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Using EU Aid to Address the Root Causes of Migration and Refugee Flows

Heliodoro Temprano Arroyo

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Heliodoro Temprano Arroyo

*To my parents, who once migrated to Madrid,
and to my sons, Marco and David,
who are also children of emigrants
and for whom the world is their home*

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The responsibility for the contents of this publication rests with the author, not with the European Commission or the European University Institute.



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List of abbreviations

ACP	Africa, Caribbean and Pacific
ADB	Asian Development Bank
AFD	Agence Française de Développement
AfDB	African Development Bank
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CEPS	Centre for European Policy Studies
CGD	Centre for Global Development
COP	Conference of the Parties
CPA	Cotonou Partnership Agreement
CRRF	Comprehensive Refugee Response Framework
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DFID	Department for International Development
DG BUDG	Directorate General for the Budget
DG DEVCO	Directorate General for International Cooperation and Development
DG ECFIN	Directorate General for Economic and Financial Affairs
DG HOME	Directorate General for Migration and Home Affairs
DG NEAR	Directorate General for Neighbourhood and Enlargement Negotiations
EBRD	European Bank for Reconstruction and Development
EDF	European Development Fund
EEAS	European External Action Service
EEIP	European External Investment Plan
EFSD	European Fund for Sustainable Development
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
ELM	External Lending Mandate
ERI	Economic Resilience Initiative
ENI	European Neighbourhood Instrument
EU	European Union
EUI	European University Institute
EUR	Euro
EUTF	European Union Trust Fund
EUTFA	EU Emergency Trust Fund for Africa
FDI	Foreign Direct Investment
FRI	Facility for Refugees in Turkey
FSB	Financial Stability Board
G-7	Group of Seven
G-8	Group of Eight
G-20	Group of Twenty
GCC	Gulf Cooperation Council
GCF	Global Concessional Financing Facility
GDP	Gross Domestic Product
GHG	Green House Gas
GNI	Gross National Income
GSP	Generalised System of Preferences
IDA	International Development Association
IDBG	Inter-American Development Bank Group
IDMC	Internal Displacement Monitoring Centre
IDP	Internally Displaced Person
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
IPA	Instrument for Pre-Accession
IPCC	Intergovernmental Panel on Climate Change
IPE	Investment Plan for Europe
IRC	International Rescue Committee

KfW	Kreditanstalt für Wiederaufbau
LAC	Latin America and the Caribbean
MDB	Multilateral Development Bank
MDTF	Multi-Donor Trust Fund
MEDAM	Mercator Dialogue on Asylum and Migration
MENA	Middle East and North Africa
MENAT	Middle East, North Africa and Turkey
MFA	Macro-Financial Assistance
MFF	Multi-Annual Financial Framework
MSME	Micro, Small and Medium Enterprises
MTO	Money Transfer Operator
NDICI	Neighbourhood, Development and International Cooperation Instrument
NGO	Non-Governmental Organisation
ODA	Overseas Development Assistance
OCT	Overseas Countries and Territories
OECD	Organisation for Economic Cooperation and Development
PPP	Purchasing Power Parities
PSD	Payment Services Directive
RSCAS	Robert Schuman Centre for Advanced Studies
SDG	Sustainable Development Goal
SEMED	Southern and Eastern Mediterranean
SG	Secretariat-General
SMEs	Small- and Medium-Sized Enterprises
SSA	Sub-Saharan Africa
UN	United Nations
UNDESA	United Nations Department for Economic and Social Affairs
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
UNRWA	United Nations Relief and Works Agency
UK	United Kingdom
US	United States
USD	United States Dollar
WBG	World Bank Group
WTO	World Trade Organisation

1. Introduction

The EU has been experiencing since 2014 what is often referred to as a refugee and migration crisis. Between 2014 and 2017, new asylum applications reached, according to Eurostat, 3.7 million (the highest in any four-year period since World War II).¹ During the same period, total irregular arrivals by the Mediterranean sea, including migrants whose main motivation was economic, reached an estimated 2.8 million, with the related death toll rising dramatically.² Driven by the surge in asylum seekers, total migration inflows into the EU, including regular economic migration, also rose markedly, averaging 4.5 million per year in 2015-2016, a new historical peak.³ Although there has been a marked reduction in the numbers of both asylum applications and total irregular arrivals since mid-2016, the political and social debate on how to respond to migration is far from over.

The crisis has underlined the urgency of rethinking and reinforcing the EU's migration and asylum policies. In order to promote a coordinated response to these challenges, the European Commission proposed in May 2015 a new European Agenda on Migration, combining both internal and external policies and bringing together all relevant actors.⁴ Since then, a significant number of actions have been taken by the EU to reinforce and update its migration policy.⁵

A key dimension of the EU's new migration strategy is the financial one and, within this, the potential use of external financial assistance to address the root causes of migration and refugee flows. The objective of this book is to look at the extent to which the EU's external financial instruments can be redesigned or used more effectively to alleviate underlying migration and refugee pressures, thus supporting the external dimension of the EU's migration policy. Other recent papers,

such as those by den Hertog (2016), D'Alfonso (2014a and 2018) and Darvas et al. (2018), have discussed other financial aspects of the EU's migration policy, focusing on the budgetary implications of its common asylum and border management policies.

The book starts by looking, in Chapter 2, at the conditions under which aid can actually affect migration, reviewing the academic debate on the matter, including the most recent empirical literature. Indeed, while many politicians have been calling for an increase in official assistance to developing countries to stem migration and refugee flows, the empirical evidence on the link between aid and migration is mixed. Chapter 3 then examines to what extent the EU's development and humanitarian assistance (and that of the international donor community as a whole) has actually been reacting to the migration challenge. It also discusses the implications for external migration policy of the Commission's recent proposals for the EU's next Multi-Annual Financial Framework, covering the period 2021-2027.

The following two chapters examine a number of EU external financial instruments that are of particular relevance for migration and refugee policy. Thus, Chapter 4 assesses four *sui generis* instruments recently created by the EU that are explicitly designed to deal with refugee and migration pressures, namely three EU Trust Funds (for the Central African Republic, for Africa as a whole and for the countries directly impacted by the Syrian refugee crisis) and the Facility for Refugees in Turkey. Chapter 5 reviews other relevant EU instruments that rely on loans or on a blend of loans, grants and, in some cases, guarantees, namely: the external activities of the European Investment Bank (EIB), notably its Economic Resilience Initiative, which is aimed at the Southern Mediterranean and Western Balkans countries most involved in the migration crisis; the European External Investment Plan (EEIP); and Macro-Financial Assistance. Chapter 6, for its part, looks at certain multilateral financial facilities established in recent years to help countries experiencing acute refugee situations. These chapters not only provide a stock-taking of these instruments but also put forward specific recommendations to improve them.

1 See <http://ec.europa.eu/eurostat/data/database>, series migr_asyappctza.

2 According to data on irregular crossings compiled by the European Border and Coast Guard Agency. For the trends in irregular crossings through the Mediterranean and in fatalities at sea, see Fargues (2017).

3 See <http://ec.europa.eu/eurostat/data/database>, series migr_imm3ctb.

4 European Commission (2015a).

5 See European Commission (2017a, 2018a and 2018b).

With climate change and natural disasters induced by it increasingly contributing to forced displacement, climate finance to developing countries is becoming of growing relevance for refugee and migration policy. Chapter 7 discusses what the EU is doing in this area and ways to improve its approach. Chapter 8 then looks at the role of migrant remittances. While not an official financial flow, remittances are of extreme importance for both economic development and migration flows and they have become much larger than official development assistance. Moreover, they can be facilitated or discouraged by public policies. A discussion of the financial aspects of external migration policy would, therefore, not be complete without looking at the role of remittances.

Chapter 9 looks at the scope for enhancing the effectiveness of aid in the context of bilateral migration or refugee “compacts” agreed between donors and migration-relevant countries. This is what the EU is trying to do through the EU-Jordan Compact, the EU-Turkey Statement and its new Partnership Framework with Third Countries on Migration. The compact approach is also being advocated by the recent academic literature on refugee protection and has been enshrined in the new Comprehensive Refugee Response Framework adopted by the United Nations (UN) in 2016. This new approach emphasizes not only the advantages of bilateral cooperation but also the importance of shifting towards a developmental aid strategy aimed at promoting the economic self-reliance of refugees and their integration in countries of first asylum. Chapter 9 assesses the EU’s recent bilateral migration and refugee agreements also in that light.

Finally, Chapter 10 draws the main conclusions and policy recommendations of the book.

2. Can aid work? A fresh look at the academic debate

For years, European politicians and EU institutions have been advocating an increase in official aid towards the countries of origin, transit or first asylum of migration and refugee flows, in the hope that this will help moderate such flows. Thus, for example, French Foreign Minister, Bernard Kouchner, on his first official trip to Africa in 2007, called for more development aid to the region to help curb migration (Reuters, 2007). Most recently, the President of the European Parliament suggested that the EU should adopt a sort of Marshall Plan for Africa in order to reduce future migration from this continent (Tajani, 2018). The strategy of the EU institutions has also reflected the assumption that aid can mitigate migration pressures. Thus, already in 1994, the EU's development cooperation ministers requested the European Commission to explore the use of development assistance to reduce migration flows (De Haas, 2007; p. 827). The supporting role of development aid in migration strategies was subsequently highlighted by the Commission in the "Global Approach to Migration" adopted in 2005 (European Commission, 2008), the 2015 European Agenda on Migration (European Commission, 2015a, op. cit.) and the 2016 Communication establishing a Partnership Framework with Third Countries on Migration (European Commission, 2016a). However, despite the widespread assumption among policy-makers that aid can reduce migration flows, the theoretical and empirical literature on the impact of foreign assistance on migration is far from conclusive.

When looking at the possible impact of aid on migration flows one has to distinguish from the outset between refugee flows and economic migration. Refugee flows are normally caused by situations of military conflict, political instability or persecution, for which financial and economic instruments are obviously less relevant. Addressing refugee flows at their root (that is, in the countries that generate them) requires political rather than economic solutions. Aid can only

influence refugee pressures at their origin to the extent that refugees flows are so-called mixed migration flows, which are partly motivated by a difficult economic situation and a lack of economic opportunities. Aid and other economic policy instruments (notably trade preferences) can, however, be highly relevant for tackling refugee pressures in countries of first asylum. This chapter focuses on the relevance of aid for economic migration, which is also the link that has been examined by most empirical studies.

2.1 Development and migration

The argument that aid can reduce migration is normally based on one of the following two hypothesis; the first one is that aid stimulates economic development in the beneficiary country and that this, by improving economic opportunities at home, makes it less necessary or less attractive to migrate. The second hypothesis is that aid programmes can directly reduce the motivation to migrate by raising the disposable incomes of potential migrants and, therefore, the opportunity cost of migrating (*income channel*).

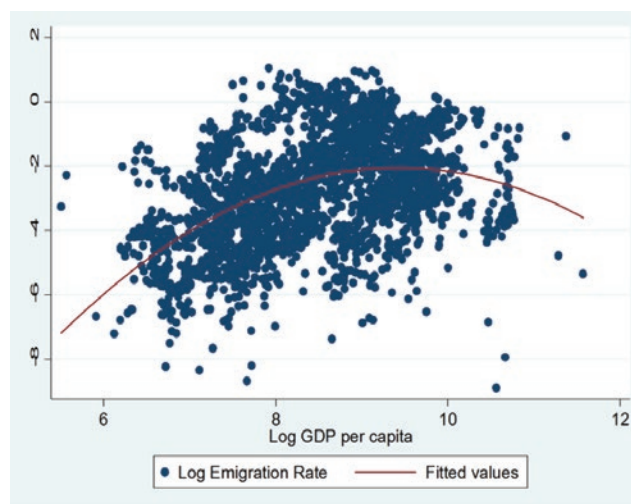
The first hypothesis leads directly to the contentious and non-conclusive academic debate on the relationship between aid and GDP growth.⁶ But even assuming that aid does impact economic development positively, the link between the latter and migration is complex. In fact, there is rather broad empirical support for the existence of an inverted U curve or hump-shaped relationship between economic development (as measured by the level of per capita GDP) and migration.⁷ This is illustrated by Figure 2.1, borrowed from Lanati and Thiele (2017), which plots both variables for a sample of 136 developing countries over the period 1995-2013. It suggests that, to the extent that aid does promote economic development, it

⁶ For the aid and development debate, see Easterly (2001), Easterly, Levine and Roodman (2004), and Clemens, Radelet, Bhavnani and Bazzi (2012). Rajan and Subramanian (2008) provide a good survey.

⁷ See Clemens (2014) for a comprehensive survey of both macro and micro studies. While cross-sectional macro studies tend to find either an inverted U curve or a positive relationship between per capita income and migration, the results of time-series studies are mixed. According to Clemens, however, the inconclusive results of time-series studies reflect the fact that many cover only a short period of the "mobility transition", i.e. only a segment of the inverted U curve.

might actually encourage migration for as long as the recipient country finds itself in the upward sloped part of the inverted U curve, that is, for relatively poor countries. Beyond a certain income threshold, however, further economic development reduces migration and, therefore, aid might moderate migration flows, provided that it helps the beneficiary country develop. Unfortunately, empirical studies suggest that the income threshold beyond which the income-migration relationship turns negative is relatively high.⁸ All this has led to a rather widespread pessimism among scholars over the last 15 years about the capacity of economic development (and aid) to stem the tide of migrants from low- and lower middle-income countries. Examples of this pessimism are provided by Nyberg-Sørensen, Hear and Engberg-Pedersen (2002) and De Haas (2007).

Figure 2.1: The Migration - Development Relationship: An Inverted U Shape



Source: Lanati and Thiele (2017).

Note: The figure plots on the horizontal axis the log of GDP per capita of the countries of origin of migration and on the vertical axis the log of their emigration outflows over total population. The sample is composed of 3,529 observations covering the period 1995-2013.

