Building an EU–Africa Partnership of Equals

A Roadmap for the New European Leadership

Center for Global Development

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INTRODUCTION

Anita Käppeli, Mikaela Gavas, and Hannah Timmis

The arrival of a new leadership team in Brussels provides an opportunity for Europe to reinvigorate its role as a global development power and to build a true partnership with its continental neighbour, Africa. These tasks have never been more urgent. With only 10 years to go, the world is far from achieving the Sustainable Development Goals (SDGs) by 2030. A confluence of well-documented global trends, including accelerating climate change, declining multilateralism, and the erosion of democratic norms, is only increasing the challenge.

No region is more vulnerable to these developments than Africa. The continent's strong economic growth reported earlier this decade has failed to translate into quality jobs, less inequality, and higher well-being in most sub-Saharan African countries. Projections based on current trends find that by 2030, 376 million Africans—almost a quarter of the region's population—will remain in poverty, thus failing to realise their economic and social potential.

Africa's underdevelopment has negative spillovers for the European Union (EU) that endanger the future of the world's most successful supranational integration project. It has contributed to a high influx of refugees and migrants, which has rocked the union's internal cohesion, entrenched instability in the European neighbourhood and beyond, and empowered populist forces questioning the viability of the EU. It has also come at a high opportunity cost for European investors, consumers, and employers: a prosperous Africa would provide new opportunities for investment, cheaper and more varied imports, and a supply of skilled new workers.

Yet the EU is also uniquely well-placed to offer Africa a true development partnership that is mutually beneficial for the two continents. Africa and Europe share deep economic, cultural, linguistic, and political bonds. For many African countries, the EU and its Member States are already major partners in aid, security, finance, and trade. Moreover, the EU's values-based agenda of democracy, social security, and human rights sets it apart from other actors engaging with the continent and helps forge a vital middle ground between purely market- and state-oriented approaches. And finally, in recent years, the EU has demonstrated commendable ambition in adapting and innovating its development cooperation to respond to new challenges, such as climate change and fragility. The European Commission has unveiled aspirations for a "radical shift" in Europe's approach to development cooperation in Africa that will take its relationship with the continent "to the next level."

In this report, we lay out a roadmap for how the new European Commission can turn this aspiration into reality. We examine specific policy areas—migration, development finance, trade, and global health security—and present four actionable proposals that the EU's new leadership can pioneer. We do not contend that these are the only areas where the EU can make a difference. But they are areas where significant and concrete progress can be made that benefits both Africa and Europe. We make the case for focused, joined-up, and coherent thinking and action based on a consistent balance between values and interests.

For **migration**, we propose new kinds of legal labour migration pathways with more tangible benefits to countries of origin and destination, and we suggest piloting and scaling Global Skill Partnership projects within and between Europe and Africa.

For **development finance**, we propose ways in which the EU could use its current tools to focus on leveraging high-risk capital for underserved markets in Africa, with the European Commission driving collective action, better coordination, impact, and efficiency among European development finance institutions.

For **trade**, we propose ways in which the EU can end tariffs, reform rules of origin, support the African Continental Free Trade Area, pilot "payment by results" for aid for trade, and stimulate transformational economic growth at home and within Africa.

For **global health security**, we propose a financing mechanism to increase sustainability, coordination, and effectiveness of the joint external evaluation process assessing pandemic preparedness, and we define an integrated way for the Commission's Directorates-General and other entities to collaborate on global health security priorities.

Over the next five years, Europe's new leadership has the unique opportunity to transform its approach to Africa into a sustainable two-way relationship based on a partnership of equals. Beyond history and solidarity, addressing these challenges through innovative approaches is in both Africa's and the EU's interests.

PROMOTING NEW KINDS OF LEGAL LABOUR MIGRATION PATHWAYS BETWEEN EUROPE AND AFRICA

Michael Clemens, Helen Dempster, and Kate Gough

As Europe's working-age population continues to decline, sub-Saharan Africa's is rapidly increasing. Many of these new labour market entrants will seek opportunities in Europe, plugging skill gaps and contributing to economies in their countries of destination. To make the most of these movements, the new European Commission should

- *create and promote new kinds of legal labour migration pathways with more tangible benefits to countries of origin and destination;*
- *pilot and scale Global Skill Partnership projects between Europe and sub-Saharan Africa and within Africa; and*
- *be a positive voice for migration within Europe, promoting the benefits from migration and ensuring they are understood.*

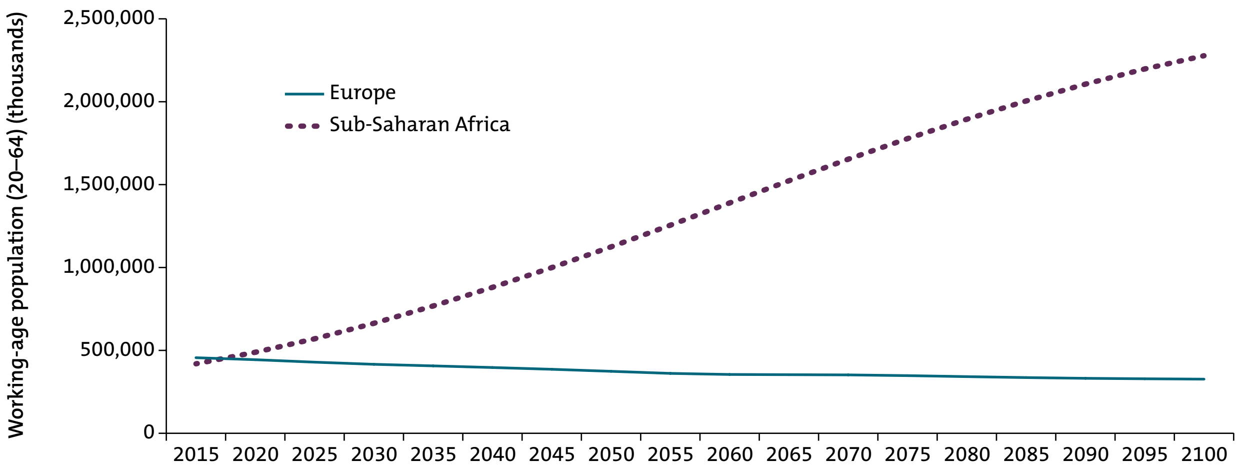
The Challenge

Europe is experiencing significant demographic shifts. By 2100, its working-age population is projected to decline by almost 30 percent from 2015 levels (see figure 1) owing to a combination of low birth rates and increased longevity. The impact of this shift is already being felt as the private sector in many countries demands an increase in the number of workers available and the types of skills they possess. If Europe is to continue to grow and sustain its current social programmes, it will need a substantial increase in the number and type of potential workers.[1]

At the same time, the working-age population in sub-Saharan Africa is booming. This results from a significant development achievement: the reduction in the under-five mortality rate.[2] Many of these new labour market entrants will join increasingly developed local economies, while others will migrate regionally in search of opportunities. Still others will seek work elsewhere, in places such as Europe, to pursue fulfilling livelihoods and send remittances back home.

The relationship between migration and development is supported by a wealth of evidence, namely, that development can increase migration (see figure 2).[3] As people's incomes rise, they gain both the financial means and the aspiration to move for better work,

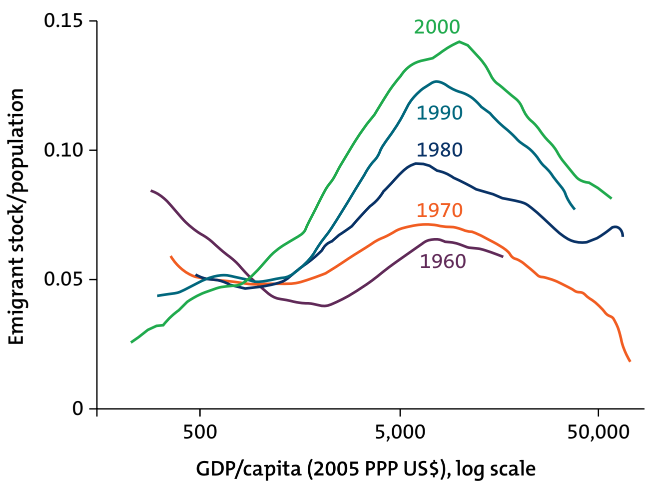
Figure 1. Europe's working-age population will continue to decline



Source: United Nations Department of Economic and Social Affairs (UNDESA) Population Division World Population Prospects (2017).

Note: This projection uses the "medium-variant," which assumes a continuation of recent levels of net migration (the difference between the number of immigrants and the number of emigrants for a given country or group of countries). For more information, see UNDESA (2017) "World Population Prospects: The 2017 Revision, Key Findings and Advance Tables," https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_KeyFindings.pdf; and UNDESA (2017) "Population Facts," www.un.org/en/development/desa/population/migration/publications/populationfacts/docs/MigrationPopFacts20178.pdf.

Figure 2. To a point, development and emigration go hand in hand



Source: World Bank data quoted in Clemens, M. (2014) "Does Development Reduce Migration?" Center for Global Development Working Paper 359, www.cgdev.org/publication/does-development-reduce-migration-working-paper-359.

wages, and educational opportunities. In moving, migrants increase their income and knowledge, allowing them to spend more on meeting their basic needs and making future investments. In countries of origin, migration can lead to increased wages and greater economic growth through higher incomes, increased remittances, spending, knowledge and technology transfer, and investment by migrant households. In countries of destination, migrants can fill labour gaps and contribute to services, taxes, and social security systems.[4] In this way, migration and development are inherently linked—increased emigration can reflect, and be a vehicle for, increased development. And in a stable context over time, development will create enough economic growth to push the community past the curve to the point where migration pressures decrease.[5]

Of course, most African migrants stay within the African region, and the number of those moving regionally is increasing faster than the number moving internationally.[6] But if Europe wants to harness the potential of those moving to its shores, and ensure this movement contributes to the growth of all involved, it needs to facilitate new legal labour migration pathways.

