - 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) and covering the subsequent implementing and financial regulations of the 11th European Development Fund (EDF), SEC(2011) 1459.

Partnership Working Party (PWP) meetings; reactivating the PWP on Trade, Investment and Growth and on the future OCT-EU partnership; and in revisiting the methodology for the preparation of PWPs.

Until now, no systematic evaluation of the effectiveness of the instances of dialogue included in Article 14 of the OAD has been undertaken. The Political Declaration of OCTA 14th Ministerial Conference suggests that this might be one political objective when it calls the Commission to *“Collaborate with OCTs to ensure that existing mechanisms (of Dialogue and Partnership) are used to assess the progress in implementing the Common Conclusions of the Forum”*.

The discussions around the post-2020 scenarios, and notably the Mid Term Review of the 11th EDF (which will also address the OAD) open the opportunity to reflect on such assessment in order to identify if the instances are being used to their full potential and if changes in the legal provisions of the OAD might needed in order to introduce new ones or improve the existing ones.

There is scope for reinforcing other instances of dialogue beyond those already commented. Article 7 of the OAD states that *“The Union shall also endeavour to associate OCTs in its instances of dialogue with their neighbouring countries, whether they are ACP or non-ACP States, and with the outermost regions, where appropriate”*. Of particular attention in this area is the increasing role of the European Parliament: because of its role as co-legislator, along with the Council of the European Union, in matters that affect OCTs, and because of its network of parliamentary diplomacy in the realm of foreign affairs.

Besides reinforcing close contacts with the MEPs of the 4 Member States as well as MEPs that are members in the DEVE, AFET and REGIO Committees, OCTs might gain more visibility by proactively engaging with the ACP-EU Joint Parliamentary Assembly, which has already called for better access for the OCTs and ORs, as observers, to its plenary sessions in accordance with the Assembly's Rules of Procedure⁴². The fact that many MEPs from DEVE, AFTER or REGIO Committees belong to the ACP-EU JPA or the European Parliament Intergroup on "Climate Change, Biodiversity and Sustainable Development" opens a window of opportunity for tabling questions directly to the Commission and the Council regarding matters that affect OCTs as well as the possibility to engage in discussions in the three different committees of the JPA.

In view of the above, the post-2020 discussions may bring the occasion to improve OCT's lobbying mechanisms. Two issues stand out:

1. The presence of OCTs in the governance structures of the ACP group needs to be considered. OCTA need to be more proactive and explore stronger consultation mechanisms with ACP countries.

⁴² European Parliament resolution of 12 March 2013 on the 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) (2012/2222(INI))

2. EU-OCT's instances of dialogue are not fully exploited. Although this might seem something circumstantial, OCTA needs to make greater efforts to rend them more effective despite the Commission's reluctance to engage in more political discussions with OCTs.

5.5 MTR of the current MFF and negotiations of the next MFF (2021-2027).

A Medium-Term Review of the MFF will take place in 3rd quarter of 2016 to 2nd quarter of 2017 and negotiations for the next MFF will only start in 2018. Further study on this point could be undertaken after the MTR towards the end of 2017.

5.6 A separate dedicated instrument for OCTs: preliminary reflections

The discussion about establishing a separate instrument adapted to the needs and particularities of the OCTs is not new. Already in 1999 the European Parliament had called specifically for the creation of a European Development Fund for the OCTs (OCTDF)⁴³ well ahead of discussions leading up to the adoption of the OAD in 2001. Similarly, the negotiations of the current OAD prompted again OCTA members to launch a reflection on the future modalities of EU funding allocated to OCTs. Such reflection was underpinned by the following elements:

- The lack of relevance of the EDF to acknowledge the particularities of the OCTs, the EDF being an instrument mainly designed to cooperate with ACP countries.
- The necessity to find a solution to the cumbersome procedures related to the commitment and disbursement of funds allocated to OCTs.
- The feeling that the EDF does not properly reflect the OCTs link to the “European family”.
- The apparent lack of consistency in the EU approach to regional integration involving ACP countries, ORs and OCTs by overlapping two different instruments - ERDF funds to the ORs and EDF funds to OCTs- thus hampering the implementation of projects in this area.