Several explanations have been put forward by the academic literature for the inverted U curve relationship between development and migration, a pattern that is sometimes known as the “mobility transition” (see Clemens, 2014 for an overview). One important theory is that economic develop-

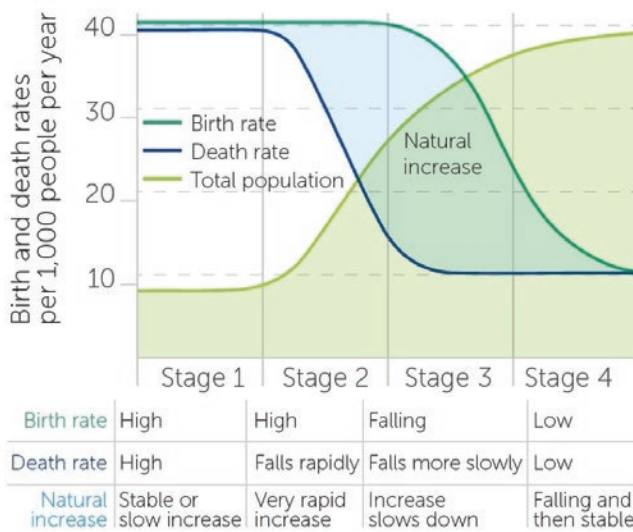
⁸ Clemens and Postel (2018) estimate the threshold to be somewhere between USD 8,000 and USD 10,000, using per capita income data calculated at 2005 purchasing power parities (PPP). This is consistent with what Figure 2.1 suggests.

ment, by raising the income of potential migrants, eases their credit or budget constraints and that this helps them finance the cost of international mobility. Economic development also tends to go hand-in-hand with financial development, which may help potential migrants overcome their credit constraints through borrowing. But this *credit or budget constraint channel* (sometimes also known as the poverty constraint factor) is only binding up to a threshold level. Beyond that, the discouraging effect related to economic development (the income channel) tends to dominate, producing a downward slope in the development-migration curve. Vanderkamp (1971), Faini and Venturini (1993) and Hatton and Williamson (1994) were among the first authors to explain the observed inverted U relationship between per capita income and migration by the credit constraint hypothesis.

A second central explanation is the so-called *demographic transition*: in the early stages of economic development, rising incomes tend to be associated with rapidly declining mortality, and this precedes the fall in fertility rates. This produces a rapid rise in the population and tends to also result in a “youth bulge”. Part of this larger and younger population may not find jobs at home and may, therefore, decide to migrate, especially since young people are normally much more willing and capable to migrate. All this tends to increase migration just as incomes are rising. But as economic development continues, birth rates decline and death rates stabilise at a lower level, leading to a deceleration of demographic growth and, then, to a stabilisation in the size of the population (and, for some very mature populations, even a decline at some point) as well as to an ageing process, all of which reduces migration pressures. Figure 2.2 summarises the demographic transition process. These demographic factors tend to accentuate the “mobility transition” caused by the credit constraint factor.⁹

⁹ For the link between of the demographic and mobility transitions, see Zelinsky (1971) and Hatton and Williamson (1994).

Figure 2.2: The demographic transition in four stages



Economic development, and in particular the mechanisation of the agricultural sector and industrialisation, is also associated with *structural changes* that can shake loose workers from the country side, leading them first to migrate to the cities but later (or simultaneously) abroad (Zelinsky, op. cit.; Massey, 1988). Again, this process tends to happen in the early stages of economic development and fades away afterwards.

Another key factor behind the inverted U curve is the so-called “*diaspora or family and friends effect*”: as the diaspora of migrants increases, it tends to facilitate the migration of others through the sharing information about the destination country (on job search, housing, immigration regulations, etc.) and by providing logistical support and a sort of insurance against risk (Martin and Taylor, 1996). Indeed, previous migrants may even help finance the costs of migration. In so doing and by reducing the information cost of migrating, they help other (often poorer or less skilled) migrants overcome their credit constraint. Growing diasporas also tend to feed back into migration through family reunification because many diaspora members get married to people from their countries or regions of origin. All this tends to accelerate migration even as incomes in the country of origin rise. On the other hand, as diasporas expand, host countries often tighten *immigration policies*, discouraging migration at the time the country of origin may be moving into higher levels of development.

Whatever the explanation, there seems to be an inverted U curve relationship between development and migration. Policy-makers should, therefore, be aware that the effectiveness of aid as a migration-mitigating policy will depend on where exactly on that curve the recipient country finds itself. A lot of the disagreement among academic experts over whether economic development will generate more or less migration reflects a disagreement not on the existence of the hump-shaped pattern but on the exact position of a developing country or a region on the curve. Most researchers, however, seem to agree that predominantly low-income regions such as Sub-Saharan Africa (SSA) lie in the upward sloped part of the cycle whereas others such as Northern Africa and parts of Latin America and Asia are either on the plateau or moving into the downward sloping segment of the curve.¹⁰

2.2 Aid and migration: the direct link

As noted above, the second hypothesis is that aid might affect migration *directly* (rather than via its impact on economic development). The direct link between aid and migration has been less extensively explored empirically. But most studies suggest that the relationship between both is positive, although it might turn negative beyond certain levels of per capita income, reflecting the hump-shaped pattern observed between development and migration. Thus, using a macro model of joint determination of aid and migration, which takes into account the possible response of aid to migration, and running it on a cross-section sample of 22 OECD migrant-receiving countries and 187 sending countries, Berthélemy, Beuran and Maurel (2009) found a positive relationship between aid and migration up to a threshold of USD 7.348 at PPP 2000 prices and a negative one beyond it. Belloc (2015), for his part, found a positive linear relationship between aid and migration for a cross-section sample of SSA countries. In general, the literature on the direct connection between aid and migration finds or argues that, up to an income threshold, the direct impact of aid programmes on household income (the *income channel*), which as noted tends to discourage migration, is more than compensated by the loosening of the *credit constraint channel*, which makes migration more affordable.

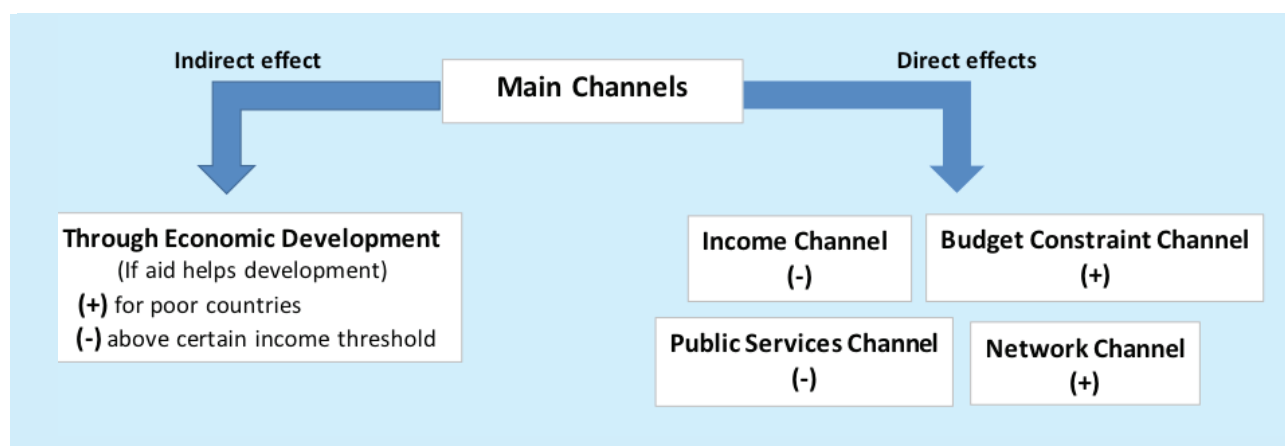
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See, for example, Hatton and Williamson (2011).

Some authors argue that this credit constraint effect is reinforced by the fact that the implementation of official assistance projects, by helping to spread information on the donor country and to develop personal and institutional links with it, reduces the transaction costs of migrating. Berthélemy et al., op. cit., called this the *network or attraction effect*, and it acts in a similar way to the “diaspora” or “friends and family” effect mentioned above.¹¹ They found that this effect was more significant for skilled migrants.

holds that wanted to migrate but could not afford it. These additional migrants not only tended to be poorer than other inhabitants from the same villages that had already migrated but also tended to have relatively lower skills. This suggests that providing more financial assistance to relatively poor countries or communities may not only encourage migration but may have a negative selection effect, that is, it may worsen the skill mix of the migration flow.

Figure 2.3: Aid and migration: a Complex Relationship



The potential importance of this network effect was already underlined by Morrison (1982) in a study focusing on the Dominican Republic, where he argued that “the social, commercial and political ties” engendered by aid can encourage migration flows by reducing information costs. Figure 2.3 summarises the different channels through which aid can impact migration flows.

Some microeconomic studies focusing on the direct impact of specific aid programmes on migration found strong support for the operation of the credit constraint channel. Thus, Angelucci (2015) shows that Mexico’s flagship anti-poverty programme (“Oportunidades”), a conditional cash transfer programme, tends to increase Mexican migration to the United States because households use this income stream as collateral to finance migration.¹² She shows that the new migrants encouraged by this programme mostly come from previously credit-constrained house-

Angelucci’s results, and the budget constraint argument more generally, are consistent with other studies that show that the poorer and less skilled potential migrants tend to migrate at a later stage, once their incomes rise or after other (more skilled) relatives or friends have migrated and provide them with information, logistical or financial support to cover their migration costs (Erickson, 1990; Wegge, 1998; Liebig and Sousa-Poza, 2004; Belot and Hatton, 2012). By helping to finance the costs of migration, aid can perform the same role as the *family and friends effect*, making it easier for emigrants with weaker skills and financial endowments to migrate.

The importance of the budget constraint is also highlighted by qualitative studies describing the migration journeys irregular migrants from SSA go through. Thus, for example, Kuschminder (2017), in a field study examining how Eritrean and Nigerian migrants navigate through the Central Mediterranean route to try to reach Italy via Libya, shows how the success and even survival of these clandestine journeys crucially depends on the migrants having saved sufficient capital to pay for smugglers and other transport, to pay ransoms to free them when they are kidnapped,

11 In fact, the migration literature often uses the term “network effect” to refer to the “family and friends effect”.

12 According to this study, many households actually used their entitlement to the cash transfer as collateral to borrow money (often from informal moneylenders, shopkeepers, families or friends) so as to pay for their journeys to the United States.

and to avoid being subject to abuse and torture.¹³ Many of the migrants covered by this study had to work and save funds for months to pay for their migration.

2.3 The recent literature on aid and migration: a more encouraging view

Recent empirical studies provide, however, a more optimistic view about the potential effect of aid on migration. Indeed, they suggest that aid might work even for countries that are still situated in the upward sloped part of the hump-shaped curve, provided that aid is of the right kind, has the right mix, is complemented by other policies and is well coordinated among donors.

Thus, Lanati and Thiele (2017), applying a gravity model of international migration to a sample of 28 donor countries and 136 aid recipient countries for the period 1995-2013, find evidence of a negative relationship between aid and migration even for the poorer countries in the sample. They read this as evidence that the income channels tends to dominate the budget constraint channel even for poor countries. In a revised and expanded version of their paper (see Lanati and Thiele, 2018a), they also test for one of the countries in their sample (Nepal, a relatively poor country) whether within-country regional differences in the allocation of aid influence within-country patterns of migration. They find a negative relationship between the amount of aid received by a region and its level of emigration, corroborating at a disaggregated level their main finding.

Another important result of Lanati and Thiele is that the negative relationship between aggregate aid and migration that they detect is predominantly driven by non-humanitarian aid, that is, by development-related assistance. Humanitarian, emergency assistance actually tends to increase migration, according to this study, probably because it helps finance the cost of migration for people experiencing difficult personal and economic circumstances. Perhaps more important from an operational point of view is their finding

¹³ The necessary payments are often made through Western Union or similar money transfer organisations by the migrant's family members or friends, either from the country of origin or from the European countries to which they have migrated.

(in Lanati and Thiele, 2018a and 2018b) that, within development aid, aid aimed at strengthening the quality of, and access to, public services and social infrastructure such as education and health can be particularly effective in stemming migration flows. In fact, their estimates suggest that the part of aid targeting public services (what they call the *public services channel*) explains much of the negative relationship between aid and migration flows found in their studies, more than compensating for the credit constraint and network channels. This additional finding is fully consistent with the results of other recent empirical studies that suggest that dissatisfaction with local public services and amenities is key for migration intentions (Dustmann and Okatenko, 2014) and that comprehensive measures of life satisfaction can be more powerful than income levels in explaining migration intentions (Cai, Esipova, Oppenheimer and Feng, 2014).¹⁴

Lanati and Thiele (2018b) adopt, in fact, the distinction proposed by Clemens et al. (2012) between early-impact aid and late-impact aid. Early-impact aid encompasses flows such aid for industrial development and income-support programmes, which are likely to affect income growth rapidly and, therefore, provoke new migration by helping potential migrants finance the cost of migration. By contrast, late-impact aid, such as aid for health care, education infrastructure or governance, can take many years to impact positively income growth (which tends to limit the migration-inducing effects related to the easing of credit constraints) but can improve the non-monetary dimensions of well-being that are key for migration intentions. Their results suggest that a focus on late-impact aid, notably aid for public services, can dampen migration flows.

¹⁴ Dustmann and Okatenko find that the impact of various measures of contentment with local amenities, in particular public services but also air quality, security, confidence in the country's institutions and satisfaction with living standards, is nearly as large as the impact of the credit constraint channel (what the authors call "wealth"), and even larger for Latin America, where the credit constraint is estimated to be non-binding. The strength of the local amenities channel as a determinant of migration intentions is particularly important for SSA. As an indicator of migration intentions, the authors use data from the Gallup World Poll. In a more recent study also based on Gallup World Poll data, the EBRD (2018) also finds that people who intend to migrate tend to report lower levels of satisfaction with local amenities than people who intend to stay, with the correlation being particularly high for air quality, water and education.