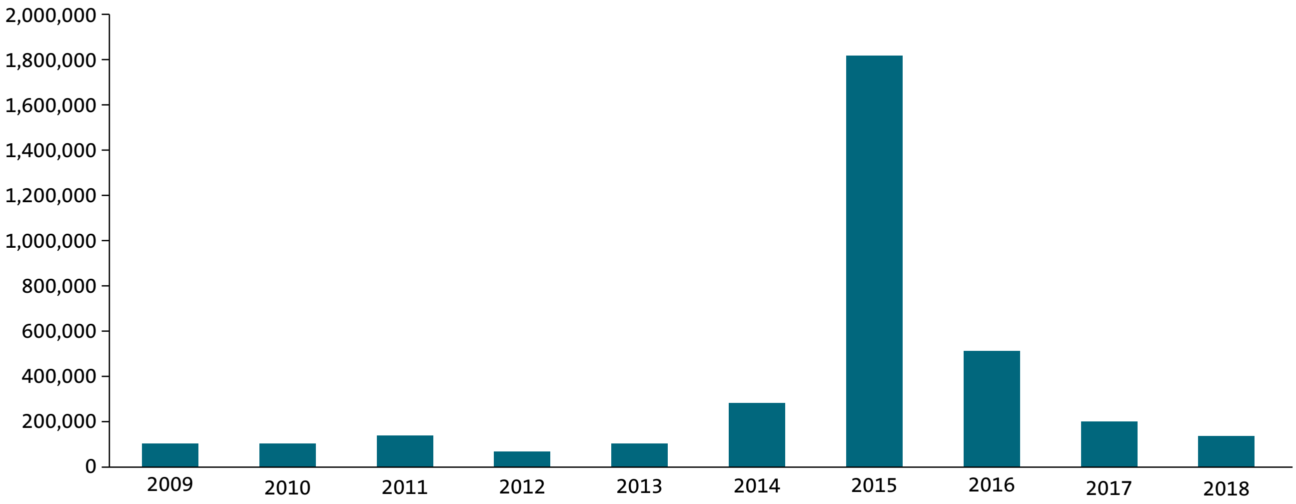
The European Union's Added Value and its Progress to Date

In May 2015, the European Commission presented the comprehensive European Agenda on Migration.[7] It was designed to immediately respond to the 2015 refugee "crisis" through four pillars, aimed at better managing migration over the medium- and long-term. Under these pillars, the Commission has achieved much—increasing refugee resettlement numbers, supporting Member States with border management, financing integration projects, combatting smuggling networks, fighting trafficking, and working broadly on development and security efforts in countries of origin through the European Union Trust Funds.[8] In so doing, the Commission has achieved numerous successes, including reducing the level of irregular arrivals (see figure 3).

However, given the demographic projections detailed above and other forces beyond the Commission's control—foreign wars, displacement, and climate change, among others—future success is not guaranteed. Furthermore, the Commission's successes to date largely depend on the cooperation of third states, which may not be assured moving forward. And with no broad European consensus on how to best manage migration, European states too often depend on ad hoc solutions.

The Commission has acknowledged that while both development and border controls are necessary, they are insufficient to curb irregular migration. To reduce the incentives for irregular migration, attract the right

Figure 3. **The number of irregular border crossings into Europe has fallen since 2015**



Source: FRONTEX (European Border and Coast Guard Agency), updated November 6, 2018.

set of talent and skills to Europe, and enable admissions to be tailored to the needs of the labour market, Europe needs new kinds of legal pathways for migrants.[9] Without these pathways, the EU's economic growth will suffer. Accordingly, promoting new legal pathways is the fourth pillar of the European Agenda on Migration. These pathways take three forms: attracting new talent, the Blue Card Directive,[10] and European-coordinated pilot projects. These measures reflect the Commission's limited room to manoeuvre as Member States retain the right to determine volumes of admission for people coming from third countries to seek work.

The Commission launched the idea of legal migration pilot projects in 2017 in order to "replace irregular migratory flows with safe, orderly and well-managed legal migration pathways; and to incentivise cooperation on issues such as prevention of irregular migration, readmission and return of irregular migrants."[11] The following year, the Commission published the "Concept Note on the Pilot Projects on Legal Migration."[12] It listed the target countries, described the application process, and identified the funding streams.[13] One such stream was the Mobility Partnerships Facility (MPF), a flexible and quick-reaction mechanism funded by the Directorate-General for Migration and Home Affairs.[14]

Four Member States applied to the MPF for funding, including the Belgian Development Agency, Enabel. Its "Pilot Project Addressing Labour Shortages Through Innovative Labour Migration Models" is directly applying the Global Skill Partnership model, training information and communications technology (ICT) workers for employment in Morocco and Flanders.[15] While it is too early to evaluate the pilot's impact, all actors involved have reiterated the need for such a project to meet demand on both sides. All pilot projects funded by the MPF are investing in skills and human capacity (the latter, for example, through training or internship programmes delivered in European Member States).

What Should the New Commission Do?

The Case for a Global Skill Partnership

Decisions about the number and type of labour migrants admitted across national borders is the exclusive competence of Member States. The Commission cannot propose a "common migration policy" along the lines of its Common European Asylum System. However, it does have an important role to play in promoting, facilitating, and supporting the creation of new kinds of legal labour migration pathways across Europe.

A Global Skill Partnership is such a pathway.[16] It is a bilateral agreement between equal partners. The country of destination agrees to provide technology and finance to train potential migrants with targeted skills in the country of origin, *prior to migration*, and receives migrants with precisely the skills they need to integrate and contribute best upon arrival. The country of origin agrees to provide that training and gets support for the training of non-migrants too—*increasing* rather than draining human capital.

For example, both Morocco and the Flanders region of Belgium have identified a shortage of trained ICT workers. Belgium has agreed to finance and support the training of ICT workers in Morocco, some of whom will stay and contribute to the Moroccan labour market. Others will move to Flanders to take up contracts with Belgian companies. This latter group will also receive language and integration training and be connected to local diaspora networks once they arrive.

Six traits distinguish Global Skill Partnerships from existing related policies. Global Skill Partnerships:

1. ***Manage future migration pressure,*** addressing many legitimate concerns about migration in countries of destination (such as integration and fiscal impact) and in countries of origin (such as skills drain).

2. ***Directly involve employers*** in the country of destination to identify and train for specific skills they need that can be learned relatively quickly.
3. ***Form a public-private partnership*** for semi-skilled work—jobs that take between several months and three years to learn and do not require a university degree.
4. ***Create skills before migration,*** with cost savings to the country of destination and spillover benefits from training centres in the country of origin.
5. ***Promote development*** by bundling training for migrants with training for non-migrants in the country of origin, according to the differing needs of each. Such training occurs in two tracks: a "home" track for non-migrants, and an "away" track for migrants. Trainees can pick which track to go down—those who choose to migrate could also receive additional training in soft skills, for example in different languages or other facets of integration.
6. ***Are highly flexible.*** Any agreement can, and must, be adapted to the specific country needs in both destination and origin.

Who benefits from such a model? Effectively, everyone involved.

Europe, in containing *countries of destination*, receives migrants with the skills to contribute to the maximum extent and integrate quickly, without being a net drain on fiscal or human resources. They can regulate how migration happens, and on what terms, choosing those migrants who fit a specific skills profile and who can contribute and integrate quickly. Countries of destination therefore benefit in four ways: (1) addressing their own demographic change, (2) accomplishing development objectives, (3) increasing migrant integration, and (4) contributing to deterring irregular flows.

The *country of origin* gets new technology and training facilities, an increase in human capital from those who stay, the prospect of remittances from those who leave, and a reduction in pressure to absorb new labour market entrants.

Those who are trained can migrate regularly and safely or stay and enter the local labour market with better skills. All have their earning potential increased, with flow on benefits.

And *everyone else* benefits from having skills gaps filled, including those with secondary jobs who rely on those roles being occupied, and those who will occupy new jobs created by those who move and stay.

Creating new kinds of legal labour migration pathways is, of course, a difficult task in today's political climate. A growing number of politicians advocate for closing national borders and reducing immigrant populations. However, we believe that the Global Skill Partnership model is likely to gain traction among even the more conservative Member States for the following reasons:

- The number of migrants admitted is small and therefore unlikely to attract much political attention;
- Migrants have been selected and brought to the country of destination to meet specific skills needs that locals are unable to meet, and have already been provided with language and integration training;
- The potential migrants will be screened and vetted before they enter the country of destination and easily tracked after they arrive, thereby satisfying security concerns;
- The model meets the desire among countries of destination to participate in the "development" of countries of origin; and
- It provides countries of destination with a practical and pragmatic way to control some migration flows and shift irregular flows into regular pathways, thereby satisfying voter demand for a "managed" immigration policy.

Policy Recommendations

The scale of the demographic shifts highlighted above means Europe cannot wait until migration flows visibly increase to implement a Global Skill Partnership. This tool should be tested now, in a period of relative manageability, before the scale and pace of migration makes innovation difficult. We therefore believe this is a perfect time for the new Commission to expand the scale and scope of such legal labour migration pilots, testing new ways to ensure that migration benefits all involved. Specifically, the new Commission should:

1. Create and promote new kinds of legal labour migration pathways with more tangible benefits to countries of origin and destination. Such efforts can complement existing development and security efforts within sub-Saharan and North Africa, reducing demand for irregular pathways and putting more control in the hands of Member States. The Commission has already established the building blocks for such efforts. The fourth pillar of the European Agenda on Migration provides a framework under which to create and promote new kinds of legal pathways, and existing trade relationships with sub-Saharan Africa provide mechanisms upon which to base discussions. The Commission can support Member States by providing them with the tools, coordination mechanisms, and guidance to implement new kinds of legal pathways. We echo the findings of the recent "Legal Migration Fitness Check," which calls on the Commission to harmonise conditions, procedures, and rights to overcome fragmentation within the system.[17]

2. Pilot and scale Global Skill Partnership projects between Europe and sub-Saharan Africa. A Global Skill Partnership is a tool to manage migration, displace irregular migration flows, shape the terms on which migration happens, and ensure migrants arrive with precisely the skills European destinations need. It is also a development tool in the country of origin, building sustainable institutions that create human capital and build capacity. As discussed above, the Commission is already supporting similar projects and should continue to do so by expanding and diversifying the financing and support available to the MPF and by promoting the opportunity to Member States based on their current and emerging needs and priorities. The Commission should also learn from the experiences of similar projects, such as that being implemented between Germany and Kosovo in the construction industry.[18]

3. Pilot Global Skill Partnership projects within Africa. Many sub-Saharan Africans will not want to travel to Europe, preferring instead to seek work within their region. The Commission can finance partnerships between a country of origin (say, a developing sub-Saharan African country such as Niger) and a country of destination (say, a more developed North African country such as Tunisia). Such a partnership could build necessary institutions and complementary skill sets among native and foreign workers in the country of destination, such as basic construction skills among Nigeriens and middle-management skills among Tunisians. This creates a complementary workforce that helps alleviate pressures on both countries.