These reflections led the OCTs, their Member States and the European Parliament⁴⁴ to request the creation of a specific fund in order to live up to the spirit of a differentiated treatment. The issue has not been solved yet, thus opening the possibility to raise again the subject during the forthcoming discussions of the next MFF and the end of the 11th EDF, the main issue being how the new instrument would fit into the EU budget.

⁴³ European Parliament resolution of 11 February 1999 on relations between Overseas Countries and Territories (OCTs), the ACP States and the outermost regions of the European Union, OJ C 150, 28.5.1999, p. 439.

⁴⁴ Report by the DEVE Committee of the European Parliament on the 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), (2012/2222(INI))

The creation of a separate instrument (or budget line within the EU budget) calls for some analysis on the following elements:

- The possibility to ring-fence at least the same percentage of funds in the current EDF for the future instrument.
- The location of the budget line within the EU budget: namely within Heading IV “Global Europe” or Heading I.b “Smart and inclusive growth” – “Economic, social and territorial cohesion”.
- The administrative implications of the location in terms of whom within the Commission structure the OCTs will have to account to: DG DEVCO or DG REGIO?
- Which setup (external policies or internal policies of the Union) meets the expectations, ambitions and added value of OCTs.

At first glance, the significant experience of OCTs in many of the realms that are particularly important for ACP countries (notably climate change, renewable energies, tourism, sustainable management of ecosystems), and the limited institutional and diplomatic network (mostly official meetings) built over the years with the Commission and the EU Member States to which OCTs are linked indicates that the natural location of the budget line would be within Heading IV and under the management of DG DEVCO. However, this would not resolve once and for all some of the underlying issues that remain at the heart of the OCTs-EU relations, notably the recognition to belong to the “European family” and if this will translate into a preferential treatment from the EU.

It must be recalled that the Commission already presented in its communication of 20 May 1999 entitled "The Status of OCTs associated with the EC and options for 'OCT 2000'"⁴⁵, some alternative scenarios for a replacement of the EDF budget line for OCTs. The three options considered were: OCTs eligibility with regard to Structural Funds, a revamped EDF around the guidelines of the Structural Funds, or a fund specially intended for OCTs in the Union budget.

In a nutshell, the first option would be feasible if OCTs obtained Outermost Region status, but it was discarded by the Commission since it would require a fundamental change in the TFUE; the second option would take advantage of the similarity of the approach with that of the ACP States and the fact that most of OCTs are located within the ACP geographical regions, which would largely facilitate the financing of common regional projects. Such a step would entail the intensification of cooperation in trade and trade-related areas (e.g. intellectual and commercial property, standardisation and certification, health measures, competition and investment security); finally, the third option would recognise the specificity of the OCTs vis à vis third countries and would involve the adoption, at the start of the MFF, of an overall financial decision and handing responsibility for project management to OCTs authorities, subject to regular meetings of a monitoring committee and ex-post evaluation. The Commission

⁴⁵ COM(1999)163

recognised that the realisation of this option would only be possible through the redeployment within Heading IV which didn't seem feasible at that time, hence that option was discarded.

These are only reflections aimed at pointing at the different scenarios that could inform the discussions with the Commission should OCTs decided to reflect seriously on the possibility to set up a separate fund.

In the meantime, OCTs will need to prepare a common position prior to engaging with the Commission on discussions regarding the adaptation of the programming guidelines for the OCTs for the forthcoming EDF (or its substitute). Ideally the OCTs position would need to be prepared ahead of the Mid Term Review of the 11th EDF planned between the 3rd quarter of 2016 until the 2nd quarter of 2017.