Other recent empirical studies provide additional evidence that the type of aid matters for its impact on migration. Thus, Gamso and Yuldashev (2018a) compare the effects of aid directed towards urban and rural development and find that rural aid tends to be associated with lower migration rates. By contrast, they detect no significant effect of urban aid on migration rates. They test two alternative explanations for this result. One is that rural dwellers are less interested in migrating abroad than urban residents, reflecting the fact that the latter have more developed networks, skills and information regarding work opportunities and life styles abroad. When foreign aid helps urban dwellers finance the cost of migration, they are therefore more likely to decide to emigrate. The second hypothesis is that while rural aid bolsters agricultural sector production and jobs, reducing the incentives of rural dwellers to migrate, aid to urban areas spurs urban development and disrupts rural markets, pushing rural workers to move either to the cities or abroad.¹⁵ The internal migration of large rural population to the cities, in turn, creates a labour surplus in urban areas that depresses wages, produces congestion, pushes up the cost of living in the cities and encourages people in urban areas to migrate abroad. Gamso and Yuldashev find that it is this second mechanism that explains the different impact of rural and urban aid, detecting no significant difference between the attitudes of urban and rural dwellers regarding emigration.

In another recent paper, the same authors (Gamso and Yuldashev, 2018b) find that aid aimed at improving governance (“political development assistance”) reduces migration by promoting better institutions, less corruption and more political stability. By contrast, they find no evidence that aid for economic and social development affects migration rates, either positively or negatively. These results can also be explained with reference to the above-mentioned work on migration intentions by Dustman and Okatenko (2014) and by Cai et al. (2014). Indeed, governance and confidence in a country’s institutions is a significant component of the measures of the quality of local amenities and life satisfaction that recent research suggests play a key role in driving migration intentions.

¹⁵ Hamilton and Villareal (2011) illustrate this process for rural Mexican migrants. On the positive link between urbanisation and international migration, see also Massey (1988) and Hatton and Williamson (1994).

An obvious policy implication of these recent findings is the advisability of increasing the share of development aid in the total financial assistance directed to migration-relevant countries and to increase the share of development aid that focuses on improving public services and social infrastructure and governance. This new evidence also suggest that donors should increase the weight of rural development aid in their assistance strategies, notably for countries undergoing rapid processes of urbanization and migration from rural areas. Another important implication for the EU is that it should endeavor to reduce the share of humanitarian aid in its assistance to migration-relevant countries, a share that has been increasing markedly in recent times, as discussed in Chapter 3. Although, in the short-term, donors facing multiple emergencies have normally little room to reduce humanitarian assistance, over the medium term the aim should be to move towards an assistance mix that is increasingly based on development as opposed to humanitarian aid.

The importance of the aid mix goes, in fact, beyond the breakdown of aid between development and humanitarian aid and the share of the former that is channeled to public services, governance and rural development. Most available empirical studies of the link between aid and migration are based on Overseas Development Assistance (ODA) data that do not include certain types of aid because they are not concessional. In particular, they do not include macroeconomic stabilization assistance and non-concessional investment project loans (e.g. for infrastructure). Yet macroeconomic stability can, in certain situations, be paramount for moderating both economic migration and refugee flows. In those cases, macroeconomic assistance, such as IMF loans, EU Macro-Financial Assistance and other forms of policy-based macro support, can increase the overall effectiveness of financial assistance, both through its impact on macroeconomic and political stability and by encouraging the adoption of appropriate policy frameworks.¹⁶ This is not picked up by the available empirical studies on the effect of aid on migration. A good balance between the different types of assistance (development, humanitarian, non-concessional investment loans and macroeconomic) is essential for making aid effective in reducing migration and refugee pressures.

¹⁶ Chapter 5 discusses the potential role of Macro-Financial Assistance in the EU’s external migration policy.

Aid effectiveness may also be enhanced by complementing financial assistance with other policy instruments (such as trade incentives and regulatory and other structural reform commitments), possibly in the context of bilateral migration compacts with the recipient countries, as discussed in Chapter 9.

Finally, the effectiveness of aid in addressing the root causes of migration can be increased through coordination among key donors. Indeed, Lanati and Thiele (2017) provide some support for this. Thus, the authors find that aid from an individual donor country to a specific country tends to have a negligible effect on migration flows from the latter to the former, suggesting that the network channel stressed by Berthélemy et al. (2009) fully offsets the income channel. However, an increase in aid flows from other donor countries tends to reduce migration flows towards the donor country in question because of the external spillovers of aid. The reason is that the income channel effects of other donors' aid programmes tend to reduce migration towards all donor countries, including the one in question, while the related network effects increase migration only towards the other donors. This suggests that donor coordination is especially important when it comes to addressing migration pressures, an implication of particular relevance for the EU as it strives to develop a common approach to migration and asylum. The EU has been making some progress in this direction in recent years, including through the Joint Financial Programming of the aid provided by its institutions and member countries to certain countries (e.g. Palestine).

3. Is EU ODA responding to the migration challenge?

While the empirical evidence on the link between aid and migration is mixed, both European policy makers and the EU's programmatic aid documents have been, as noted, advocating channeling more aid towards migration-relevant countries. But have they actually been doing so? This chapter first looks at the empirical evidence provided by the academic literature on the responsiveness of development aid to migration priorities, which typically uses data for donor country groups going beyond the EU, and then analyses recent data for the EU. Most academic studies as well as our own analysis of EU aid allocations are based on ODA data compiled by the OECD's Development Assistance Committee (DAC). These data include both development aid and humanitarian assistance but exclude, as noted, non-concessional assistance such as loans and guarantees that do not meet the grant element requirement.¹⁷

3.1 General evidence from the academic literature

With some exceptions, migration has largely been ignored by the standard academic literature on the determinants of aid allocation.¹⁸ This is somewhat surprising given that one key finding of this literature is that donors' self-interest or strategic considerations tend to dominate the recipients' needs as explanatory variable for their aid allocation decisions. Thus, most studies have found that donor self-interest variables such as trade relations, political similarity or colonial ties are much more important determinants of bilateral

¹⁷ The DAC defines ODA as those flows to countries and territories on the DAC's List of ODA Recipients and to multilateral institutions which are provided by official agencies, have the promotion of economic development as their main objective and are concessional in character, in the sense that they convey a grant element of at least 25% (calculated at a rate of discount of 10%). See OECD, "Official Development Assistance: Definition and Coverage" (<http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>).

¹⁸ This literature is rather broad. Examples of it, containing also useful surveys of the literature, include Alesina and Dollar (2000) and Bueno de Mesquita and Smith (2009).

aid allocation than variables reflecting the recipient's needs (such as per capita income and population), the quality of its economic policies or the soundness of its governance and political institutions (see, for example, McKinley and Little, 1977 and 1978; Schraeder, Hook and Taylor, 1998; and Alesina and Dollar, 2000). One could therefore expect that self-protection against migration inflows, possibly in combination with altruistic (humanitarian) motives, could make migration a significant variable in explaining donors' aid allocation decisions.

One of the first significant empirical studies that tried to measure the responsiveness of aid to migration flows is the one by Czaika and Mayer (2011), which focused on forced displacement flows, including internally displaced persons (IDPs). Using DAC data for the period 1992-2003 for 18 donor countries (including 12 EU countries) and 148 recipient countries, and controlling for other variables that may also affect the allocation of aid, these authors found that while humanitarian assistance was clearly reactive to displacement flows, the response of long-term development assistance was much weaker, especially in the case of internal displacements and displacements of refugees towards countries of first asylum. Indeed, they found that donors tended to react more strongly to forced displacement when they were directly affected by it, consistent with the importance of self-interest motives in aid allocation decisions. Thus, donors' response was strongest to the inflow of asylum seekers into their own territory and weakest to the flow of IDPs. In the case of development aid, they found that it was only adjusted significantly by donors in response to an increase in inflows of asylum seekers into their territory and only by increasing assistance to the countries of origin, rather than to the countries of first asylum. This is despite the fact that countries of first asylum, which normally neighbour those of origin, host the bulk of the global refugee stock.

In recent years, however, there has been an increasing emphasis by major donors, including the EU, in supporting countries of first asylum and in relying more on development as opposed to humanitarian assistance, consistent with the new approaches to refugee protection that will be discussed in Chapter 9. One should, therefore, expect this to be reflected in more recent empirical

estimates that use data going beyond 2005. And, indeed, this is the case. Thus, in a recent study that also focuses on forced displacement but covers the period 2001-2015, Lanati and Thiele (2018c) find that both humanitarian and development aid are responsive to forced displacement pressures, although they still find a weaker response for development aid. Similar to Czaika and Mayer (2011), these authors use as key explanatory variables four categories of forced displacement, namely: i) refugees from the recipient country; ii) IDPs within the recipient country; iii) refugees hosted by the recipient country; and iv) asylum applicants from the recipient country in the OECD donor country. They then run regressions with these four main variables, as well as with some control variables to take into account other factors that may also contribute to shape donors' aid allocation decisions, for a sample of 34 donor countries (including 21 EU countries) and 137 recipient countries. They find that a doubling of the number of hosted refugees and IDPs increases the allocated amount of bilateral humanitarian assistance by 9% and 6%, respectively. The impact on development assistance is, as noted, somewhat smaller (it increases by about 2% for both hosted refugees and IDPs) but still significant. Their findings suggest that the discrimination, which Czaika and Mayer had detected, against countries of first asylum and against the countries experiencing internal displacement, and in favour of the countries of origin of asylum applicants going to the donor countries, has been eliminated.

Lanati and Thiele find that there is a structural break around 2005, after which humanitarian and, to a lesser extent, development aid become more responsive to forced displacement developments. This is consistent with their descriptive analysis of trends in average aid flows to the top ten countries hosting refugees and IDPs, which shows a growing positive divergence since the mid-2000s (very marked in the case of humanitarian aid, although less clear for development aid) from the average aid provided to all DAC recipients. They observe a similar pattern when they focus their analysis on EU aid flows to Lebanon, Jordan and Turkey, the three main hosts of Syrian refugees.

Another recent econometric study, by Bermeo and Leblang (2015), looked at the response of aid to migration more generally, rather than only to

forced displacement flows. Using a large sample of 22 OECD donors (including 11 EU countries) and more than 150 beneficiary countries, covering the period 1993 to 2008, these authors found robust evidence that “donors use foreign aid to achieve their broader immigration goals, targeting migrant-sending areas to increase development and decrease the demand for entry into the donor country” (p. 627). After controlling (like the previous two studies mentioned) for other potential determinants of aid allocation, such as bilateral trade, former colonial status and the level of economic development, they find an important and statistically significant positive link between aid and the number of migrants from a recipient country living in a donor country.¹⁹ They also find that donors increasingly target aid towards potential sources of future migration as their attitudes and policies towards migration become more restrictive. Moreover, consistent with other empirical studies (Lahiri and Raimondos-Møller, 2000; Berthélemy et al., op. cit.), they find that lobbying by migrant populations in the donor country on behalf of their homelands tends to increase aid allocation towards their countries of origin, adding a link between migration and foreign aid responsiveness.

On the other hand, Bermeo and Leblang detect a negative link between the stock of refugees from a recipient country living in a given donor country and aid flows from the latter to the former. This partly compensates the positive impact refugees have on aid through the explanatory variable measuring the total bilateral migrant stock. This negative interaction between refugees hosted by the donor country and foreign aid might be explained by the fact that donors normally do not support the political regimes of the countries the refugees come from and partly divert aid away from those countries and towards other countries hosting the refugees (as it is currently happening with aid to Syria, which is being partly reoriented towards Iraq, Jordan, Lebanon and Turkey).²⁰

19 Their results also show a positive and significant link between *total* migration from a given country to OECD countries (measured by the stock of migrants living in them) and total aid flows from OECD countries to the country in question, suggesting that, on average, increased aid from a donor country to a country where its immigrants come from does not simply crowd out foreign aid from other OECD countries to the country of emigration in question (ibid.; pp. 641-642).

20 This negative interaction between refugee stocks and aid to their country of origin seems to contradict the findings of Czaika and Mayer (2011) but is consistent with those of Lanati

It might also be partly explained by the fact that refugees, for obvious political reasons, might not lobby in favour of an increase in aid to their home countries. Indeed, in their revised equations including a refugee stock variable, Bermeo and Leblang find no evidence that refugees mobilise to increase aid to their country of origin, contrary to what they find for migrants as a whole (op. cit.; pp. 650-651).²¹

3.2 The actual response of EU aid: an updated analysis of ODA data

The EU (including its member states and the EU institutions) is the world’s main provider of both development and humanitarian assistance, accounting for 42% of the total ODA committed by bilateral and multilateral donors in 1995-2016, according to OECD-DAC data. This section discusses the most recently updated historical data series supplied by the OECD’s Creditor Reporting System (CRS) in order to see whether EU aid (more precisely, the ODA it provided to the 146 countries that are in the DAC’s List of ODA Recipients) has been responsive to the migration challenge. It looks at trends in both humanitarian and development assistance. The first subsection examines the response of EU aid to forced displacement while the second one looks at its sensitivity to the geographical origin of total migration flows.

3.2.1 ODA flows and forced displacement

In order to gauge the responsiveness of EU ODA to forced displacement, aid flows to two representative groups of countries are used. First, Annex 1 provides a list of the 20 top refugee-hosting countries among the low- and middle-income countries. These countries together accounted in 2016 for 88% of the refugees living in countries in those two income categories and for 78% of

and Thiele (2018c). Indeed, Lanati and Thiele’s estimates imply a negative (in the case of humanitarian aid) or very weak (in the case of development aid) response of aid to a country of origin when the donor country experiences an increase in the number of asylum seekers from it.