4. Be a positive voice for migration within Europe. Such efforts will require an increase in financing, in coordination, in partnerships, and—most importantly—in leadership. We highlight here the many benefits that migration can bring if properly managed, and propose a model to realise these benefits. However, such efforts will require political will and commitment on the part of Member States and a supportive public narrative across Europe. It is imperative that the Commission remains an outspoken advocate for labour migration (and its necessity given the demographic shifts already underway) and showcase positive outcomes from the pilot projects. We have a real opportunity to facilitate new types of migration, but only if the Commission spearheads these efforts.

Notes

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2. UNICEF (2018) "Under-Five Mortality Rate Data," https://data.unicef.org/topic/child-survival/under-five-mortality.

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4. Foresti, M., Hagen-Zanker, J., and Dempster, H. (2018) "Migration and Development: How Human Mobility Can Help Achieve the Sustainable Development Goals," Overseas Development Institute, www.odi.org/publications/10913-migration-and-2030-agenda-sustainable-development.

5. Clemens, M. and Gough, K. (2019) "Unpacking the Relationship between Migration and Development to Help Policymakers Address Africa-Europe Migration," Center for Global Development blog, www.cgdev.org/blog/unpacking-relationship-between-migration-and-development-help-policymakers-address-africa.

6. McAuliffe, M. and Kitimbo, A. (June 7, 2018) "African Migration: What the Numbers Really Tell Us," World Economic Forum blog, www.weforum.org/agenda/2018/06/heres-the-truth-about-african-migration.

7. European Commission (2015) "European Agenda on Migration," https://ec.europa.eu/home-affairs/what-we-do/policies/european-agenda-migration_en.

8. European Commission (2019) "Communication from the Commission to the European Parliament, the European Council and the Council: Progress Report on the Implementation of the European Agenda on Migration," https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20190306_com-2019-126-report_en.pdf.

9. Luyten, K. and González Diaz, S. (2019) "Legal Migration to the EU," European Parliamentary Research Service Briefing, www.europarl.europa.eu/RegData/etudes/BRIE/2019/635559/EPRS_BRI(2019)635559_EN.pdf.

10. The Blue Card Directive governs the conditions for entry and residence of highly qualified third-country workers in the European Union. Due to low take-up, reforms to the Directive were proposed in 2016 but have not yet been enacted.

11. European Commission (2018) "Communication from the Commission to the European Parliament, the European Council and the Council: Managing migration in all its aspects: progress under the European Agenda on Migration," https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20181204_com-2018-798-communication_en.pdf.

12. International Center for Migration Policy Development (2018) "Concept Note: Pilot Projects Legal Migration," www.icmpd.org/fileadmin/user_upload/DOC6_Concept_Note.pdf.

13. The EU Trust Fund for Africa, North Africa Window, provides funding for a regional project in North Africa, carried out by GIZ, the International Organization for Migration, and the International Labour Organization.

14. The MPF is coordinated by the International Center for Migration Policy Development under the leadership of the Directorate-General for Migration and Home Affairs (DG HOME). The Steering Committee also includes representatives from the Directorates-General Neighbourhood and Enlargement Negotiations (DG NEAR) and International Cooperation and Development (DG DEVCO) and the European External Action Service (EEAS). It was originally provided €5.5 million for 35 months (from January 2016). New funding was then granted to rapidly support the pilot projects. The MPF now has another €12.5 million for 36 months (from January 2018). A new phase will start in autumn 2019. Funding comes from the Asylum, Migration, and Integration Fund; the Internal Security Fund for Police Cooperation; and the Internal Security Fund for Borders and Visa.

15. For more information, see the Pilot Project Addressing Labour Shortages Through Innovative Labour Migration Models page on the Enabel website: www.enabel.be/content/europees-proefproject-palim-linkt-it-ontwikkeling-marokko-aan-knelpuntberoepen-vlaanderen-0.

16. The Global Skill Partnership idea is backed by peer-reviewed academic research including Clemens, M. (2015) "Global Skill Partnerships: A Proposal for Technical Training in a Mobile World," IZA Journal of Labor Policy; and Clemens, M. and Gough, K. (2018) "A Tool to Implement the Global Compact for Migration: Ten Key Steps for Building Global Skill Partnerships," Center for Global Development. For more information, see www.cgdev.org/gsp.

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REDESIGNING THE EXTERNAL INVESTMENT PLAN TO BE A GAME-CHANGER FOR AFRICA

Mikaela Gavas

Despite their potential to achieve high development impact, projects in the poorest and most fragile countries, most in sub-Saharan Africa, are chronically underfinanced by European development finance institutions and private investors owing to real or perceived low risk-adjusted returns. The External Investment Plan and its risk-mitigation tools, if structured right, have the potential to mobilise investment where the need is greatest. To make this happen, the new European Commission should

- *clarify the strategic objectives of external investment and steer it towards leveraging high-risk capital for underserved markets;*
- *explicitly focus assistance on the poorest countries through clear project selection criteria;*
- *provide demand-driven technical assistance and operationalise policy dialogue to improve the business environment; and*
- *federate the development finance institutions focusing on steering policy, encouraging best practice, and harmonising procedures and results amongst the development finance institutions and multilateral development banks.*

The Challenge

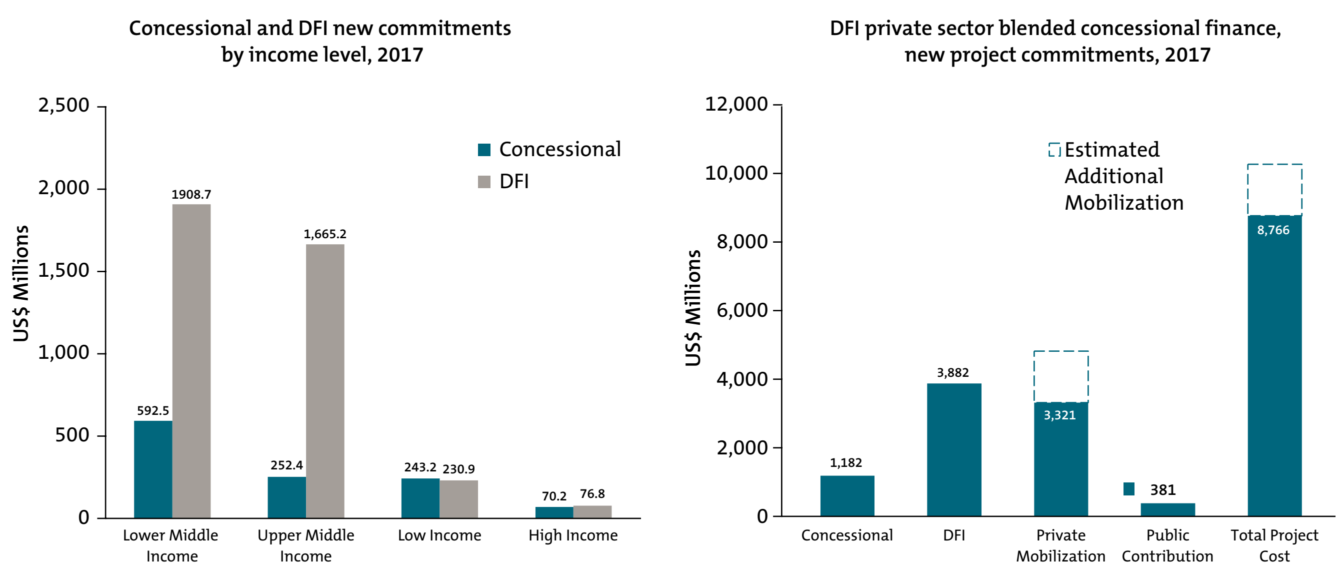
The fundamental challenge at the heart of achieving the Sustainable Development Goals (SDGs) by 2030 is finance—especially mobilising private finance to ramp up development financing from "billions to trillions" of dollars. Almost every development finance institution (DFI) in Europe has made catalysing private capital a primary goal. Yet despite repeated rhetoric, analysis, and piloting since 2015, the trillions are nowhere in sight.

The shortfall is particularly acute in low-income countries (LICs) and fragile states, most of which are in sub-Saharan Africa,[1] where the demographics are challenging, environmental degradation is rapid, financial markets are nascent, and institutions are weak. Although official development assistance (ODA) remains critical to these countries, it is not going to be sufficient for the next development "leap." The International Monetary Fund estimates that to meet the SDGs, LICs will need to spend an additional half-trillion dollars annually until 2030. For many, that represents an additional 15.4 percentage points of GDP.[2] Add to this the 40 percent of LICs that are in, or at risk of, debt distress as governments borrow heavily from public and private lenders to fund social spending and infrastructure.[3] Achieving the SDGs will require piling more public debt on top of what has already been borrowed by LICs.[4]

The alternatives are more domestic resource mobilisation, more mobilisation of private infrastructure and other SDG-related investments, or more concessional lending by multilateral development banks and DFIs that LICs can better sustain. And yet finance for early-stage firms and early-stage infrastructure remains scarce; infrastructure developers and small and medium enterprises (SMEs) often cannot access long-term finance in their local currency; finance for the social sectors (e.g., education and social inclusion) has been even harder to come by than infrastructure finance; women SME owners are still usually last in line to receive finance; and finance at scale for small farmers and their producer-groups remains elusive.[5] Too many projects are just too nascent and too risky to attract investment.

Multilateral DFIs commit just under $40 billion per year in finance for the private sector but only catalyse $60 billion in private finance.[6] Blended finance (the use of grants blended with finance on commercial terms) from multilateral DFIs amounted to only about $9 billion in 2017, or 22 percent of the total $40 billion. And the share of LICs in multilateral DFI blended finance is only about 6 percent, while the share of private finance mobilised by blended finance that goes to LICs is an even lower 4 percent.[7] So, to date, relatively little blended finance has been deployed to mobilise private finance and of that, very little goes to LICs (see figure 1).

Figure 1. A small portion of DFI blended finance goes towards mobilising private finance in the poorest countries



Source: DFI Working Group on Blended and Concessional Finance for Private Sector Projects, Joint Report, October 2018 Update.

Note: The blue bars in the above graph (right-hand side) show the numbers reported by all DFIs, including those that did not report private mobilization or total project cost. The white bar is an estimate of the additional private mobilization and total project cost that was not reported, based on the patterns of the institutions that reported these numbers.