5.7 Initial elements on innovative means of cooperation funding that are likely to be adopted post 2020 and measures that OCTs can take to ensure their access to such funding

The major development and climate change conferences held in 2015 (Addis Ababa Finance for Development, New York UN Sustainable Development Summit and Paris COP-21) have marked the future trend of what is known as Financing for Development (FfD). This broad concept includes the mobilisation of domestic resources (such as tax revenues), international financial resources (such as ODA) and other international public flows), harnessing the role of the private sector in financing development, maximising the use of innovative financing sources and mechanisms, and increasing trade capacity and investment to promote economic growth.

There is therefore a vast array of public and private mechanisms of finance for development already in place which are expected to be the fully deployed in the post-2020 scenario. However, it is important to bear in mind the two main points of departure of the current FfD with respect to the pre-2015 era:

1. ODA, as important as it is, will eventually lose its central role as the main source of finance;
2. The post-2015 requires greater financial involvement from developing countries and the private sector to contribute to the 2030 Agenda.

Since most of these innovative means of finance do not follow the classical cooperation funding mechanism approach of the EDF, careful analysis is needed with regard to the implications that might derive from accessing them.

Some of the innovative instruments of funding likely to be adopted after 2020 are already being tested in the framework of the EU development policy. They are the following:

- The mobilization of domestic resources: A large consensus has emerged at international level about the need to strengthen efforts to enhance tax collection, investment and other private flows, with a view to supporting sustainable development and inclusive

growth⁴⁶. However, such ambitious goal needs to be revised under the special situation of many countries, including OCTs, which face several challenges: their small populations thinly dispersed over many islands make revenue collection difficult and expensive. In addition, the cost of essential service provision is also often more expensive on a per capita basis and, in many cases, private investment may not flow because there is little to no economic return. Development aid is still necessary.

The EU will invest EUR 42 million in a flagship Domestic Resource Mobilisation (DRM) programme to boost developing countries' generation of own revenue, and tackle tax evasion, tax avoidance and illicit financial flows. Yet, domestic resource mobilization doesn't have to mean new taxes or higher tax rates but can also include the key role played by development banks in financing sustainable development and the improvement in the country's Public Finance Management (PFM)⁴⁷.

- **Blending**: the principle of this mechanism is to combine grants with loans or equity from public and private financiers. In the case of the EU, the grant element can be used in a strategic way to attract additional financing for important investments in EU partner countries by reducing exposure to risk. On a case-by-case basis, the EU grant contribution can take different forms to support investment projects⁴⁸:
 - Investment grant & interest rate subsidy to reduce the initial investment and overall project cost for the partner country;
 - Technical assistance to ensure the quality, efficiency and sustainability of the project;
 - Risk capital (i.e. equity & quasi-equity) to attract additional financing;
 - Guarantees to unlock financing for development by reducing risk.

EU regional blending facilities spread across the Neighbourhood area, Latin America, Asia, Central Asia, Caribbean, Pacific and Africa. In addition to these blending facilities, the EU has established from 2012 the Caribbean investment facility (CIF), which operates under the EDF. The objectives of the CIF are to fund key infra-structure projects in the sectors of transport, water and sanitation, energy, information and communication technology (ICT) and disaster prevention. The total allocation to CIF between 2012 and 2015 was 70,2 million €⁴⁹.

EU investments of up to 8 billion € should generate over EUR 40 billion from public finance institutions which should help mobilise over 100 billion € by 2020 in developing

⁴⁶ See for instance the Doha Declaration on Financing for Development of 2008 or the Addis Ababa Action Agenda of 2015.

⁴⁷ EU budget support programmes (annual disbursements of about EUR 1.6 billion in approximately 80 developing countries) will continue to enhance public financial management of partner countries.