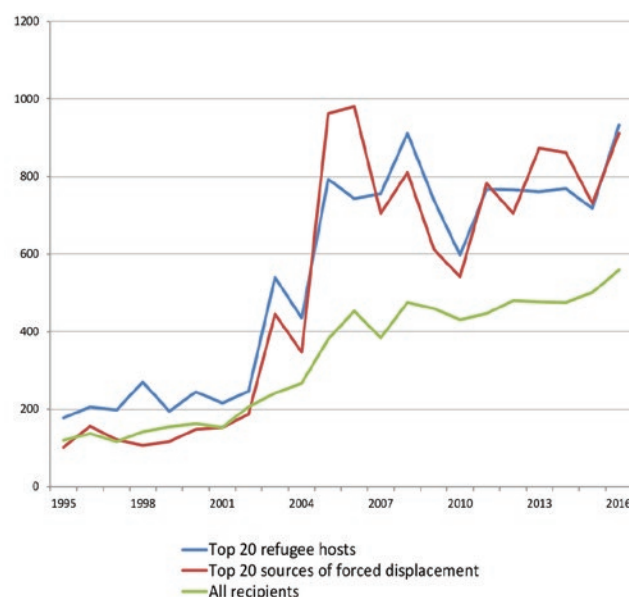
21 In some cases, as in the case of the Cubans residing in the United States, refugees might actually lobby for their host country to enact measures against their home country, including the interruption of aid flows.

the world’s refugee population, including the 5.3 million Palestinian refugees under the mandate of the United Nations Relief and Works Agency (UNRWA). Annex 2, for its part, lists the 20 countries that most generate forcibly displaced people (counting both refugees and IDPs). Together, these 20 countries accounted for over 90% of the world’s forcibly displaced population. These two groups of countries, which, as can be seen from the annexes, partly overlap (nine countries are in both groups), can therefore be used as a very representative sample to assess how well the EU is targeting its assistance to address the refugee and internal displacement challenge. This is done in the following charts, which show trends in the ODA directed by the EU to these two country groups since the 1990s.

As illustrated by Figures 3.1 and 3.2, the EU has been providing since 2003 significantly more ODA per country on average to those two groups of countries than to the rest of the DAC recipients, suggesting an improved targeting of aid on countries of forced displacement. The gap between the two peaked in the period 2005-2008, coinciding approximately with the structural break detected by Lanati and Thiele (2018c). Since then, however, the gap has again shrunk somewhat and the share of total EU aid going to those two country groups has actually declined significantly (Figure 3.3).

Figure 3.1: Total ODA from the EU to top displacement countries

(Average annual ODA per country; in million U.S. dollars)

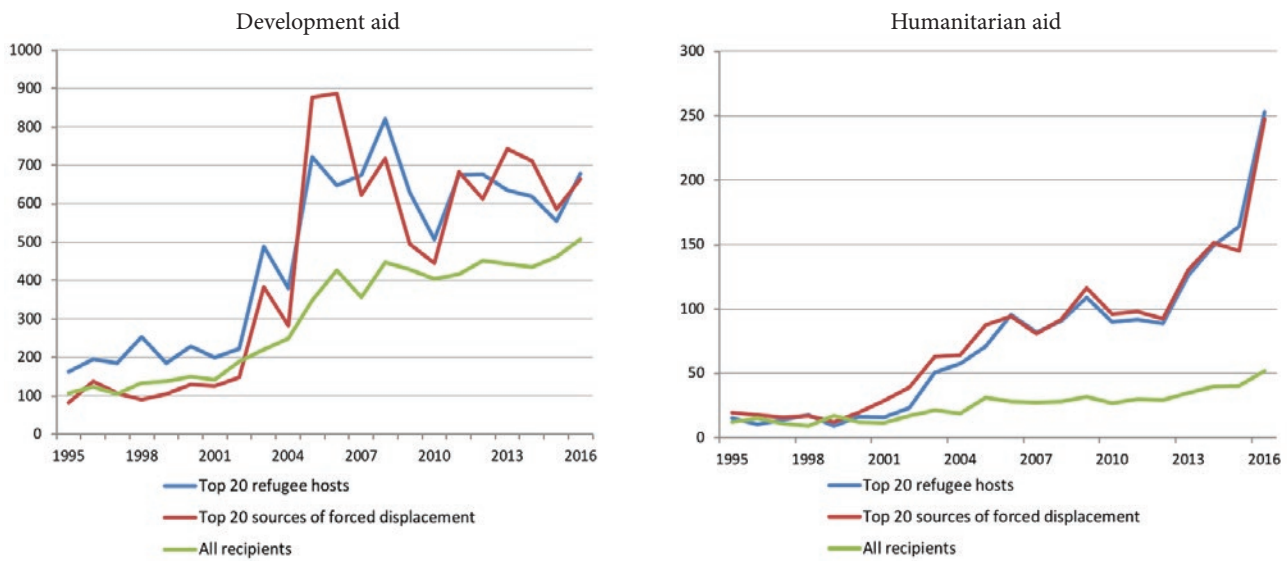


Sources: Own calculations based on data from OECD’s CRS, UNHRC and IDMC.

Note: EU includes EU countries and EU institutions. Forced displacement includes refugees and IDPs.

Figure 3.2: EU ODA to displacement countries: humanitarian vs. development aid

(Average annual ODA per country; in million U.S. dollars)



Sources: Own calculations based on data from the OECD's CRS, the UNHRC and the IDMC.

Note: EU includes EU countries and EU institutions. Forced displacement includes refugees and IDPs.

Figure 3.3: Share of EU aid going to displacement countries (in percent)



Sources: Own calculations based on data from the OECD's CRS, the UNHRC and the IDMC.

Note: EU includes EU countries and EU institutions. Forced displacement includes refugees and IDPs.

The interruption since the mid- to late-2000s of the encouraging targeting trend that had been observed since the beginning of that decade is more than explained by development aid because, in fact, the EU has been making a tremendous effort to respond to the recent refugee crisis, especially since 2013, by increasing its humanitarian aid to the most affected countries. Indeed, the average development aid per country provided by the EU to the top displacement countries has declined quite markedly in dollar terms (from a peak of USD 821 million in 2008 to an annual average of USD 617 million in 2015-2016 for

the top refugee hosts and from a peak of USD 887 million in 2006 to USD 625 on average in 2015-2016 for the top displacement sources; see Figure 3.2, first panel). And the decline would be more pronounced if measured in real (inflation-adjusted) terms. As a result, the share of development aid in the total EU aid going to the top displacement countries has declined sharply since the mid- to late-2000s (from about 90% to about 73% for both groups). Moreover, these disappointing trends have happened at the same time as the EU continued to gradually increase average long-term aid per country for other de-

veloping countries, which has contributed to a downward trend since the mid-2000s in the share of EU development aid going to the top countries involved in forced displacement (Figure 3.3). This suggests that the EU has been paying for part of the increase in its humanitarian aid to the main displacement countries with its development assistance budget for those countries.

By contrast, and as shown in the second panel of Figure 3.2, humanitarian aid to the top displacement countries has continued to grow much faster than humanitarian aid to all DAC recipients, particularly since 2013, prolonging a trend seen since the early 2000s. As a result, the share of EU humanitarian assistance going to those countries has continued to rise (Figure 3.3). By 2016, the 31 countries included in one or both groups of top displacement countries were receiving 81% of the EU's humanitarian aid.²² The EU has, therefore, been increasingly targeting its humanitarian aid on the countries that either host or originate most of the world's forcibly displaced people.

While the increasing focus of EU humanitarian assistance on countries experiencing refugee or internal displacement problems is a welcome development from the point of view of refugee policy, the trends in long-term EU ODA are not. Overall, these trends illustrate a basic problem with the financial assistance that the EU, and the international donor community more generally, are channeling to forced displacement countries,

namely its excessive focus on short-term emergency support as opposed to the developmental assistance that is essential to address the root causes of displacement and to facilitate the integration of refugees in countries of first asylum. As highlighted by the advocates of a developmental approach to refugee protection, tackling this problem is essential to increase the effectiveness of the refugee assistance system.

3.2.2 Regional breakdown of ODA and overall migration flows

The analysis has concentrated so far on the response of aid to forced displacement. But is the regional allocation of EU ODA consistent with migration pressures more generally, including also economic and other forms of migration? To try to answer this question, Table 3.1 displays data on the geographical origin of the stock of foreign-born population residing in the EU, obtained from Eurostat's Census Hub HC 28, which combines the results of the latest national censuses conducted by the EU countries. This is the most comprehensive and reliable statistical source for analyzing the geographical origin of the EU's stock of migrants. Unfortunately, censuses are undertaken only every ten years and the latest Census Hub was done in 2011, not capturing, therefore, the more recent surge in migration to the EU. Since the focus here is on the possible use of ODA to moderate migration pressures from

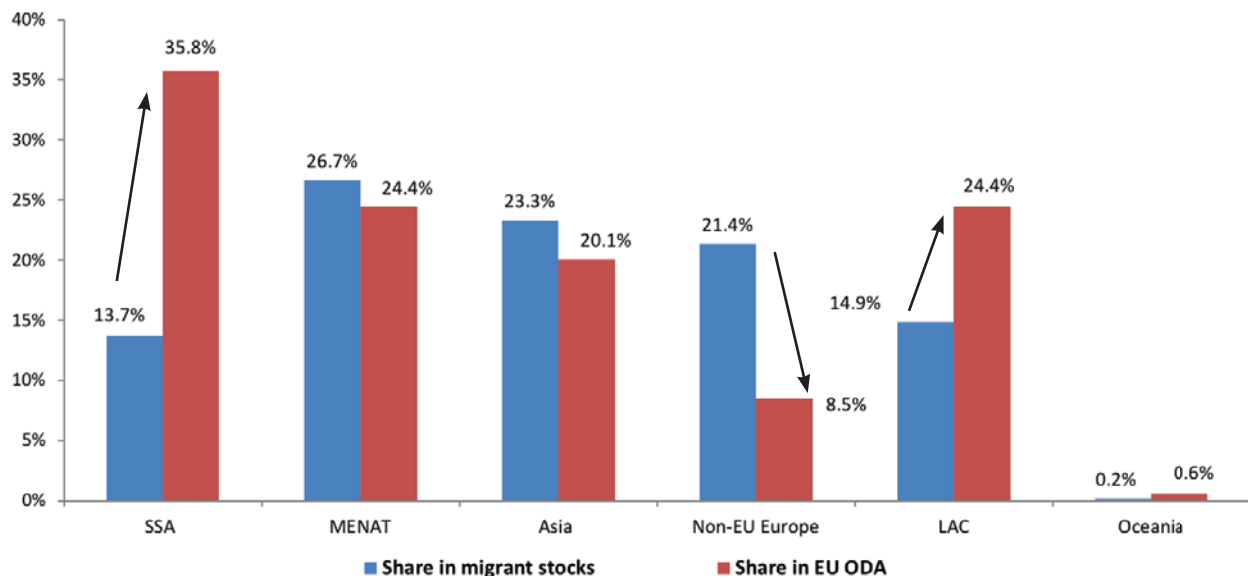
Table 3.1: Stocks of foreign-born migrants residing in the EU, by country of birth, 2011

	From other EU countries	From non-EU countries							Total non-EU
		SSA	MENAT	Asia	Non-EU Europe	LAC	North America	Oceania	
All migrants									
In million	18.5	4.0	7.9	7.1	7.3	4.4	0.8	0.8	32.3
Share in total	36.5%	7.8%	15.5%	13.9%	14.4%	8.6%	1.6%	1.6%	63.5%
Only migrants from developing countries									
In million	-	4.0	7.7	6.8	6.2	4.3	-	0.03	29.0
Share in stock of migrants from developing countries	-	13.7%	26.7%	23.3%	21.4%	14.9%	-	0.2%	100.0%

Source: Eurostat (Census Hub HC15) and own calculations.

Note: SSA = Sub-Saharan Africa; MENAT = Middle East, North Africa and Turkey; Asia excludes the Middle East countries. Developing countries include all the countries that are in the DAC List of ODA recipients.

²² Much of this exceptional humanitarian aid effort has been concentrated in the countries most affected by the Syrian refugee crisis (Iraq, Jordan, Lebanon, Syria and Turkey), which received three quarters of the increase in EU humanitarian aid during 2011-2016 and about one quarter of the total humanitarian aid the EU provided in that period.

Figure 3.4: Migrant stocks from developing countries and allocation of EU ODA (in percent)

Source: Eurostat, Census Hub HC 28 and OECD Creditor Reporting System data base.

Note: Migrant stocks refer to 2011 and exclude stocks from high-income countries unless they were still in the DAC list of beneficiaries in 2017. For ODA, shares in total EU ODA for 2011-2016. SSA = Sub-Saharan Africa; MENAT = Middle East and North Africa + Turkey; Asia excludes the Middle East countries.

outside the EU, the second line in the table reports only data on the stock of migrants coming from developing countries that are in the DAC List of ODA Recipients.

The bottom part of Table 3.1 shows that the Middle East and North Africa (MENA) region including Turkey (a group sometimes referred to as MENAT) is the most important source of migrants from developing countries residing in the EU, accounting in 2011 for over 7.7 million of the 29 million of migrants born in DAC-ODA recipient countries.²³ Closely behind MENAT in importance are Asia (excluding the Middle East) and non-EU European countries (encompassing migrants from the Western Balkans and Eastern Europe), which account for 6.8 million and 6.2 million migrants, respectively. Latin America and the Caribbean (LAC) and SSA lie signifi-

²³ There is not a widely accepted definition of what constitutes the MENA region. Table 3.1 and Figure 3.4 below use the World Bank definition, which includes 19 countries and territories, and adds Turkey, given its geographical and cultural proximity with other MENA countries as well as its direct involvement in some of the main recent flows of refugees to the EU coming from the Middle East and in the related EU's policy response. Islam is by far the dominant religion of the MENAT region, with over 90% of their combined population being Muslim. Also, many countries in this region face similar economic and social challenges (for example, fast population growth, high rates of unemployment, low rates of participation of women in the labour force and a widespread reliance on energy and food subsidies). Grouping them together, therefore, makes analytical sense, notably when studying migration trends.

cantly behind, with 4.3 and 4 million migrants, respectively. Once the high-income countries are excluded, Oceania is of little significance as a source of migrants for the EU. The importance of MENAT as a source of migration flows to the EU is in fact likely to be underestimated by the use of 2011 data, given that much of the surge in asylum seekers witnessed by the EU since then has come from a few countries in that region (notably Syria, Iraq and Iran).²⁴ The use of 2011 data might also underestimate the current weight of SSA in migration stocks, given that irregular arrivals from this region through the Mediterranean have increased markedly since 2013 (European Commission, 2018c).