However, the problem is not a lack of money or tools. It is that DFIs are not incentivised to make riskier investments in underserved markets due to operational, institutional, and behavioural impediments. The failure to shift towards catalysing finance rather than lending for their own account, to take more risk, to combine policy reform and project finance, to work together as a system, and to think and act globally has severely hampered the critical role of the DFIs in contributing to the achievement of the SDGs.[8] Part of the problem is the DFIs' shareholders—DFIs are held accountable by their shareholders first and foremost for the volume of their own business and returns. Returns can trump mobilisation ratios, leading DFIs to focus on lending rather than more catalytic but less profitable tools, such as guarantees.[9] Furthermore, shareholders want to preserve triple-A ratings and at the same time finance impactful projects. But this is contradictory.

The European Union's Added Value and Its Progress to Date

Collectively, the European Union (EU) invests more ODA in developing countries than the rest of the world combined. But the impact of that investment has, to date, been limited, partly as a result of the EU's development finance architecture, which has been designed incrementally, responding to the needs of the moment.

There have been three notable trends in EU development finance during its current financial period (2014–2020):

1. A marked shift in the deployment of EU grant finance towards blended finance and guarantees
2. An increase in the number of actors eligible to access investment support
3. A proliferation of new tools and modalities, which has led to a highly complex architecture

The External Investment Plan

In 2017, the European Commission launched an ambitious programme of investment mobilisation in Africa and the Neighbourhood: the External Investment Plan (EIP). Implicit in its creation is the EU's ambition to rival the growing influence of China, whose vast programme of investment on the African continent has left other donors scrambling to catch up. The EIP aims to increase the scale, impact, and coherence of EU-supported external investment by introducing various innovations to the European financial architecture.

The EIP has two important components: (1) a guarantee mechanism to European and non-European DFIs and private investors; and (2) a unique "three pillar" approach to investment support which complements financial tools (pillar 1) with non-financial technical assistance aimed at building a project pipeline (pillar 2) and improving the business environment in partner countries through policy dialogue (pillar 3). The EIP's financial arm, the €4.1 billion European Fund for Sustainable Development (EFSD), comprises a guarantee fund (for a total of €1.5 billion by 2020) and blended finance facilities (for a total of €2.6 billion by 2020).

The EIP is a positive development. Its ambition in scale, thematic and geographic coverage, and risk-sharing tools is unrivalled. Its three-pillar approach has the potential to significantly improve the quality and development impact of EU-supported investments. And it already has had some success in incentivising coordination and joint initiatives between DFIs. Most importantly, as the purpose of the guarantee is to cover losses of the counterparts in the event of default, it has a vital role to play in pushing the DFIs beyond "business as usual" and incentivising them to mobilise investment for higher-risk markets. But is it actually doing this? To date, the evidence suggests that the answer is no.[10]

The EIP is troubled by a lack of a clear policy steer on its multiple, ambitious objectives. It seeks to leverage private finance, focus on jobs and growth, tackle the root causes of migration, reach the poorest and most vulnerable, improve the investment climate, and at the same time, encourage innovation, demonstrate impact, and contribute to the SDGs. Its financial arm, the EFSD, has been designed accordingly, with maximum flexibility to respond to these various aims. It is this breadth and flexibility that has led to ambiguity over the EFSD's primary purpose. It is particularly unclear whether the EFSD is intended to operate primarily as a high-leverage fund (mobilising the maximum quantity of investment for a given input of EU budgetary resources) or as a high-risk fund (mobilising investment for underserved markets with low risk-adjusted returns). Yet there is an inherent trade-off between the two: programmes with lower risk-adjusted returns will require larger injections of grant finance, either via blending or guarantees, to be commercially viable. That is, a higher risk fund will achieve lower leverage and vice versa.

Furthermore, the flexible framework has resulted in a user-driven approach to allocating EFSD resources. While the Commission has defined five thematic investment windows to guide the fund's operations, their scope is extremely broad, and their budget is deliberately undefined. Moreover, the criteria for selecting investment proposals for EU support are vague and relatively subjective. Consequently, DFIs have maximum flexibility to propose investment programmes that suit their objectives, specialisation, and appetite for risk. Without any political steer or competitive incentive, DFIs are unlikely to undertake more complex or risky investment programmes that are struggling to get off the ground. Rather, they may simply use the EFSD's risk-sharing tools to increase the expected return of investment that is slightly suboptimal or, worse, already commercially viable.[11]

The real question then is whether the EFSD is resulting in additional investments or just subsidising investments that would have otherwise taken place. The Commission assesses the additionality of each proposed investment programme using various criteria, including whether the EU guarantee would crowd-in private investment. However, neither the criteria nor the assessments are published. Anecdotal evidence suggests that the EFSD may not be pushing DFIs much beyond their day-to-day operations and that, in some cases, the EFSD is merely subsidising DFIs' business as usual.

The New Investment Framework

In 2018, the Commission released a series of proposals for the next Multiannual Financial Framework 2021–2027, including a new investment framework for external action. The intention was to significantly scale up the EIP while also streamlining the EU's external investment architecture. The proposed framework—the EFSD+—would adopt the same approach as the EIP but with an expanded financial arm comprising the EU's regional blended finance facilities folded into a global blending facility and a new External Action Guarantee (EAG), replacing the current EFSD, with a ceiling of €60 billion. It would sit within the new Neighbourhood, Development and International Cooperation Instrument of €89.2 billion, with each operation funded from the instrument's geographic envelope. The EAG would have a provisioning rate of 9 to 50 percent, suggesting that between €5.4 billion and €30 billion of the instrument's total budget could be dedicated to guarantee operations.

Like with the current EFSD, the EFSD+ has multiple objectives: to foster sustainable and inclusive economic and social development and growth; to create decent jobs and economic opportunities; to eradicate poverty; to foster entrepreneurship; and to address the specific socioeconomic root causes of irregular migration. It focuses special attention on countries experiencing fragility or conflict, least developed countries, and heavily indebted poor countries. However, this approach of "letting a thousand flowers bloom" gives maximum flexibility to the multilateral development banks and DFIs to design investment programmes that they would do anyway.

Like the EFSD under the current system, the future EAG would be open to all eligible counterpart institutions (European and non-European), with a view to creating a level playing field. The difference relates to the treatment of the European Investment Bank (EIB). Under the current EU Multiannual Financial Framework (2014–2020), the EIB's operations outside the EU benefit from an exclusive sovereign risk guarantee by the EU budget and the European Development Fund in African, Caribbean and Pacific countries. Under the proposed new investment framework, the EIB will lose this privilege and will need to compete alongside other multilateral development banks and DFIs for the EAG.

By removing the privileged position of the EIB, the Commission, through the proposed EFSD+, is positioning itself as the hub of the European development finance architecture. It will have the power to unilaterally change the priority areas, governance arrangements, and performance indicators of the EFSD+. This does, however, raise doubts about the capacity and expertise of the Commission to properly structure, manage, implement, and steer the whole process, particularly in terms of banking and financial expertise, which commonly rests with the multilateral development banks and DFIs rather than the Commission.

What Should the New Commission Do?

Despite their potential to achieve a high level of development impact, projects in the poorest and most fragile countries are chronically underfinanced by European DFIs and private investors because of real or perceived low risk-adjusted returns. The EIP and its risk-mitigation tools, if structured right, have the potential to mobilise investment where the need is greatest, in sub-Saharan Africa and beyond. To realise the EIP's full potential, the new Commission should:

1. Clarify the EIP's ultimate purpose and how it is translated into its financial arm. The EIP's purpose should be to leverage high-risk capital for underserved markets, particularly in fragile environments with inherent political uncertainty, and to address real market failures.

2. Allocate blended finance and guarantees in a way that incentivises investment where there are gaps. If the Commission wants the private sector to invest, it will need to increase the return and reduce the risk through a combination of blended finance and guarantees. The EFSD+ should include project selection criteria that explicitly prioritise underserved markets.

3. Expand technical assistance and enabling environment support. Investment in high-risk environments requires extensive technical assistance during the pipeline development and project preparation stages, as well as ongoing improvements to the enabling environment. The Commission has the reach (139 delegations) to add value in these areas, yet progress in articulating and implementing these second and third pillars (technical assistance and policy dialogue, respectively) has been slow. It should earmark resources for pillars 2 and 3, clarify pillar access for the DFIs and multilateral development banks, and strengthen linkages between the pillars.

4. Capitalise on the Commission's federating role to drive collective action, coordination, impact, and efficiency among the users of the EFSD and its successor, the EFSD+. It should focus on steering policy and encouraging best practice among the DFIs and multilateral development banks. And it should agree to standardised, general terms for the guarantee contracts, a common results framework to increase transparency and efficiency, and a common understanding of what constitutes impact. The EIP should be used as a platform for increased coordination and shared analysis.

Notes

1. According to the World Bank, out of the 35 remaining low-income countries, 27 are in sub-Saharan Africa. See World Bank Lending Groups, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.

2. Gaspar, V. et al. (2019) "Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs," International Monetary Fund Staff Discussion Notes No. 19/03, www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-Physical-Investments-for-the-SDGs-46444.

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4. Plant, M. (2018) "SDG Arithmetic," Center for Global Development blog, www.cgdev.org/blog/sdg-arithmetic.

5. Lee, N. (2019) "Trillions for the SDGs? Time for a Rethink," Center for Global Development blog, www.cgdev.org/blog/trillions-sdgs-time-rethink.

6. Ibid.

7. DFI Working Group on Blended Concessional Finance for Private Sector Projects (2018) "Joint Report, October 2018 Update," https://www.ifc.org/wps/wcm/connect/3aaf1c1a-11a8-4f21-bf26-e76e1a6bc912/201810_DFI-Blended-Finance-Report.pdf?MOD=AJPERES&CVID=mpvbN7c.

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9. Lee, N. (2018) "The Eight Virtues of Highly Effectives DFIs," Center for Global Development blog, www.cgdev.org/blog/eight-virtues-highly-effective-dfis.

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11. Ibid.