⁴⁸ https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en

⁴⁹ CIF grants support investments located in the 15 Caribbean countries which have signed the ACP-EU Partnership Agreement, namely Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Kitts & Nevis, St Lucia, Saint-Vincent and the Grenadines, Suriname and Trinidad & Tobago. CIF also supports regional operations.

countries. In addition, the EU will invest over EUR 2 billion to support local private sector development and facilitate responsible and inclusive private sector investment in development by 2020. The EU will also invest over EUR 2 billion to support local private sector development and facilitate responsible and inclusive private sector investment in development by 2020⁵⁰. OCTs are eligible for part of those funds managed by the EIB and the EDF Investment Facility.

Climate change funding mechanisms: Over the last decade there has been an explosion in public, private, bilateral and multilateral sources of funds to support climate change interventions and other environmental concerns. Some are mixed public-private partnerships. Many OCTs have reiterated that more climate finance will be needed but access needs to be radically revised and simplified. A good example is the Green Climate Fund for which OCTs are not eligible. In the absence of the integration of OCTs in this mechanism the creation of a national or European Green fund for the climate, dedicated to the OCTs has been already proposed⁵¹.

The EU is one of the frontrunners in the fight against climate change through different instrument such as: The Climate Change Windows financed under the EU regional blending facilities and the Global Energy Efficiency and Renewable Energy Fund (GEEREF) and; The new phase of the Global Climate Change Alliance (GCCA+), with an expected commitment of around EUR 350 million for 2014-2020. This will support least developed countries (LDCs) and small island developing states (SIDS).

Mechanisms from other EU policies that might be used in the framework of the post-Cotonou agreement:

- Twinning: Twinning is a European Union instrument for institutional cooperation between Public Administrations of EU Member States and of beneficiary or partner countries. It brings together public sector expertise from EU Member States and beneficiary countries with the aim of enhancing cooperative activities. Given the huge experience that the EU has in the provision of expertise through technical assistance and twinning operations in the neighbourhood policy, and the fact that this tool has already been funded from the EDF, the Commission is considering the possibility to include it as another instrument of choice in the post-Cotonou agreement. For some⁵², the proposal should not only focus on ACP-EU cooperation but be reflected in the development policy

⁵⁰ "Financing Global Sustainable Development after 2015: Illustrations of Key EU Contributions" accessible at http://ec.europa.eu/europeaid/sites/devco/files/addis-def_150702_v3.pdf

⁵¹ ASSEMBLÉE NATIONALE, RAPPORT D'INFORMATION FAIT AU NOM DE LA DÉLÉGATION AUX OUTRE-MER par Mme Maina Sage, MM. Ibrahim Aboubacar et Serge Letchimy, sur les conséquences du changement climatique dans les outre-mer, n° 3172 déposé le 27 octobre 2015

⁵² Contribution from the German Development Institute (GDI-DIE) to the public consultation "Towards a new partnership between the European Union and the African, Caribbean and Pacific countries after 2020"

guiding financial instruments for development cooperation with all developing country regions.

- TAIEX: Technical Assistance and Information Exchange instrument of the European Commission in enlargement and neighbourhood countries. It supports public administrations with regard to the approximation, application and enforcement of EU legislation and facilitates the sharing of EU best practices. The geographical scope of this instrument could be also expanded to include ACP countries and OCTs, notably in Middle-Income Countries in the framework of the Post-Cotonou discussions⁵³.

While development aid is likely to be one of the main sources of finance for OCTs in the short term, the evolving development financing landscape also presents opportunities, including the expansion in environmental and climate focused international public finance together with the emergence of innovative financial instruments. The challenge will be to strengthen OCTs' capacities to leverage these resources and use them effectively. This includes also OCTs develop 'bankable' projects.

In view of the discussions that will take place in the run-up to the negotiations of the next MFF and the future of the EDF, OCTs may wish to make a strong case for adapting the criteria to access to these new tools arguing that a more "multidimensional" approach to finance is agreed with the Commission. These factors could include countries' capacities to mobilize domestic resources; their capacity to leverage affordable private finance; their debt levels; their vulnerability to shocks; their social indicators; and the type of project being funded. This would provide a more accurate picture of OCTs financing needs post-2020.