Figure 3.4 compares the regional shares in migration stocks with the **regional allocation of EU ODA** in 2011-2016. It shows that SSA has a dominant role in EU ODA. This is explained by both long-term ODA and humanitarian assistance. It is what one would expect given that this is the poorest region in the world, which should drive up long-term development assistance, and is also one of the main sources of forced displacement and other humanitarian challenges, reflecting a combination of conflict and political insta-

²⁴ According to Eurostat data, these three countries alone accounted for 1.4 million of the first time asylum applications received by EU countries from non-EU citizens since 2012, or 33% of the total.

bility, lack of economic opportunities and a high incidence of natural disasters, all of which should drive up humanitarian assistance. SSA received nearly 41% of the overall ODA provided collectively by the EU between 1995 and 2016. In 2016 alone, it received EUR 21 billion of the EU's EUR 57 billion total ODA. As Federica Mogherini, High Representative of the EU for Foreign Affairs and Security Policy and Vice President of the European Commission, declared recently, the EU has de facto already put in place a sort of Marshall Plan for Africa.²⁵

When compared to its current weight in migration stocks, SSA would seem in fact to be overrepresented as a destination of EU ODA. Moreover, given that most SSA countries are likely to be still on the upward slopping part of the inverted U curve linking GDP per capita and migration, one could argue that providing such a large share of EU aid to this region is unadvisable and could even be counter-productive from the point of view of stemming migration flows to the EU.

Nonetheless, a more careful reflection suggests that it might be broadly appropriate for the EU to channel a dominant part of its aid to SSA. First, current stocks probably underestimate *future* migration pressures from Africa. Indeed, most academic analyses and predictions suggest that economic considerations, demographic factors, geographical proximity and vulnerability to climate change are likely to make this region one of growing importance in future migration flows to the EU.²⁶ The fact that most SSA countries are probably in the upward-slopped part of the inverted U curve means that as their economies continue to develop, migration from them will probably increase, and this is expected to be amplified by network effects related to the rising diaspora of Sub-Saharan Africans living in the EU (Hatton and Williamson, 2011). Their laggard position in the demographic transition (including

their very young populations) is also expected to encourage future migration to Europe (Benček and Schneiderheinze, 2018; European Commission, 2018c).²⁷ And the region is among the most vulnerable to climate change (ibid; pp. 28-30; see also Chapter 7 of this book).

Recent surveys of migration intentions also underline the strong potential of future migration from SSA. Indeed, a survey conducted by Gallup World Poll based on pooled data from 2010 to 2015 found that SSA, notably West Africa, was the region with the highest number of adults (21.7 million) planning to migrate in the following 12 months.²⁸ In fact, 60% of adults from outside the European Economic Area planning to migrate to the EU were from Africa, according to this survey. While migration intentions tend to exaggerate subsequent actual migration (actually recorded migration flows are, on average, three times smaller than the number of those making preparations to move and seven times smaller than the number planning to migrate during the period in question), a significant correlation has been found across the world between the number of potential migrants and the number of actual migrants (ibid.; pp. 10-11).

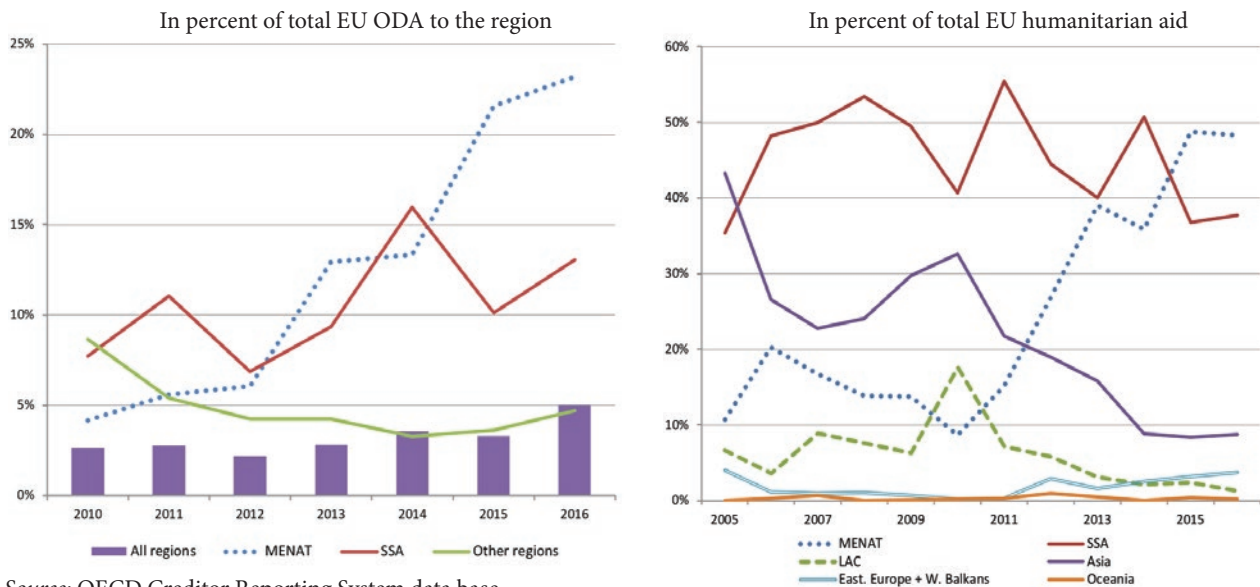
Moreover, while indiscriminate aid to SSA is likely to simply encourage more migration by easing credit constraints, a careful mix of assistance may help improve the migration-effectiveness of aid. This will be the case if the aid is well targeted to addressing some of the main drivers of migration, such as dissatisfaction with public services and governance (which, as noted in Chapter 2, is more important in explaining migration intentions in SSA than in other developing regions), rural development, climate change adaptation and macroeconomic and political instability. This should go hand-in-hand with a reduction in the share of humanitarian assistance in EU aid to the region,

25 Mrs. Mogherini made this comment in the same conference in which European Parliament's President Tajiani had called, as noted above, for a Marshall Plan for Africa to address the root causes of migration. See Mogherini (2018).

26 Although so far about two thirds of SSA migration has been intra-regional migration (World Bank, 2016a), the share of it going overseas is growing and the EU is by far the main destination outside the region (European Commission, 2018c; pp. 10-12). The attractiveness of the EU in terms of per capita income, political stability and a well-developed welfare state are likely to preserve, and possibly strengthen, its position as the main overseas destination of SSA migrants.

27 In its most recent projections, the UN Population Division estimates that Africa's population will approximately double from 1.2 billion inhabitants in 2017 to 2.5 billion by 2050, and most of this increase will happen in SSA (UNDESA, 2017). In addition, the share of the SSA population in the 20-35 year age group (the age range in which people are most mobile) will remain very large (European Commission, 2018c; p.25).

28 SSA scores particularly strongly when migration intentions are expressed relative to the local adult population. For example, 6% of the adult population of Central Africa and 5.6% of that of West Africa declared to be preparing or planning to migrate in the subsequent 12 months, among the highest rates of all world regions. See IOM (2017a).

Figure 3.5: EU humanitarian aid: rising in weight, driven by MENAT and SS

Source: OECD Creditor Reporting System data base.

Note: EU includes both EU countries and EU institutions. SSA = Sub-Saharan Africa; MENAT = Middle East, North Africa and Turkey. Asia excludes the Middle East countries.

which has risen very significantly since 2010 and is now well above the average (Figure 3.5; first panel). It is equally important to strengthen coordination among donors, possibly in the context of migration compacts (see Chapter 9).

It should also be noted that the share of SSA in EU aid has already been adjusted downwards markedly since the mid-2000s, falling by an impressive 15 percentage points since 2006 (Figure 3.6). The main beneficiary of this change has been **the MENAT region**, which is also, as noted, of critical importance as a source of migration and refugee flows to the EU. This region increased by more than 11 percentage points its share in EU aid between 2009 and 2016 and has become the second main destination of EU aid, receiving 26% of it in 2016. As shown in Figure 3.4, this is approximately in line with its share in migration stocks. The increase in MENAT's share witnessed during that period was largely driven by the Syrian refugee crisis, with Iraq, Jordan, Lebanon, Syria and Turkey receiving 97% of it. As hinted above, much this increase (nearly 40% of it) took the form of humanitarian aid, reflecting the humanitarian challenge created by the Syrian war. As a result, the share of humanitarian assistance in EU aid to this region has increased sharply, moving even above the share of SSA (Figure 3.5; first panel).²⁹

²⁹ Also within this region, but in contrast with the countries just mentioned, Iran remains very underrepresented in the allocation of EU aid compared to its important role as a host

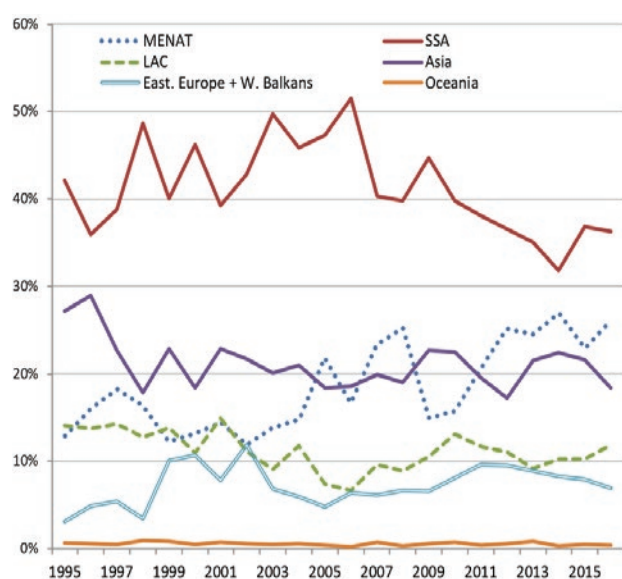
While the bulk of the post-2009 increase in MENAT's share in EU ODA has been financed by the budget for SSA, a smaller but significant part (about four percentage points) has been funded by cutting down the share of **Asia** (excluding the Middle East and Turkey). Despite this, Asia's share is still, at 18% in 2016, broadly in line with its share in total migration stocks (Figures 3.4 and 3.6). Moreover, the country allocation of ODA to Asia is appropriately sensitive to refugee policy considerations, since about one fourth of it goes to three countries (Afghanistan, Bangladesh and Pakistan) that play a prominent role in refugee flows to the EU. The shares of China and India in EU aid are approximately in line with the important role these populous Asian countries play in economic migration to the EU, but that of the Philippines, which also supplies many labour migrants to the EU, is significantly below its share in migration stocks.

By contrast, the share of **Eastern Europe and the Balkans** in EU ODA remains way below their share in migration stocks (Figure 3.4), reflecting the marked underrepresentation of Russia, which is an important source of economic migrants residing in the EU, but also of some Western Balkan countries, notably Albania and Bosnia and Herzegovina, that have provided large numbers of both economic immigrants and refugees in the past. Since 2010, this region's share and source of refugees, reflecting foreign policy considerations.

has been going down from already low levels and this despite a significant increase in assistance to Ukraine, notably since the 2014 revolution and the onset of the war in the East of the country (Figure 3.6).³⁰ Finally, the share of LAC is significantly above its share in migrant stocks while that of Oceania is roughly in line with its very minor role as a source of developing country migrants residing in the EU.

Figure 3.6: Trends in the regional allocation of EU ODA, 1995-2016

(Shares in total EU ODA)



Source: OECD Creditor Reporting System data base.

Note: EU includes both EU countries and EU institutions. MENAT = Middle East, North Africa and Turkey; SSA = Sub-Saharan Africa; Asia excludes the Middle East.

The second panel of Figure 3.5 shows the trends in the regional allocation of **EU humanitarian assistance** since 2005. Consistent with the trends already mentioned, it shows a sharp increase in the share of MENAT in total EU humanitarian aid since 2010, while the share of SSA remains very high although it declines somewhat. Together, these two regions received 81% of the EU's humanitarian assistance during 2011-2016. The shares of Asia, LAC and non-EU Europe have declined since 2010, helping to finance the exceptional humanitarian effort in the MENAT region.

³⁰ The EU's financial assistance response to the Ukraine crisis is actually much larger than what ODA data suggests, as most of it has consisted in the provision of Macro-Financial Assistance (see Chapter 5.3) and lending by the EIB and the EBRD, which are not captured by the DAC statistics. Indeed, 86% of the EUR 11 billion package for Ukraine announced by the EU in March 2014 consisted of these three types of loans (European Commission, 2014).

In sum, the geographical allocation of EU ODA seems to attach a clear priority to the SSA and MENAT regions, which together received over 60% of the ODA the EU provided in 2011-2016. The focus on these two regions is particularly strong when it comes to humanitarian assistance. While the share of MENAT in EU aid is in line with its weight in migration stocks, that of SSA is disproportionately high. SSA's share has undergone, however, a substantial downward correction since the mid-2000s. LAC is also significantly overrepresented. This strategic orientation of EU aid has been essentially to the detriment of Eastern Europe (with the exception of Ukraine) and the Western Balkans, both of which are clearly underrepresented compared to their weight in economic migration to the EU. Given the strong future migration potential of SSA, its important development and climate change financing needs and the limited capacity of EU aid to mitigate economic migration pressures coming from large emerging Asian economies, it seems appropriate to provide substantially more aid to SSA and substantially less aid to those Asian economies than their shares in migration stocks would suggest. At the same time, there seems to be a case, on migration policy grounds, for increasing the ODA effort directed to Eastern Europe and, possibly, for some downward correction in the share of Latin America. Also, there is substantial scope for improving the mix of development and humanitarian aid, notably in the MENAT and SSA regions.