REFORMING EU TRADE POLICY TO ACCELERATE ECONOMIC TRANSFORMATION IN AFRICA

Hannah Timmis and Ian Mitchell

As the rest of the developing world has reaped the benefits of rapid globalisation, Africa has remained marginalised in international trade. The new European Commission has an opportunity to accelerate export-led growth on the continent by introducing a bolder, more coherent policy on trade, agriculture, and aid. To do so, the new Commission should

- *work towards ending tariffs on imports from Africa and reform rules of origin to permit increased cumulation;*
- *improve the effectiveness and impact of EU "Aid for Trade" in Africa by piloting "payment by results";*
- *reduce subsidies to Europe's agricultural sector to help even the playing field with African producers;*
- *reform the European Globalisation Adjustment Fund to ensure the EU can manage structural adjustment resulting from increased intercontinental trade.*

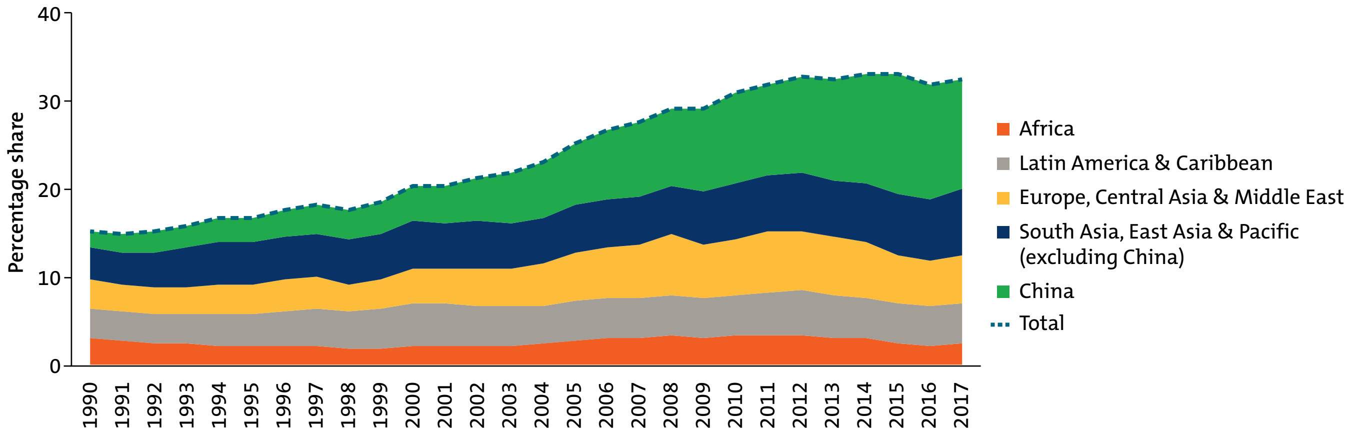
The Challenge

In the past 30 years, while China experienced trade-led growth that lifted some 850 million people out of poverty, Africa's exports have remained below 3 percent of global trade (figure 1) and been dominated by low value-added commodities (figure 2).[1] The continent's poor trade performance is both a consequence and a cause of its persistent underdevelopment. Growth remains volatile, quality jobs are scarce, and productivity lags far behind other regions.[2]

Worryingly, a confluence of structural trends looks likely to increase the challenge of achieving inclusive, export-led growth in Africa. "Slowbalisation"—the decline in cross-border trade and investment that followed the 2008 financial crisis—is closing off opportunities for integration in the global economy, Asia's continuing dominance of manufactures markets is discouraging entry by newcomers, and automation may reduce the labour-absorbing potential of manufactures trade.[3]

Figure 1. Africa's share of global exports has remained under 3 percent since 1990

Developing economies' share of global merchandise exports, 1990-2017



Source: UN Comtrade Database: https://comtrade.un.org.

Against this bleak outlook, the recently ratified African Continental Free Trade Area (AfCFTA) has raised hopes of stimulating value-added trade in the region. The AfCFTA aims to create a single African market for goods and services, thereby paving the way for a continental customs union. Since value-added manufactures make up a much larger share of Africa's *intra*-regional exports than its international ones (see figure 3), removing barriers to this trade is predicted to accelerate industrialisation, employment generation, and export-led growth.[4]

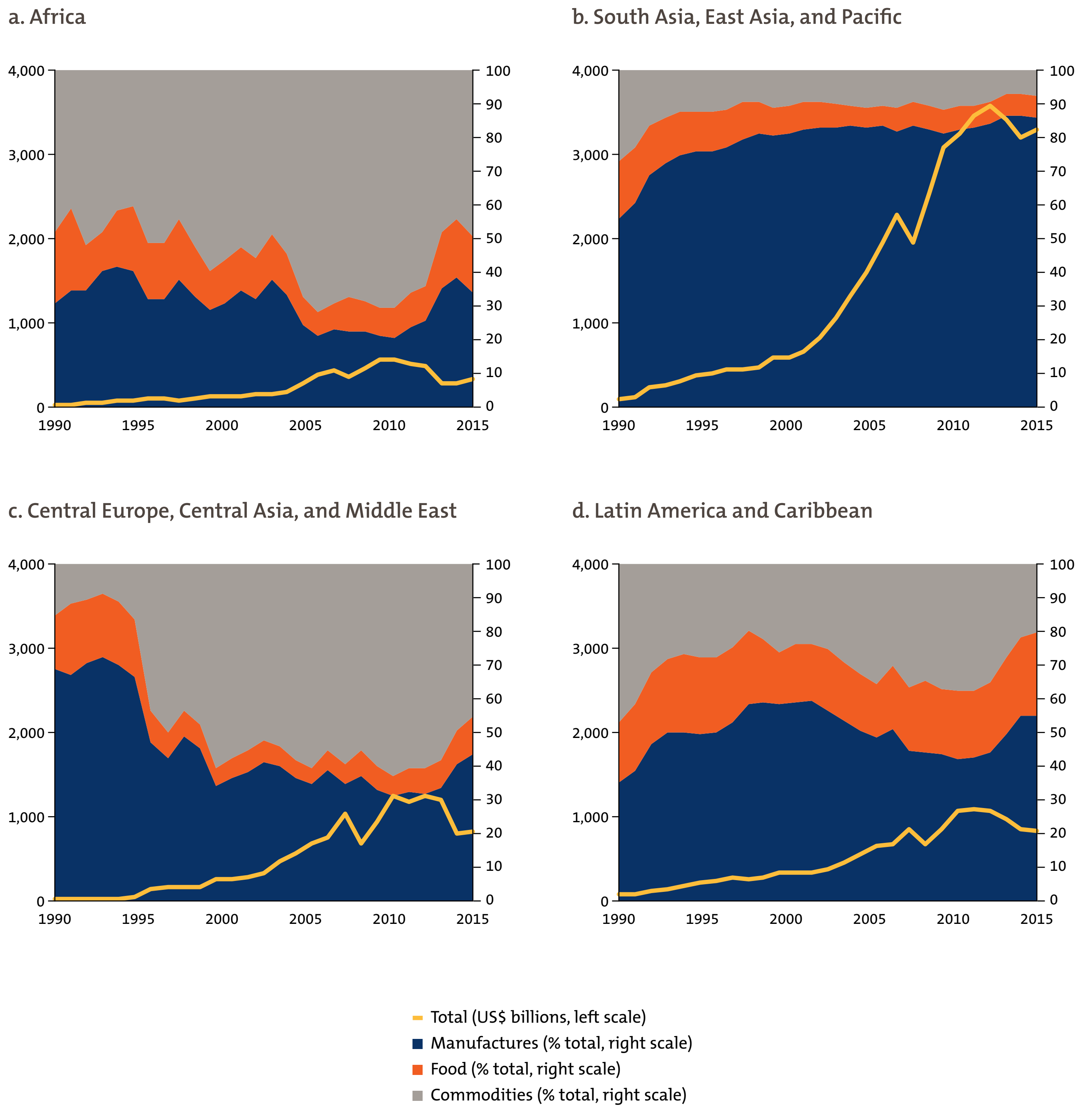
Still, if the AfCFTA is to live up to expectations, African countries must address three major challenges which resonate with those of the EU's own single market.

The first is non-tariff barriers. The average applied tariff in Africa is 8.7 percent, but other obstacles increase the cost of Africa's trade by an estimated 283 percent.[5] While the AfCFTA will include provisions on non-tariff measures, these have yet to be agreed and will likely prove challenging, both technically and politically, to negotiate and implement. Yet, if non-tariff barriers are not addressed, then the impacts of the AfCFTA on African countries are estimated to be small and uneven.[6]

A second issue is managing the structural adjustments that will accompany any meaningful liberalisation. The AfCFTA will result in a reallocation of capital and labour to more efficient uses, creating winners and losers within and across countries. Mitigating the costs of this adjustment is essential, since trade agreements with highly unequal benefits tend to unravel.[7] Finally, there is the challenge of finding the capacity, resources, and political will to make progress. The experience of Africa's Regional Economic Communities, which aim to facilitate integration at the sub-regional level, suggests that these issues will make timely implementation of the AfCFTA difficult.[8]

Figure 2. **Commodities continue to dominate Africa's global merchandise exports**

Level and composition of global merchandise exports for selected regions (excluding high-income countries)



Source: UN Comtrade Database: https://comtrade.un.org.

Note: Manufactures comprise commodities in Standard International Trade Classification (SITC) sections 5 (chemicals); 6 (basic manufactures); 7 (machinery and transport equipment); and 8 (miscellaneous manufactured goods), excluding division 68 (non-ferrous metals). Food comprises the commodities in SITC sections 0 (food and live animals); 1 (beverages and tobacco); and 4 (animal and vegetable oils and fats) and SITC division 22 (oil seeds, oil nuts, and oil kernels). Commodities comprise SITC section 3 (mineral fuels, lubricants, and related materials); divisions 27 (crude fertiliser, minerals); 28 (metalliferous ores, scrap); and 68 (non-ferrous metals).

The European Union's Added Value and its Progress to Date

The EU has a key role to play in stimulating export-led industrialisation and growth in Africa. The size of the European market and its relative proximity to Africa mean it should remain an important source of demand for African countries' value-added trade, particularly if it continues to make progress on liberalising tariff and non-tariff barriers. As the largest providers of investment and Aid-for-Trade (AfT) on the continent, the EU and its Member States should also be key financiers of the AfCFTA and other initiatives to boost intra-African trade.[9] And as the most advanced integration project in the world, the EU should provide a model for Africa as it pursues closer economic union, particularly by demonstrating how market liberalisation can be made compatible with distributional objectives. Below, we assess the EU's progress in each of these areas.