⁵³ European Commission-EEAS (2015), Joint Consultation Paper - Towards a new partnership between the European Union and the African, Caribbean and Pacific countries after 2020. JOIN(2015) 33 final

6 TIME-LINE OF MAJOR MILESTONES FOR THE POST- 2020 DEBATE, AND MAIN OPPORTUNITIES FOR OCTS TO IMPACT ON THE DEBATE (2016-2020)

2016		
30 May-1 June	8th Summit of ACP Heads of State and Government	
Second trimester 2016	Evaluation of the current Cotonou Partnership Agreement (CPA) to be released by EEAS/COM. End of June: Staff Working Document with Evaluation of CPA to kick-off debate at EU level	This process is still on-going.
12 July 2016	European Parliament: Exchange of views on the amendments (AM) tabled for the Committee on Development Report on the future of the ACP-EU relations after 2020	Directly contact the Bureau of MEP Norbert Neuser, standing rapporteur (S&D) or MEP Ponga to table AM. In case the deadline has been missed the AM can be tabled in the form of oral AM. Debate in plenary foreseen in October offers another opportunity.
September 2016 (until June 2017)	Start of Mid-Term Review of MFF and 11 th EDF under Slovak Presidency of the Council of the EU (and other external aid instruments)	This event will give OCTs the opportunity to influence via the public consultation. In parallel OCTs may wish to contact their EU MS to raise OCTs issues during the discussions at Council level
End October/November 2016	Staff Working Document with Impact Assessment on possible future options for EU-ACP relations and their likely impact.	
7-18 November 2016	COP-22 (Morocco)	Raise OCTs visibility as in COP-21
November 2016	ACP-EU Joint Parliamentary Assembly (date and place to be determined)	Approach MEPs that belong to the JPA to: table oral questions to the Council and the Commission on OCTs' issues; propose that a debate on the role of ORs and OCTs takes place at the Economic or the Social Committees of the JPA.
28 November 2016	Foreign Affairs Council development-formal discussions on EU-ACP relations (prior to this date, informal FAC development used as opportunity to prepare discussions)	Approach OCTs' EU MS to raise issues related to OCTs in the agenda of discussions.
December 2016	Commission's Recommendations with	

	negotiating directives, together with the Impact Assessment Staff Working Document to be transmitted to the EU Council for decision.	
December 2016	Commission's communication on the review of the functioning of the MFF 2014-2020 (accompanied by a legislative proposal for a revision of the MFF Regulation).	
2017		
1st quarter of 2017	12-week open public consultation on the draft evaluation report of the MTR of the 11 th EDF	Participation in the public consultation. Include this item as part of the agenda of the EU-OCT Forum foreseen in early 2017
Mid-2017	Possible start of negotiations with the ACP States once the EU Council has taken a decision on the negotiating directives (formal negotiation should start no later than October 2018)	Approach ACP secretariat in Brussels to discuss issues of mutual interest and identify mechanisms to reinforce OCTA-ACP dialogue.
5-9 June 2017	High-Level UN Conference to Support the Implementation of SDG 14 (Conserve and sustainably use the oceans, seas and marine resources for sustainable development)	Raise visibility of OCTA members as in COP-21 side events.
July-December 2017	UK Presidency of the Council of the EU	Lobby OCTs' EU MS to include OCTs' issues (to be decided) in the UK Presidency agenda.
December 2017	Commission Proposal on the next MFF ⁵⁴ 2021-2027	
2018		
Mid-2018	Impact Assessment proposal for the next generation of instruments	

⁵⁴ The Commission has not provided yet the calendar of discussions of the next MFF to the Committee on Budgets of the European Parliament (beyond the legal requirement to present a proposal no later than 1 January 2018)

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