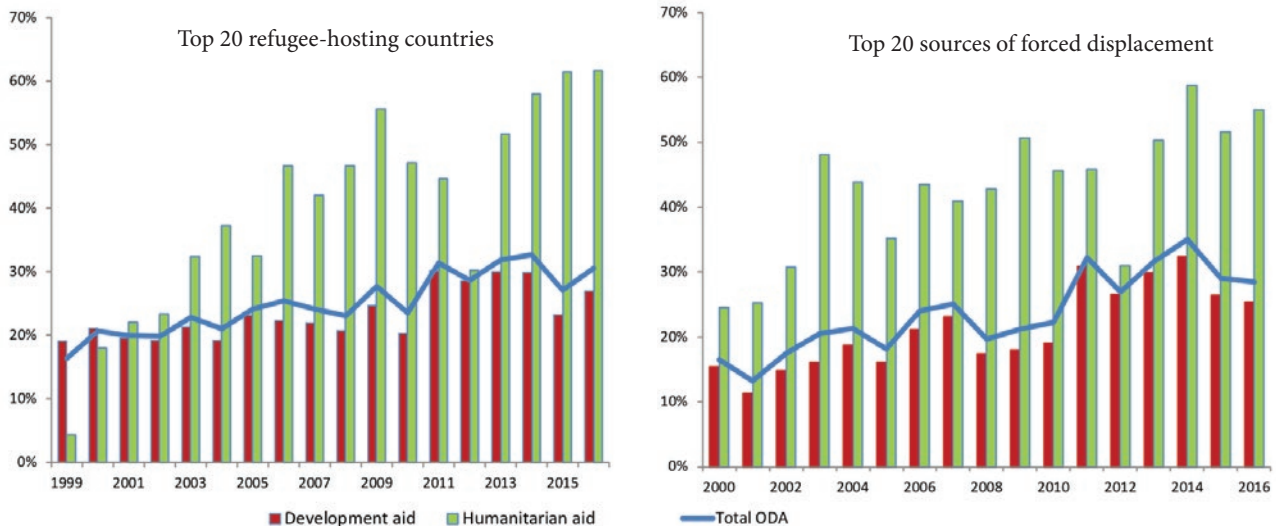
3.3 The role of EU institutions and the MFF for 2021-2027

In assessing the EU's external financial response to the migration and refugee challenge, it is also worth focusing on the activities of the EU institutions alone. These institutions, which include the instruments funded by the EU budget and administered by the European Commission, the European Development Fund (EDF) and the EIB, accounted for 26% of the total ODA and 38% of the humanitarian aid provided by the EU to the DAC beneficiaries in 1995-2016 and have contributed to the trends in ODA discussed above. In particular, and as Figure 3.7 shows, the EU institutions have increased the targeting of their ODA, especially their humanitarian aid, on the countries

most affected by the forced displacement crisis. Moreover, in contrast with the pattern observed for the EU countries and for the EU as a whole, this trend was not interrupted and partially reversed since the late-2000s. The reason is that the EU institutions did not partially finance the increased humanitarian effort devoted to forced displacement countries by reducing the share of their development aid provided to them. On the contrary, they continued to increase the share of their long-term aid channeled to those countries (see red bars in Figure 3.7), although more moderately than they did for humanitarian aid (green bars). This is a welcome development, consistent with the recommendations of the literature on the migration-effectiveness of aid.

The geographical allocation of the aid provided by the EU institutions is also similar to that of the EU's total ODA: a clear priority is being given to SSA (which receives a share of the EU institutions' ODA that is well above its share in migration stocks) and, to a lesser extent, to the MENAT region; and there is a distinct trend towards a decline in the share of ODA received by SSA, largely to the benefit of the MENAT region (see Figure 3.8, which resembles Figure 3.6). But in the case of the EU institutions' aid, the reorientation towards the MENAT region is even more abrupt, leading this region to overtake SSA as the first recipient of aid between 2011 and 2015.

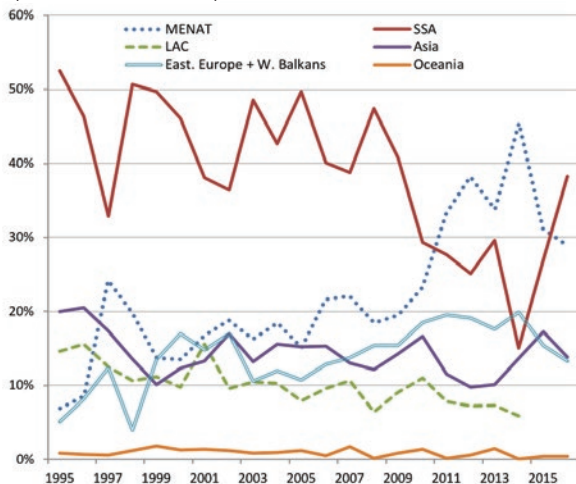
Figure 3.7: Targeting of EU institutions' aid on top displacement countries
(In percent of their total ODA, development or humanitarian aid)



Sources: Own calculations based on data from the OECD's CRS, the UNHRC and the IDMC.
Note: Forced displacement includes both refugees and IDPs

Figure 3.8: Regional allocation of ODA provided by the EU institutions

(Shares in total ODA)



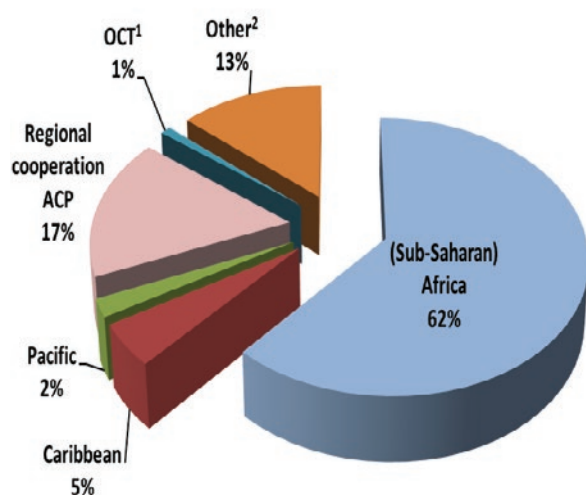
Source: OECD Creditor Reporting System data base.
Note: MENAT = Middle East, North Africa and Turkey. SSA = Sub-Saharan Africa; Asia excludes the Middle East.

The external financial power of the EU institutions comprises not only their traditional development and humanitarian assistance but also their support through other instruments that are not sufficiently concessional to be included in ODA, such as much of the EIB's external lending, the EU's Macro-Financial Assistance and the blending and guarantee operations financed by the EEIP (all of which are discussed in Chapter 5). It can be approximated by the size of the external action heading of the EU budget (currently known as Heading 4 or "Global Europe") plus that of the EDF, a very important instrument that, although managed by the European Commission, is fully financed by contributions from EU countries and has until now remained outside the EU budget.

Created when the European Economic Community was established and aimed at financing the EU's policy towards the African, Caribbean and Pacific (ACP) countries, the EDF is very large: until the early 1970s, it considerably exceeded the budget's entire external action heading and in the last decade it has represented about 40% of it. The EDF is replenished regularly by the EU countries. The last replenishment amounted to EUR 30.5 billion and coincided with the EU's Multi-Annual Financial Framework (MFF) for 2014-2020. The bulk of the EDF budget is normally spent in SSA (see Figure 3.9), making it the main instrument of the EU's concessional assistance to this region.³¹

Figure 3.9: Regional allocation of the EDF

(Total appropriations from the 8th, 9th, 10th and 11th EDFs)



Source: European Commission.

(1) Overseas Countries and Territories (British, Dutch and French).

(2) Including administrative and financial expenditure.

Figure 3.10 (first panel) displays historical series for the external action heading of the budget and the EDF since the mid-1960, as a percentage of total budgetary and EDF expenditure. It shows that the share of the external action heading has progressively risen, although with some fluctuations, since the mid-1960s, averaging about 6½ percent of total expenditure in the last few years. At the same time, the share of the EDF has declined, as noted, from the high levels of the 1960s, stabi-

³¹ South Africa, which has until now been covered by the Development Cooperation Instrument of the EU, is the only SSA country that is not covered by the EDF. North African countries are covered by the European Neighbourhood Instrument. For a good description of the EDF, see D'Alfonso (2014b).

lizing around 2½ percent of total expenditure.³² Adding up the external action heading and the EDF, however, the total share of resource spent by EU institutions in external financial support has been rising over time, peaking at nearly 9% in the last three years (second panel of Figure 3.10). This means that the EU has been attaching an increasing priority to development assistance through the funds managed by its common institutions.

This development assistance effort made by the EU institutions complements those of the EU member states, which have been increasing their ODA-over-GNI ratios, consistent with the target defined in Sustainable Development Goal (SDG) 17 of the UN's 2030 Agenda to reach a ratio of at least 0.7% by 2030. Figure 3.11 shows that the EU countries that report to the DAC have been making substantial progress towards meeting collectively the SDG 17 target, which compares with the much weaker progress or even backsliding of other key DAC donors. In fact, some EU countries have already attained the SDG 17 goal for 2030 (Figure 3.12).³³

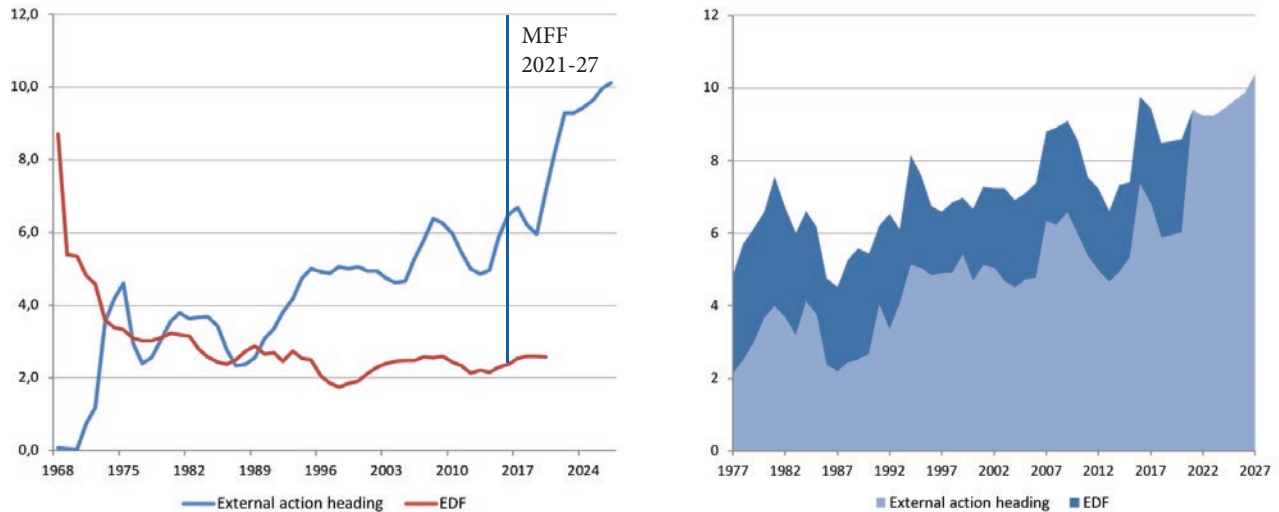
From the point of view of external migration policy, these developments are encouraging because they mean that the EU has been endowing itself with an increasingly powerful pool of external financial resources, part of which can be directed to addressing the root causes of migration and refugee flows. Moreover, these efforts are expected to be continued under the new MFF proposed by the Commission for 2021-2027. Let us examine in more detail the implications of the proposal for the next MFF.

³² Given the dominant weight of SSA in the EDF's portfolio, the gradual decline in the weight of the EDF in the external financial support managed by the EU institutions implies a reduction in the importance of SSA as a recipient of EU aid. This corroborates, based on EU budget and EDF data, what the previous section showed using OECD's CRS data.

³³ ODA ratios are much lower, though, for the 13 countries last to join the EU. Most of them remained in 2017 even below the 0.33% intermediate target that they set for themselves for 2015 (Eurostat, 2018 and Figure 3.12). In addition to the collective target of providing at least 0.7% of its GNI to developing countries by 2030, the EU is committed to providing collectively at least 0.2% of its GNI to the least developed countries by that same year, consistent also with SDG 17.

Figure 3.10: The EU’s external action effort: a long-term perspective

(In percent of EU budget + EDF)

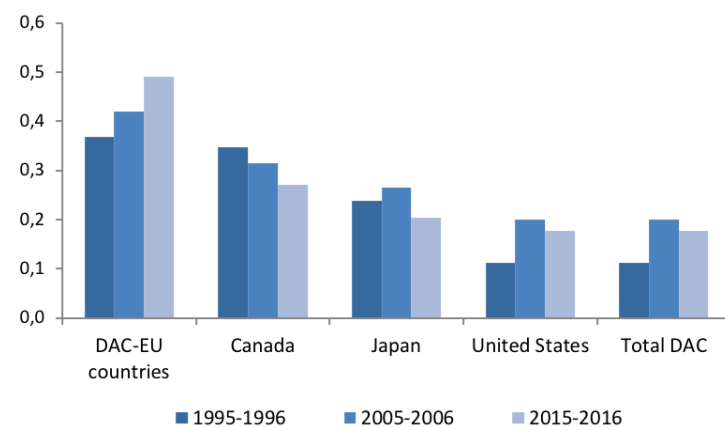


Source: European Commission.

Note: Until 2017, payment appropriations. From 2018 onwards, commitment appropriations. For the first panel, the data are 3-year moving averages.