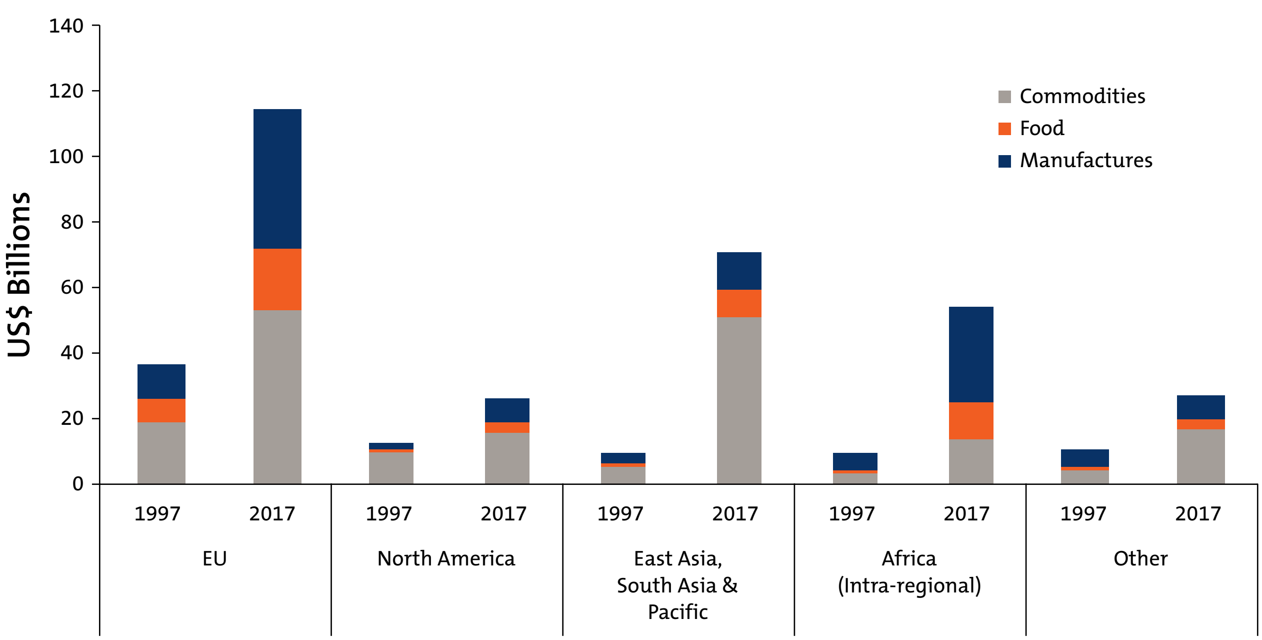
The EU Market and African Trade

The EU is the largest market for Africa's trade, accounting for $116 billion (34 percent) of the region's total exports in 2017 (figure 3). It has also posted the greatest increase in demand for Africa's higher value-added manufactures: these comprised $42 billion or 37 percent of its total imports from the region in 2017, up from $11 billion or 29 percent in 1997. By contrast, 27 percent of North America's imports from Africa and just 15 percent of Asia's are manufactured goods.

There is evidence that the EU's tariff policies have positively contributed to Africa's export growth. The EU's tariff regime for developing countries compares favourably to other advanced economies: when duties are weighted by the income-level of trade partners, only Australia and New Zealand are more open among OECD members.[10] In fact, 52 out of 54 African countries pay low or no tariffs in Europe, either as beneficiaries of the EU's Generalised Scheme of Preferences

Figure 3. The EU is the largest market for African exports

Level and composition of African exports by destination



Source: UN Comtrade Database: https://comtrade.un.org.

(GSP) or under a free trade agreement. Econometric evaluations of the GSP suggest that tariff preferences have increased beneficiaries' exports to the EU.[11] The impact has been greatest for least developed countries (LDCs), of which 31 are African economies that enjoy full duty- and quota-free access to European markets under the "Everything But Arms" sub-scheme.

Still, the evidence base for EU–Africa free trade agreements is weaker. Since 1997, the EU has concluded agreements with 17 countries in the region, including four Association Agreements with North African countries and five Economic Partnership Agreements with regional groupings of sub-Saharan countries. Ex-post evaluations of these agreements are limited because they have yet to be effectively implemented, however, the ex-ante analysis is concerning. Free trade agreements are expected to have limited impact on African countries' European exports since most already enjoyed near-full access to the EU under GSP prior to the agreement.[12] Critics further argue that they may hold back the continent's structural transformation by undermining intra-regional trade and integration.[13] Lowering tariffs on EU imports in African markets is predicted to divert the region's trade in favour of European producers and away from local or more efficient suppliers. Moreover, because EU free trade agreements have been negotiated with regional blocs rather than the continent as a whole, they have increased the heterogeneity of African countries' liberalisation commitments, adding to the challenge of rationalising the continent's trade regimes under AfCFTA. The limited anticipated benefits of free trade agreements explain why many African countries, particularly LDCs, have refused to join them.

Non-tariff barriers may also have dampened the impact of lower duties on African countries' exports to the EU. The EU's rules of origin, despite reforms in 2011, are widely critiqued for being overly complex and restrictive,[14] especially rules on minimum domestic content and "cumulation." To be eligible for reduced tariffs, a developing country export must have a minimum domestic content of 30 percent—a higher threshold than the 25 percent minimum recommended by LDC members of the World Trade Organization (WTO).[15] Moreover, exporters cannot easily "cumulate" inputs from other countries. For example, the 34 African exporters trading under GSP cannot count inputs from elsewhere in the region as domestic content (although they can cumulate with EU members), while the 13 trading under Economic Partnership Agreements, a type of free trade agreement, can only count those from other EPA partners. There is evidence that these restrictions have limited African exporters' use of tariff preferences and may also have undermined regional value chain creation.[16]

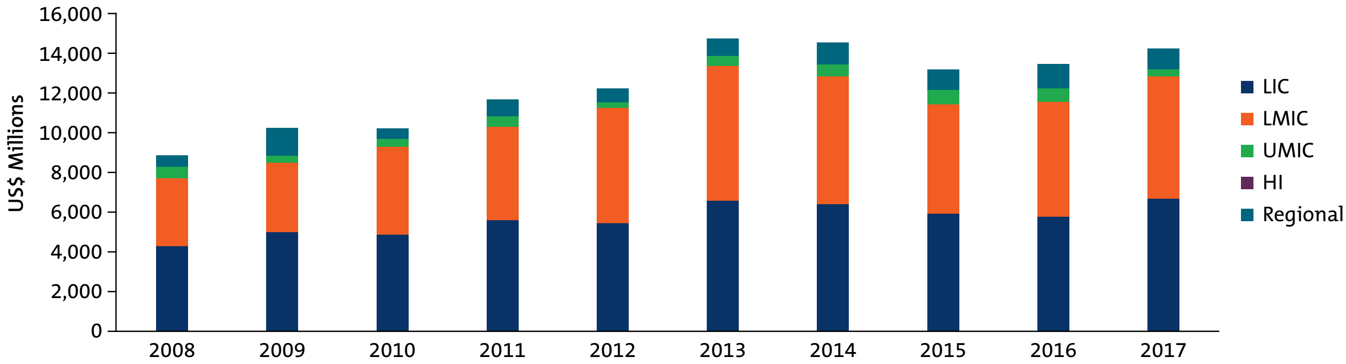
Agricultural subsidies are another non-tariff barrier to African exports. The EU spends around 40 percent of its budget subsidising its agriculture sector.[17] In effect, these subsidies increase EU agricultural supply and, alongside reducing EU demand for imports, lower prices on world markets at the cost of other nations. The EU's support levels were 18.3 percent of its agricultural farm income in 2017, well above those of Brazil, Canada, China, Russia, and the United States. African agriculture subsidies are much lower: even in South Africa, the wealthiest African country, the figure is just 1.9 percent of output.[18] Moreover, subsidies vary significantly across Member States: while the Netherlands subsidises just 4 percent of its agricultural output, in Ireland this figure is nearly 30 percent.[19] This disparity undermines the Single Market, does little for the environment, and causes damage to development.[20]

EU Aid-for-Trade in Africa

The EU provides substantial amounts of aid to stimulate trade in Africa. While there is evidence that AfT can enhance trade performance, its effectiveness varies considerably across geographies, sectors, and intervention types, and there is a question mark over how well the EU's scheme is designed.[21] The United Nations Economic Commission for Africa and the African Union have identified three priorities for AfT in Africa:

Figure 4. The share of EU Aid for Trade targeting low-income African countries has remained stagnant

Disbursement of EU Aid for Trade in Africa, 2008–2017



Source: OECD Creditor Reporting System.

(1) improve the targeting of AfT, particularly by increasing funding to regional programmes with specific integration objectives and to Africa's poorest countries; (2) ensure coherence and ownership by aligning AfT programmes with African policy frameworks, including AfCFTA and its sister initiatives; and (3) increase the effectiveness and impact of AfT through improved monitoring and reporting.[22]

Evaluating EU AfT against these objectives finds that there is room for improvement. In targeting, while EU AfT disbursements to Africa have increased over the past decade, the proportion allocated to low-income countries has remained roughly constant at 43 to 47 percent (figure 4). Moreover, flows are unevenly distributed across countries, with Morocco, Kenya, Ethiopia, Egypt, Tanzania, and Tunisia receiving nearly half of the total.[23] The share of EU AfT allocated to regional programmes has been consistently low at 10 percent or less. The EU also performs poorly against the coherence objective. A Communication from the Commission recognises AfT spending lacks a coordinating framework: "Current spending of EU's aid for trade happens in too decentralised and fragmented manner. In 2015 ... the EU's aid for trade represented a third of EU total official development assistance (ODA) and was channelled through some 3,000 financing decisions."[24] Finally, before 2018, the EU did not aggregate and report on the results of its AfT spending. Its annual "Aid for Trade Review" provided a statistical overview of the portfolio's geographic and sectoral focus, but no assessment of effectiveness, impact, or lessons learned.

The Commission has worked to address these issues in recent years. In 2017, it released an updated "Aid for Trade Strategy" with objectives that included an increased focus on LDCs, reduced fragmentation, and improved monitoring and reporting.[25] Since 2018, the EU's annual AfT review has included a qualitative assessment of results across different regions and sectors. Of most relevance to African regional integration, the new Africa-Europe Alliance (see below) commits €50 million in ODA to support implementation of the AfCFTA. Still, ensuring that these funds are successfully deployed to boost intra-African trade will be challenging. Evidence about which AfT interventions work is mixed, and projects that are successful in one context can prove less so in another.[26]

The EU's Ability to Deal with Structural Adjustment

If Africa and the EU achieve their ambitions on intercontinental trade, it could substantially change the make-up of the industries and economies of both regions. The EU must deal with these disruptions more effectively than, say, the United States did with China. The EU has competence in dealing with the job loss from major trade and structural changes in the form of its European Globalisation Adjustment Fund.[27] The new Commission can reform this still nascent programme to support economic growth and redistribution within the EU, and continue to provide leadership globally on marrying a market and social model. The European Global Adjustment Fund reforms have already improved the design to focus on individuals rather than firms, as is the case in the US equivalent. That programme provides for a visible and economically valuable response to the changes facing workers from trade, economic disruption, and technology that are necessary ingredients of economic growth. Still, the budget and policy design remain unambitious. The annual ceiling on expenditures is just €150 million compared with the EU's regional policy, which runs to approximately €50 billion per year.[28] In their evaluation, Claeys and Sapir (2018) highlight two major opportunities for the scheme: removing the arbitrary minimum number of workers (500) who need to be affected; and broadening the scope of the fund to other sources of structural adjustment, including intra-EU trade, climate, and related policies.[29] In addition, the payouts per worker averaged just €4,219 over the period 2007–16, well short of the amount needed to redirect a career cut short,[30] while the time taken to approve schemes should surely improve on the minimum six months.[31]

What Should the New Commission Do?