Figure 3.11: Long-term trends in ODA

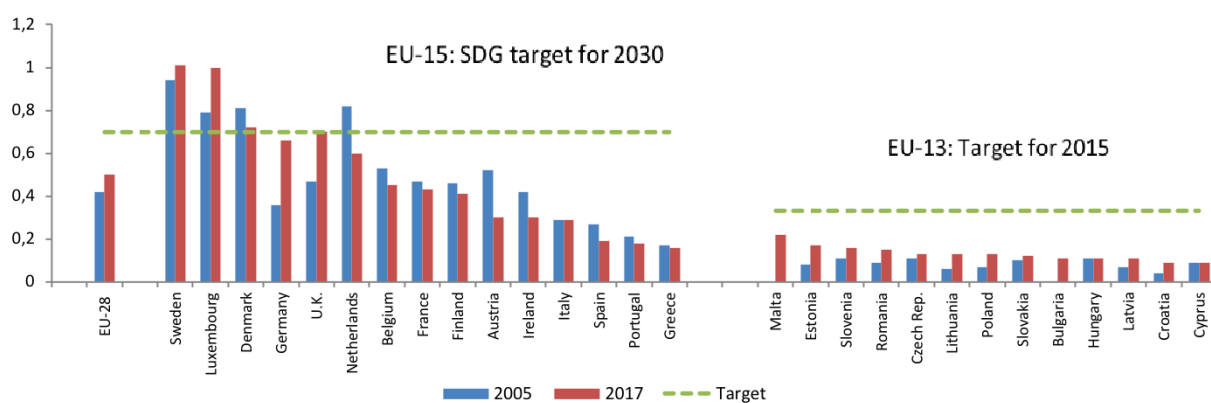
(In percent of GNI)



Source: OECD

Figure 3.12: ODA and SDGs for 2030

(In percent of GNI)



Source: Eurostat and OECD data bases.

Note: EU-13 = countries having joined the EU after 2002. For Bulgaria, data for 2010 instead of 2005. For Croatia, data for 2012 instead of 2005. For Cyprus, data for 2015 instead of 2017. For Malta, data for 2008 instead of 2005. For Romania, data for 2008 and 2015, instead of 2005 and 2017. For Slovakia, data for 2006 instead of 2005.

Consistent with what the Commission already announced in its Reflection Paper on the Future of EU Finances, issued in June 2017,³⁴ its formal proposal for the 2021-2027 MFF foresees to continue strengthening the external financial assistance effort made by the EU institutions.³⁵ Under the proposal, the EDF, except the African Peace Facility, would be fully integrated into the EU budget. The proposal to “budgetise” the EDF, which had been under consideration for a long time, will put an end to the anomaly of having the largest chunk of the EU’s common development assistance outside of the EU budget. The EDF would be integrated into the external action heading, which would become Heading 6 and be called “Neighbourhood and the World.”

The Commission’s proposal implies that the share of external action expenditure over total expenditure (including, in both cases, the EDF) would increase further, particularly in the final years of the new MFF, when it is estimated to average about 10% of total expenditure (see Figure 3.10).

In order to compare the increase in the external action heading between the current MFF (covering 2014-2020) and the new MFF with those of the budget as a whole and of other headings, Table 3.2 uses European Commission-adjusted data that add the EDF 11 to the current MFF (column (a)). In addition, and in order to take Brexit into account, column (b) deducts from the current MFF the expenditures allocated to the U.K., as estimated by the Commission. It shows that, under the Commission’s proposal, the external action heading (excluding the unallocated margin within the heading) would increase by 24% in nominal terms relative to the current MFF (adding the EDF but deducting expenditure allocated to the U.K.). If the unallocated margin is included, the rate of increase in the external action heading is close to 30%. This compares with an increase of 20% in the overall budget. In real terms, the increase in the external action heading would be 8% excluding the unallocated margin and 13% including it, compared to 5% for the budget as a whole (Figure 3.13). This confirms that the Commission’s MFF proposal implies an effort to continue raising the weight

of cooperation assistance in the EU budget. In fact, Table 3.2 and Figure 3.13 underestimate this effort for two reasons: first, because the UK was an important contributor to the EDF, providing, like other countries whose former colonies are among the main beneficiaries of the EDF, a significantly larger share to it than to the EU budget. And second, because the African Peace Facility, which was a non-negligible part of the EDF (amounting to EUR 2.3 billion) will remain, as noted, outside the budget and become part of the future European Peace Facility.

While this effort is commendable from the point of view of development and migration policy, the proposed new MFF attaches an even higher priority to border management and internal asylum, as well as to certain other headings such as security and defense or innovation and the digital economy (see Table 3.2 and Figure 3.13). Indeed, total spending on migration and border management (now classified as Heading 4) would increase by 161% in nominal terms and by 127% in real terms excluding the unallocated margin (by 252% and 207%, respectively, including it). This implies an approximate doubling of its share in the budget. Nearly two thirds of the EUR 34.9 billion allocated to this heading would go to finance the Asylum and Migration Fund and the Integrated Border Management Fund.³⁶ The pronounced increase in this heading would take place from very low levels and is understandable politically, reflecting the need to respond to the concerns among many Europeans regarding immigration, security and the porosity of the borders and to support the development of a new common asylum system. At the same time, however, they reflect a fundamental feature of the EU’s migration strategy, which is that border control, domestic asylum and domestic integration issues carry a priority when compared to the external dimension.

A positive aspect of the proposed MFF from a migration policy viewpoint is the priority that will continue to be attached to climate action. This is reflected not only in the rather marked increase in the environment and climate heading (46% in real terms) but also in the fact that climate mainstreaming, which includes all expenditure estimated to contribute to climate objectives,

34 See European Commission (2017b). Except scenario 2 (“Doing less together”), all the scenarios presented in this paper proposed an increase in the share of the external action budget in total expenditure (ibid.; Annex, p. 38).

35 See European Commission (2018d).

36 For an in-depth discussion of the implications of the Commission’s new MFF proposal for the asylum and border

Table 3.2: External Action vs Migration and Border Management in the 2021-2027 MFF

(In billion euros; at current prices; commitment appropriations)

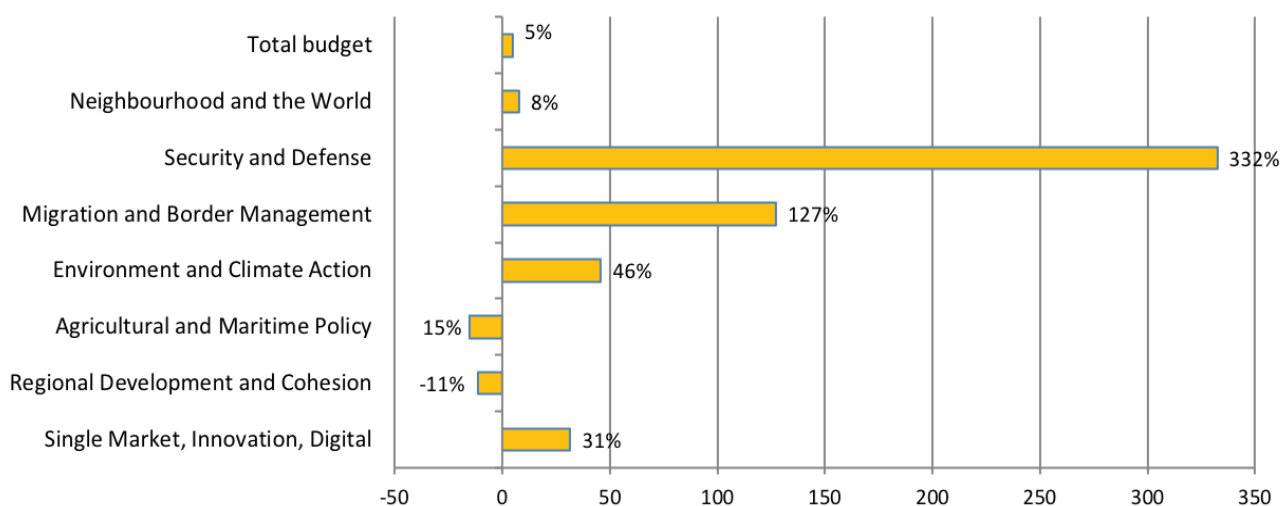
	(a) MFF 2014-2020 (EU-28, EDF)	(b) MFF 2014-2020 (EU-27, EDF)	(c) MFF 2021-2027	(c)/(a) % change vs. EU-28	(c)/(b) % change vs. EU-27
Heading 4: Migration and Border Management	13.1	12.5	32.6	150%	161%
Heading 6: Neighbourhood and the World	96.5	96.5	119.7	24%	24%
Total budget (in % of GNI (EU-27))	1,115.9	1,063.1	1,279.4	15%	20%

Sources: European Commission (2018d) and European Commission estimates.

Note: Excludes the unallocated margin. Scenarios (a) and (b) add the EDF to the 2014-2020 MFF to allow a comparison with the new MFF. In addition, scenario (b) deducts expenditure allocated to the U.K. from the 2014-2020 MFF.

Figure 3.13: Rate of change of selected expenditure categories in the 2021-2027 MFF

(Percentage change compared to 2014-2020 MFF; 2018 prices; commitment appropriations)



Source: European Commission estimates.

Note: For the 2014-2020 MFF, includes the EDF and excludes expenditure allocated to the UK.

would increase markedly (by 60% in nominal terms). At EUR 320 billion, it would represent 25% of the new MFF, up from EUR 203 billion in the 2014-2020 MFF, or 20% of it (European Commission, 2018d; p. 22).

Another important change introduced by the Commission's MFF proposal, with potential implications for the EU's capacity to direct development aid towards migration- or refugee-related emergencies, is the creation of a new, broad external financial instrument, called the Neighbourhood, Development and International Coop-

eration Instrument (NDICI).³⁷ The NDICI would merge the EU's three main external cooperation instruments, namely the European Neighbourhood Instrument (ENI)³⁸, the Development Cooperation Instrument (DCI)³⁹ and most of the EDF, which together accounted for nearly 70% of the assistance provided through the external action heading and the EDF in 2014-2020, as

³⁷ See European Commission (2018e).

³⁸ The ENI covered the ten Southern Mediterranean countries and the six Eastern European and Southern Caucasus countries that are part of the European Neighbourhood Policy.

³⁹ The DCI was essentially targeted to the Asian countries (including some in the Middle East) not covered by either by the ENI or the EDF, as well as Latin America and South Africa.

management heading, see D'Alfonso (2018).

well as the political and nuclear safety instruments. The budget line for the new instrument will also support the EEIP and will finance most of the new External Action Guarantee, which will provide guarantees, inter alia, for the external lending mandate of the EIB, the EU's Macro-Financial Assistance and the operations covered by the EEIP guarantee. Annex 3 summarises the structure of the external action heading under the current MFF and the future proposed MFF.

The NDICI, which would account for the bulk of the new external action heading, would be a huge fund, with a budget of about EUR 89 billion for 2021-2027. It would contain a *geographical pillar* (EUR 68 billion) made up of several regional compartments, as well as a three pillars not allocated ex-ante to specific regions, namely: a *thematic pillar* (EUR 7 billion), which would be used, inter alia, to address “global challenges” such as migration and forced displacement (EUR 3 billion); a *rapid-response pillar* (EUR 4 billion) to allow the EU to respond expeditiously and effectively to situations of crisis or instability; and a large, so-called *emerging challenges and priorities cushion* (EUR 10.2 billion). All this is meant to increase operational flexibility (as well as coherence) and it is, obviously, of extreme relevance for the capacity of Heading 6 to respond to unforeseen emergencies such as those producing large displacement flows. The experience with the Syrian refugee crisis, which obliged the Commission to undertake significant transfers within the external action heading and to rely extensively on its unallocated margin, underlines how important this budgetary flexibility can be to ensure a timely and appropriate response to migration-related emergencies.

Outside this broad instrument, but within the new external action heading, will remain, as self-standing instruments, the Instrument for Pre-Accession (or IPA), which is another quantitatively very important external instrument covering the Western Balkan countries and Turkey, Humanitarian Aid, a reinforced Common Foreign and Security Policy and the part of the EDF that was directed to the Overseas Countries and Territories (OCT).

While flexibility is, as noted, the name of the game for the external assistance heading of the new MFF, the regulation on the NDICI proposed by the European Commission would maintain

ceilings within the geographical pillar for each of the four main regions (see Annex 3). Although the final regional breakdown will obviously depend on the actual allocation of the non-geographical pillars of the NDICI, the proposed ceilings for the geographic pillar would further reinforce the priority being given to SSA, which would increase by 51% its ex-ante allocation (assuming that about three quarters of the current EDF go to SSA), compared to a 24% increase in the external action heading including the EDF. The priority that the Commission intends to attach to Africa (and, in particular SSA) in the next MFF was confirmed by the Communication it adopted in September 2018 proposing a new Alliance for Sustainable Investment and Jobs between the EU and Africa. Indeed, the Communication proposes to allocate a very substantial portion of the NDICI (EUR 32 billion) to SSA (and EUR 7.7 billion to North Africa), as well as new efforts to promote private investment in Africa through the blending and guarantee instruments of the EEIP and by improving the investment climate. It also suggests to strengthen cooperation on migration and measures to boost trade flows, both by supporting the negotiations on the African Continental Free Trade Area launched in March 2018 and by offering the (medium-term) prospect of a continent-to-continent free trade agreement between the EU and Africa (European Commission, 2018f). While the initiative contains a number of welcome elements, including an attempt to combine in a single package different policy instruments, a further increase in the share of SSA in the EU's total ODA would not seem consistent with the recommendations in the previous section regarding an optimal regional allocation of EU aid on migration policy grounds, given the already significant overrepresentation of SSA.

Finally, an interesting feature of the NDICI is that it would include some precise *horizontal spending targets* for certain cross-cutting priorities. In particular, the Commission proposes to adopt a spending target of 10% of the funds of the NDICI to tackle the root causes of migration and another target of 25% to support developing countries' efforts in the area of climate mitigation and adaptation, which is, as noted, also of relevance for forced displacement.

4. The EU's new trust funds and facilities for refugees

The EU is responding to the migration and refugee crisis not only by increasing and partly re-orienting the geographical allocation of its ODA, as discussed in the previous chapter, but also by adapting its toolkit of external financial instruments. This includes both the creation of new instruments and the modification of some of the existing ones. This chapter discusses the experience with four new, grant-based facilities targeted to deal with refugee and irregular migration pressures in certain regions.