In September 2018, the outgoing European Commission unveiled the "Africa-Europe Alliance for Sustainable Investment and Jobs," an ambitious statement of intent for deepening economic relations between the continents. Tapping the full potential of integration and trade is a key pillar of the Alliance, and its proposed actions include increasing and diversifying trade between the EU and Africa, lending support to the AfCFTA via more AfT, and enhancing intra- and inter-regional connectivity. These are sound objectives, but their achievement will require that the EU make ambitious changes. The new Commission should:

1. Work towards ending tariffs on imports from Africa and reform rules of origin to permit increased cumulation. The EU should continue to liberalise its remaining tariffs on imports from Africa and improve the impact of these preferences by reforming rules of origin. Offering different market access terms to different African countries under the GSP, Everything But Arms, and various free trade agreements leads to distortions and undermines regional integration. It adds to the complexity of EU rules of origin due to the need to prevent trans-shipment of African exports through countries with more favourable terms. The new Commission should work towards providing duty-free access to EU markets for all African countries, irrespective of geography or income-level. These concessions should be offered unilaterally and could be a feature of the new AfCFTA, thereby encouraging adoption.

Because WTO rules require that eligibility for GSP schemes be based on objective developmental criteria, the EU cannot easily introduce unilateral tariff preferences that discriminate in favour of African producers. Instead, it could extend tariff-free access beyond LDCs to all low- and lower-middle-income countries, replacing its current multi-tiered GSP scheme with a simplified arrangement that would apply to 51 out of 54 African economies. Though LDCs would lose some of the competitive advantage that lower relative tariffs afford them in European markets, this loss could be mitigated using the EU's existing graduation mechanism, whereby preferences are withdrawn from country exports that are "highly competitive," as assessed by objective criteria. This would help ensure that no single large country dominates an entire sector-market. As a second-best option, the EU could follow the precedent set by the African Growth and Opportunity Act, the US preference scheme for sub-Saharan Africa only, and seek a WTO waiver.

The EU should also reform its rules of origin in line with the WTO Ministerial Declaration for LDCs. This would involve lowering minimum domestic content requirements from 30 to 25 percent and providing for extended cumulation. At a minimum, the EU should allow African country exporters to cumulate inputs from other countries in the region. It could further permit cumulation of products that can be imported into the EU duty-free, regardless of origin.

2. Improve the effectiveness and impact of EU Aid for Trade in Africa by piloting payment by results. Policy choices within African countries matter more for their export performance than EU tariffs and rules. AfT is the EU's main lever for influencing these choices, but evidence of effectiveness is lacking. The EU can improve its offer by making increased use of results-based programmes which also ensure EU funds are only spent if successful. Drawing on earlier CGD work,[32] the case for employing payment by results in AfT programmes is:

> *Payment by results (paying for outcomes, not inputs) is most appropriate where local contextual knowledge matters, where the best combination of inputs is uncertain and local experimentation is needed, and where precise design features and implementation fidelity are most critical. All these criteria apply to AfT.*
>
> *[In] a typical AfT programme… payments would typically be made for activities (for example, technical assistance for improving a certain process) that, according to a theory of change, should lead to the desired outcomes. But contracting for activities and inputs doesn't allow for sufficient experimentation and change. A better approach is to contract for outcomes … and allow those with the required information the flexibility to determine the best way of achieving those outcomes.*

In the context of the AfCFTA, the EU could condition AfT on measures of the cost of importing and exporting across African borders. These are a close proxy for the presence of non-tariff barriers, the removal of which are critical to the AfCFTA's success.

3. Reduce agricultural subsidies to even the playing field with African producers. The new Commission should accelerate plans to eliminate harmful agricultural subsidies. While the pathway for the EU agriculture budget appears to be downward, the new Commission should ensure there is no backsliding, and should make the case for spending of greater benefit to EU citizens, and which does not undermine development in the EU's trade partners. The pressing nature of climate change and poor value of this spending must be drivers to ensure the EU no longer has to explain why over a third of its spending is essentially wasted on agriculture.

4. Reform the European Globalisation Adjustment Fund. The European Globalisation Adjustment Fund remains unambitious in its €150 million budget, scope, and design. There is a significant opportunity to expand the workers that can benefit; to broaden the scope of the fund to other sources of structural adjustment (including intra-EU trade, climate, and related policies); and to accelerate and increase payouts from around €4,000 to an amount that genuinely funds a redirection in a career cut short. Together, this comprehensive approach to structural adjustment would demonstrate the EU's ability to benefit from and adjust to major economic change, and help avoid the failures of the United States in response to China's and Latin America's rise.

Notes

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3. The Economist (January 24, 2019). "Globalisation has Faltered," www.economist.com/briefing/2019/01/24/globalisation-has-faltered.

4. For example, Karingi and Mevel estimate that if African countries eliminated tariffs for intra-regional trade, the value of that trade would increase by 52 percent over 10 years, with the greatest expansion occurring for industrial exports. See Karingi, S. and Mevel, S. (2012) "Deepening Regional Integration in Africa: A Computable General Equilibrium Assessment of the Establishment of a Continent Free Trade Area followed by a Customs Union," Paper for presentation at the 15th Global Trade Analysis Project Conference, Geneva, June 27–29.

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6. Ibid., p. 65.

7. Ibid., p. 2.

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13. Listen Notes (August 1, 2017) "Trade Talks: Dr. Stephen Hurt Talks Trade, Development, and Economic Partnership Agreements," www.listennotes.com/podcasts/talking-trade-post/dr-stephen-hurt-talks-trade-OzvQMk5o_LZ.

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STRENGTHENING EUROPEAN LEADERSHIP ON GLOBAL HEALTH SECURITY

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Impending leadership transitions in EU institutions provide a unique opportunity to bolster European action on global health security. This would be a double win for the EU: advancing its efforts to foster progress in developing countries while also protecting Europe itself against potential disease risks. To help strengthen the EU's leadership on global health security, the new Commission should

- *strengthen collaboration and coordination across EU entities holding global health security responsibilities;*
- *prioritise global health security and preparedness in the Commission's dialogue with Member States;*
- *develop a financing mechanism to increase sustainability, collaboration, and effectiveness on preparedness as assessed by the WHO's joint external evaluation process.*

The Challenge

The 2014 Ebola outbreak in West Africa sickened more than 28,000 people and left 11,310 dead.[1] As the outbreak spread through Guinea, Liberia, and Sierra Leone, disrupting markets, healthcare, and routine government services, the international community struggled to mount an effective response. The outbreak sparked a new wave of global health security dialogue, but five years later, epidemic and global preparedness for complex large-scale outbreaks remains tenuous. Despite some positive developments,[2] global preparedness remains low, as exhibited by the difficulty of containing recent outbreaks, including the 2003 SARS outbreak;[3] the 2015 Zika outbreak; and, most recently, the Ebola crisis in the Democratic Republic of the Congo and Uganda.[4] However, pandemic preparedness is not just an issue for developing countries. In times of increased globalisation, interconnectivity, and global supply chains, health security is a truly global issue. Europe has a responsibility to protect its citizens from disease, which includes preparedness at home and abroad.

While much work remains to be done, a more structured global health security landscape is slowly emerging, as evidenced by the dedicated Sustainable Development Goal on health security (target 3.d); the creation of the World Health Organization (WHO) Health Emergencies Program and WHO Strategic Partnership for International Health Regulation and Health Security; the creation of the Africa Centres for Disease Control and Prevention (Africa CDC); G7 and G20 commitments to strengthen health security; and the creation of the Global Health Security Agenda, launched in February 2014 as a multi-sectoral effort to boost the capacity of countries to prevent, detect, and respond to infectious disease.[5]

The WHO launched a joint external evaluation (JEE) process in 2016, providing a systematic tool for countries to assess outbreak preparedness across 19 technical areas and 48 indicators (with preventing, detecting, and responding as the core elements).[6] As of July 2019, 100 of 199 countries have completed JEEs. However, in 2018, most countries scored below a four on the JEE indicators, "indicating non-sustainable or underdeveloped capacities."[7] (JEE indicators are scored from one to four, with one indicating "no capacity" and four "demonstrated capacity.") Capacities are significantly more limited in Africa and South East Asia regions than in Latin America and Europe. While National Action Plans for Health Security (NAPHS) are being developed by countries to address gaps identified in JEEs, only 45 have been completed, and fewer still have been robustly implemented.[8] While the slow progress on NAPHS implementation is explained by many factors, insufficient and inappropriately structured funding is a binding constraint.

In 2017, the International Working Group on Financing Preparedness estimated that $4.6 billion a year is required to finance preparedness,[9] significantly less than the predicted economic loss of $60 billion per year if a pandemic occurs.[10, 11] Responsibility for preparedness investments sits primarily in the hands of country governments, and the working group has recommended that governments both prepare investment cases and find ways to mobilise domestic resources for preparedness.[12] A handful of countries have developed NAPHS-costed plans; however, competing immediate priorities of government health budgets and overall fiscal pressures makes investing in preparedness less urgent than other priorities that show immediate payoff. Building financing models that both mobilise international resources and create incentives for domestic resource investment is essential.

The European Union's Added Value and its Progress to Date

The European Union (EU) has the advantage of being a supranational body with an established history of engagement in the global health space. The 2010 Brussels conference on the EU initiative "Global Health—Together We Can Make it Happen"[13] led to a policy framework outlining the EU's strategy and commitments to global health action.[14] The Council conclusions[15] from 2010 now serve as the main guidance for the EU's global health operations, but mobilisation of the strategy has been slow and coordination challenges persist.[16, 17, 18] While the EU has shown promise through the creation of the Health Security Committee[19] and the 2018 Roadmap for preparation and response to epidemics,[20] commitment to health security by EU Member States remains inconsistent.

EU Member States remain largely responsible for public health policy and service provision. However, Member States have agreed to work towards coherence with the EU on cross-border issues and beyond and it is here that the European Commission plays an important role.[21] For example, while the EU is a member of the Global Health Security Initiative,[22] only 10 EU Member States are members of the Global Health Security Agenda,[23] and Finland is the only Member State that has completed an NAPHS. This gap is further evidenced by the spike in measles cases across Europe in recent years,[24] leading to Germany's recent decision to make the vaccination compulsory.[25] Europe's health preparedness must begin at home.

The EU institutions are currently punching below their weight on global health security. The European Commission's role on health security is mostly limited to coordinating with Member States and supporting efforts of coherence among the Member States. This has resulted in health security priorities being managed in a segmented manner and coordination of health security objectives to be diffuse.

Currently, responsibility for different components of the health agenda are segmented across Directorate-General (DG) offices. The EU's mandate for pandemic preparedness lies across four of the Commission directorates, and one relevant entity: the Directorate-General for International Cooperation and Development (DG DEVCO), the Directorate-General for Health and Food Safety (DG SANTE), the Directorate-General for European Civil Protection and Humanitarian Aid Operations (DG ECHO), the Directorate-General for Research and Innovation (DG RTD), and the European Centre for Disease Prevention and Control (ECDC). Although the current mandates and structures of the DGs may shift with the incoming Commission, understanding operations as they currently stand is vital to informing future policy.

- ***DG DEVCO*** facilitates preparedness, including financing, in low- and middle-income countries (LMICs). DEVCO also supports response during outbreaks, specifically through bilateral programmes with ministries of health that target health systems strengthening. However, there is not a specific funding mechanism or line item for preparedness and response; and financing of surveillance, labs, and other preparedness capacities is limited. Most of the finance is provided in the form of budget support without the direct, hands-on management and benchmarking of the improvement of health systems that are required.

- ***DG ECHO*** leads the response to specific outbreaks through the funding of NGOs implementing operations on the ground, including deployment of health personnel for health-related humanitarian operations. The EU has also established the EU Civil Protection Mechanism within ECHO, which aims to "strengthen cooperation between Participating States in the field of civil protection, with a view to improving prevention, preparedness and response to disasters."[26] Financial compensation is provided to EU Member States if they commit resources through the Civil Protection Mechanism, which is coordinated through the Emergency Response Coordination Centre.[27] This mechanism can apply to pandemic response if activated.

- ***DG SANTE*** is responsible for preparedness in EU Member States and has strong links to Member States' technical expertise and capabilities. It does not work in LMICs or play a role in facilitating the overseas deployment of Member State capacities.

- ***DG RTD*** is responsible for funding research in the context of infectious disease outbreaks, such as the Johnson & Johnson vaccine for the current Ebola outbreak in the Democratic Republic of the Congo. Additionally, DG RTD is responsible for the establishment of the Global Research Collaboration for Infectious Disease Preparedness.

- ***ECDC*** is responsible for monitoring disease threats and outbreaks, deploying epidemiologists in support of WHO, tracking surveillance and disease data, and delivering public health training programmes.[28] The ECDC functions at the Member State level but also has international reach beyond the EU. In terms of response and to allow for the mobilisation of interoperable capacities, standards are set and checked by the ECDC. The ECDC's "vision" in its 2020 International Relations policy includes supporting preparedness activities, including detection, assessment, and response to disease threats in neighbouring countries.[29] The 2020 strategic objectives also include preparedness and response indicators, with the goals of strengthening partner countries' preparedness and expanding outbreak response to countries outside the EU.

What Should the New Commission Do?

In the areas of health security, pandemic preparedness operations, and financing at the pan European and global levels, the new European Commission should seize the opportunity for strengthened cohesion and priority setting with Member States. Additionally, we encourage the new European leadership to help drive greater alignment and coherence in global financing mechanisms and payoff in the form of enhanced long-term health security for all EU Member States. To achieve these objectives, the new Commission should:

1. Strengthen collaboration and coordination across EU entities holding global health security responsibilities. Preventing and responding to high-risk outbreaks in both EU Member States and LMICs requires a more integrated approach to cross-departmental collaboration between relevant entities on global health security priorities. Each EU entity, including the DGs and ECDC, has a relevant comparative advantage—technical, deployment, financing, and more. However, efforts across these entities are fragmented, and siloed mandates can lead to gaps in coordination. For example, DG SANTE only holds responsibility for preparedness in EU countries, not LMICs, creating a divide between preparedness efforts that are led by SANTE and those led by DEVCO. In some cases, DGs are not cognizant of the functions of the different operating bodies. To date, inter-DG collaboration has been weak under the existing configuration and must remain a point of emphasis under any new configuration that emerges from the incoming Commission.

The new Commission's first priority for global health security should be clearly defining roles for each entity that is responsible for health and building linkages between interrelated capacities (e.g., ECHO's overseas deployment capability and SANTE's connections to Member States' technical and operational assets), including a strategy and operational framework. The Commission could form a working group similar to the ET 2020 Working Groups,[30] comprising leadership from the different entities, technical experts in the field of global health security, EU Member States, and ministry of health officials from developing countries, to develop an operational framework. Potential topics for the working group include preparedness responsibilities for each entity (e.g., DGs); portfolio of financing instruments and strategies to better support preparedness, including surveillance; and deeper and more formal engagement with African health security architecture, especially the Africa CDC.

As a subsequent step, the working group could make nominations for an inter-commission health security steering group, which would broadly oversee the activities and coordination of the DGs. This group could also ensure that financing for preparedness is sustained and, in the case of a future outbreak, that there is a better tool for linking response efforts of the responsible EU body to the health workforce capacity of Member States.

2. Prioritise global health security and preparedness in the Commission's dialogue with Member States. As public health remains a national competence for EU Member States, the Commission faces the challenge of encouraging Member States' commitment to health security as a key economic objective within their own health priorities. As discussed above, Member States vary in their health frameworks, and may differ in their approach to health security and the importance assigned to that topic. Policy dialogue with Member States should include the states' own health security as well as how they could best support others. Given the scale of challenges in pandemic preparedness and the global nature of many aspects of health security, a further alignment of Member States' policies is crucial for Europe's protection against disease risks.

The framework resulting from the working group, described in recommendation one, should be socialised with and adopted by EU Member States. Moreover, DEVCO or another relevant entity (depending on the Commission's structuring) should lead in encouraging Member States to join the Global Health Security Agenda and develop NAPHS.

3. Develop a financing mechanism to increase sustainability, collaboration, and effectiveness on JEE-scored preparedness. Investing in preparedness is a global public good that is currently neglected by most of the international system. Existing funding mechanisms—including the Pandemic Emergency Facility, the International Development Association, the Crisis Response Window, and the Regional Disease Surveillance Systems Enhancement Program—focus on outbreak response rather than preparedness. The new European Commission should build and support better financing mechanisms for international preparedness and response. The EU can build financing mechanisms for pandemic preparedness that closely link to measured progress, strengthened capacity, and overall sustainability. For development partners, trust funds are the traditional mechanism for providing health grants to countries. However, trust fund grants have not been successfully linked to JEE results. The new Commission should look beyond traditional funding mechanisms to solutions that prioritise measurement and results. Given the roles of the World Bank, the US Centers for Disease Control and Prevention, and bilateral actors such as Australia and China in providing direct financing support for preparedness and response, plans from the new Commission should consider existing financing mechanisms and how a synergistic approach can be assured.

The Commission should align financial preparedness mechanisms with clear measurements, objectives, and incentive systems for efficiency, sustainability, and coordination. These measurements could utilise or build upon existing frameworks from the International Health Regulations. There are two primary goals of funding mechanisms for pandemic preparedness: to speed and sustain preparedness, and to increase domestic and international financing for preparedness in an efficient manner. In designing new financing mechanisms, these principles should be at the forefront of the Commission's mind. Moreover, mechanisms should build incentive systems for efficiency and should increase the visibility and accountability of country governments.

We recommend that the EU develop a "challenge fund," a model that has successfully motivated countries to invest their own resources and focus on progress towards mutually agreed outcomes or reforms. A challenge fund could ask countries to put up a share (half) of the resources, with the other share (or half) coming from EU monies to fund preparedness gaps and programmes identified in NAPHS. Countries would receive half their contribution back if they make annual (or 18-month) progress on a set of independently verified metrics (could be a score 4 from the JEE). This arrangement could create incentives for domestic on-budget spending for preparedness, improve the quality of preparedness data by conducting a rigorous independent verification, provide opportunity for accountability at regular intervals, and help align multiple funders. For example, if other development partners, especially the World Bank, also designed their current funding mechanisms to be results-driven, the challenge fund mechanism could provide an opportunity for alignment of priorities, measurements, and accountability. This mechanism would also be helpful and appealing to country governments because it enables countries to "correct course" and "try again" if attempts to improve upon JEE evaluations are initially unsuccessful. In turn, this mechanism prioritises sustainability, a key objective for the EU, as it can build trust with country governments without tying funding to a single disease or outbreak.

All activities should take place in close consultation and collaboration with the WHO as the entity formally charged with the leadership and coordination of the International Health Regulations.

Notes

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Abbreviations and Acronyms

AfCFTA	African Continental Free Trade Area
Africa CDC	Africa Centres for Disease Control and Prevention
AfT	Aid-for-Trade
DFI	development finance institution
DG	Directorate-General
DG DEVCO	Directorate-General for International Cooperation and Development
DG ECHO	Directorate-General for European Civil Protection and Humanitarian Aid Operations
DG RTD	Directorate-General for Research and Innovation
DG SANTE	Directorate-General for Health and Food Safety
EAG	External Action Guarantee
ECDC	European Centre for Disease Prevention and Control
EFSD	European Fund for Sustainable Development
EIB	European Investment Bank
EIP	External Investment Plan
EU	European Union
GSP	Generalised Scheme of Preferences
ICT	information and communications technology
JEE	joint external evaluation (World Health Organization)
LDC	least developed country
LIC	low-income country
LMICs	low- and middle-income countries
MPF	Mobility Partnerships Facility
NAPHS	National Action Plan for Health Security
ODA	official development assistance
SDGs	Sustainable Development Goals
SME	small and medium enterprise
WTO	World Trade Organization

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