4.1 Basic features and rationale of the new facilities

The Financial Regulation adopted by the EU in 2012, in its Article 187, allowed the creation of EU trust funds (EUTFs) for external action that are managed directly by the European Commission and may include contributions not only from the EU budget but also from other bilateral donors. And this possibility has been maintained by the new Financial Regulation adopted in 2018 (European Parliament and EU Council, 2018a; Article 234). The first such fund was launched in July 2014 and was aimed at the Central African Republic, which is among the top 15 sources of forced displacement in the world, with over 410,000 IDPs and about 490,000 refugees living in other countries at the end of 2016 (see Annex 2). It is formally called the **EU Trust Fund for the Central African Republic** but it is also known as the “**Békou Trust Fund**” (meaning “hope” in Sango). While the purpose of the fund is more general, being aimed at supporting the recovery and increasing the resilience of an extremely fragile country following its political and security crisis of 2013, quite a few of its projects are benefiting IDPs and potential refugees.

Within a year and half from the establishment of the “Békou Trust Fund,” and in reaction to the Syrian refugee crisis and the intensification

of irregular migration flows from SSA, the EU created two similar EUTFs as well as a sui generis facility for Turkey, all of them focusing on addressing refugee and internal displacement challenges. These are, in chronological order of creation: **the EU Regional Trust Fund in Response to the Syrian Crisis** (also known as “the Madad Fund”, broadly meaning “helping together” in Arabic), which was set up in December 2014; **the EU Emergency Trust Fund for Africa (EUTFA)**, launched at the EU-Africa Valletta Summit of November 2015; and the **Facility for Refugees in Turkey (FRT)**, which was also established in November 2015 and became a key component of the EU-Turkey Statement of 18 March 2016 reinforcing cooperation between the EU and Turkey on the management of refugee and irregular migration flows.

At the time of writing, the total funding pledged for these four facilities amounted to EUR 8.6 billion, to be committed over five years (three years, in the case of the FRT). Moreover, the EU-Turkey Statement foresees the mobilization of a new EUR 3 billion tranche under the FRT by the end of 2018, provided that Turkey meets the commitments made in the Statement (EU Council, 2016a).

Table 4.1 provides an overview of these four financial instruments while Figure 4.1 summarises their main funding sources. As can be seen from Figure 4.1, the bulk (about 80%) of their funding has been provided by the EU budget (from existing geographic or thematic external financial instruments) and the EDF, with only about 20% having been contributed by bilateral donors. The exception to this rule is the first tranche of the FRT, where the EU budget contributed EUR 1 billion and EU countries EUR 2 billion. The discussions on the renewal of the FRT have not been easy, however. An initial proposal made by the Commission in March 2018 to repeat the burden sharing of the first tranche was rejected by the EU Council, which reached a political agreement in June to swap the contributions to a EUR 2 billion by the EU budget and a EUR 1 billion by EU member states.⁴⁰

⁴⁰ See EU Council (2018a). In July 2018, the European Parliament adopted an amendment to the 2018 EU budget releasing EUR 500 million of the EUR 2 billion contribution of the EU budget to the second tranche. The remainder is to be paid from the 2019 EU budget.

Table 4.1: Main features of EU Trust Funds and the Facility for Refugees in Turkey

	Month/Year of creation	Geographical scope	Amount (EUR million)			Number of projects approved	Duration
			Pledged	Approved	Contracted		
EU Trust Fund for the Central African Republic ("Bêkou Fund")	July 2014	Central African Republic	239.5	189.5	166.6	16 (1)	5 years
EU Trust Fund in Response to Syrian Crisis ("Madad Fund")	December 2014	Egypt, Iraq, Jordan, Lebanon Syria, Western Balkans	1,436	1,410	920	46 (2)	5 years
EU Emergency Trust Fund for Africa	November 2015	North Africa, Horn of Africa, Sahel and Chad Lake	3,940	3,151	1,801	147 (3)	5 years
Facility for Refugees in Turkey (1st tranche)	November 2015	Turkey	3,000	3,000	3,000	72 (4)	3 years renewable for 3 more years

Source: European Commission.

(1) As of 31 October 2018.

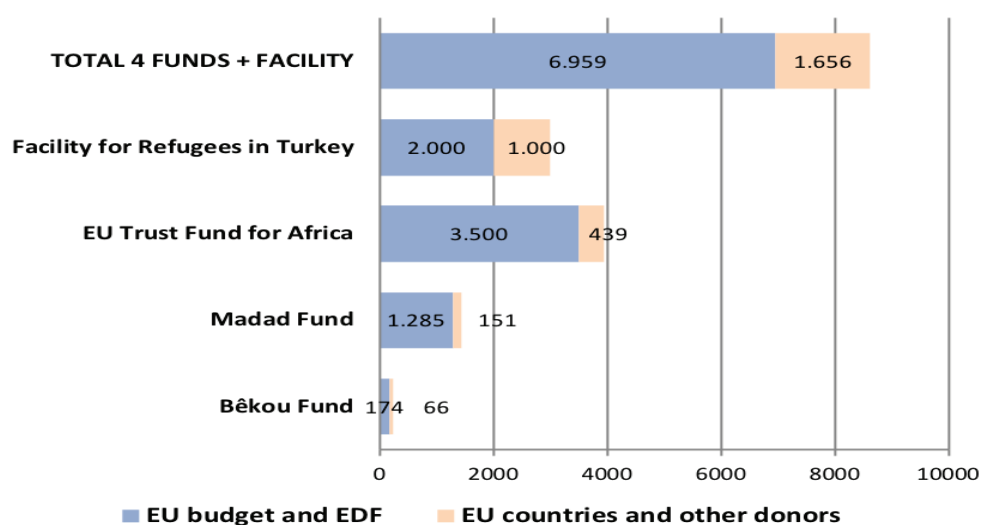
(2) As of 1 May 2018.

(3) As of 9 August 2018.

(4) As of 15 August 2018. Refers to the first tranche of the facility. In the EU-Turkey Statement of 18 March 2016, the EU pledged a second tranche of also EUR 3,000 million provided certain conditions are met.

Figure 4.1: Financial contributions to EU Trust Funds and Facility for Turkey

(In EUR million)



Source: European Commission.

Note: Data as of the dates mentioned in Table 4.1.

The EUTFs are established through the conclusion of a constitutive agreement between the Commission, on behalf of the EU, and other donors.⁴¹ From a strictly legal point of view, the FRT is not a financial instrument but, rather, a coordination mechanism as EU member states contribute directly to the EU’s Budget, which then assigns these revenues to the IPA and Humanitarian Aid budget lines.

41 For an example of these constitutive agreements, see the one concluded for the EUTFa (<https://ec.europa.eu/transparency/regdoc/rep/3/2015/EN/3-2015-7293-EN-F1-1-ANNEX-2.PDF>).

The relevant financial instruments continue to operate as usual although under the coordination mechanism provided by a Steering Committee, which oversees the activities of the Facility. The legal basis of the FRT is also different, deriving not from Article 234 of the EU’s Financial Regulation but from a Decision adopted by the European Commission on 24 November 2015,⁴² as amended on 10 February 2016,⁴³ and

42 European Commission (2015b).

43 European Commission (2015c).

Box 1: The proliferation of EU contributions to Multi-Donor Trust Funds

Between 2003 and 2016, the EU channeled development aid in the amount of EUR 11.7 billion through international organisations, of which EUR 6.6 billion were managed by UN agencies and EUR 2.9 billion by the World Bank. Out of these, EUR 4.7 billion were contributions to Multi-Donor Trust Funds (MDTFs), of which 53% were managed by the World Bank Group, 34% by UN agencies and the remaining 11% by other donors (European Commission, 2017c). The bulk of the funds allocated by the EU budget to MDTFs have been channeled via the DCI to 74 MDTFs. Another 38 MDTFs were supported through thematic budget lines of the EU budget. Out of the funds channeled through the DCI, 76% were concentrated in three priorities: Afghanistan (44%), Iraq (25%) and natural disasters (7%), all of which are extremely relevant as causes of forced displacement and other migration. Other challenges that account for significant shares of EU funding for MDTFs include major pandemics such as the avian and human influenza, aids, tuberculosis and malaria, and the Chernobyl Shelter Fund (ibid.). In some cases, e.g. that of the Regional Programme in Support of Afghan Refugees in Iran and Pakistan and of Returnees in Afghanistan, trust funds have been explicitly targeted to refugee or migration issues.

The European Commission justifies this significant reliance on trust funds and other programmes managed by international organisations by the fact that many of them deal with natural or human crises or post-crisis situations where the expertise of international organizations is key and where there is an urgent need to pool and coordinate large resources from different donors. Indeed, international organizations often have superior logistical and management capacities due to their presence in the countries or regions in question, their political neutrality (which facilitates the collaboration of the concerned governments) and other security considerations.

The amounts of EU aid channeled through this myriad of MDTFs and other programmes managed by international organisations are, however, so large and so dispersed that some rationalization, simplification and prioritization seems to be in order. In some cases the resources allocated to them could be redirected to existing instruments or EU-managed trust funds considered of higher priority for the EU, including some of relevance for refugee and migration policy.

from the EU-Turkey Statement, which is not a fully-fledged international agreement and has a somewhat unclear legal status (see Carrera et al., 2018).

These three trust funds (and the FRT) must be distinguished from the plethora of multi-donor trust funds (MDTFs) that are not managed directly by the EU but by international organisations and to which the EU makes financial contributions. While these contributions are perhaps less conspicuous and do not normally make the headlines, they are, taken together, very sizeable, and some of these trust funds are aimed at countries that are key sources of refugee and migration flows (see Box 1). While discussing these funds is beyond the scope of this book, Box 1 provides an overview of them and suggests that there is scope for rationalising and streamlining them.

Although most of the funds allocated to these four instruments come from already existing co-

operation budgets and can, therefore, hardly be considered “new money”, a total envelope of EUR 10.6 billion for a period of five years (including the first two years of the second tranche of the FRT), or more than EUR 2.1 billion per year, represents a substantial effort by the EU to redirect part of its aid towards migration and forced displacement priorities. By comparison, for the entire 2014-2020 MFF, the EU budget has allocated EUR 19.9 billion, or about EUR 2.8 billion per year, to the cooperation assistance with the 16 countries covered by the ENI and EUR 16.9 billion, or about 2.4 billion per year, to the much larger number of countries that benefit from the DCI (see Annex 3).

But the creation of these facilities is not only motivated by the need to channel EU budgetary resources directly to the sources of forced displacement and irregular migration. It also reflects other considerations. One is the need to create instruments that can act in a **swifter and more**

flexible manner in situations characterized by their emergency, their rapidly changing nature and the fact that the same crisis often affects countries covered by different regional financial instruments. This applies in particular to the regional trust funds for Africa and for the Syrian refugee crisis. Indeed, these new facilities can react to new crises and displacements without being bound by fixed country programmes and allocations. For example, the scope of the Madad Fund was subsequently expanded to allow it to support Iraqi IDPs fleeing from Da'esh in the interlinked Syria-Iraq conflict, as well as the Western Balkan countries most involved in the Eastern Mediterranean migration route. The new EUTFs operate under much more flexible, less bureaucratic decision-making rules than those applicable to the management of traditional EU instruments such as the ENI, the IPA or the EDF. Cooperation projects approved under the regular assistance instruments are subject to a long programming cycle based on the approval by the relevant Council committees (for example, for the ENI, the so-called ENI Committee), which normally meet only a few times per year, of indicative programmes defined for each country, although a portion of their funds is allocated to regional programmes. These indicative programmes specify assistance priorities in terms of reform areas and, once approved, are difficult to change.

By contrast, EUTFs have a much more agile decision-making structure, which is foreseen in their constitutive agreements, based on two governing bodies: one at strategic level, called Trust Fund Board, which adopts and can revise at any time the Strategy of the Fund, and one at operational level, known as Operational Committee, which is in charge of selecting the particular actions to be financed by the Trust Fund.⁴⁴ The Commission ensures the management of the funds and provides the chairs and secretariat of these governing bodies. The Boards and the Operational Committees are composed of representatives of the donors, the Commission and the European External Action Service (EEAS). Decisions can be taken by simple majority, although consensus is preferred and normally practiced. Non-contributing EU countries and certain other countries and international organisations can attend as

⁴⁴ In the case of the EUTFA, the Operational Committee is divided in three Regional Operational Committees, one for North Africa, one for the Horn of Africa and one for the Sahel and Lake Chad.

observers, and the European Parliament has also been invited to participate as observer in the meetings of the Boards. In contrast with the programming of the regular cooperation instruments, the Strategy of the Fund, which is jointly prepared by the Commission and the EEAS, can be revised and adjusted at any time by the Board, and both the Board and the Operational Committee can meet as often as necessary. Moreover, actions below EUR 10 million may be approved by the management of the fund (by the Commission) alone.⁴⁵

Another advantage of these new facilities is that they allow in principle the **mobilization of financial resources** from other donors, both EU countries and other potentially interested donors. This not only makes it possible to pool resources across donors but also to better coordinate their actions in the area of migration and refugees, thus bringing greater coherence and reducing the risk of fragmentation of aid. But, as noted, while the first tranche of the FRT has succeeded in galvanizing substantial support from EU member states, the participation of EU countries and other donors in the three trust funds has so far been disappointing, as highlighted by the President of the European Commission, Jean-Claude Juncker, referring to the EUTFA, in his 2017 State of the Union Address to the European Parliament.⁴⁶ Indeed, some EU countries believe that the EU budget already has the resources necessary to fund these initiatives and are reluctant to contribute substantially to them. This contrasts with an initial hope that the contributions from EU countries would match the funding from the EU budget. Ensuring a more active participation of EU and other donors, therefore, remains a key challenge for these trust funds.

Finally, another motivation behind the creation of these facilities is the EU's desire to give more **political visibility** to its actions in response to the migration and refugee crisis, as acknowledged by the Commission, for example, in its decision on the establishment of the EUTFA.⁴⁷

⁴⁵ For an in-depth analysis of the governance arrangements and legal basis of the EUTFs and the FRT, see Carrera et al., op. cit.

⁴⁶ See Juncker (2017).

⁴⁷ In this Decision, the Commission notes that the creation of the EUTFA should "provide the EU with a platform for stronger political visibility and reinforced engagement with countries of origin and transit, showing the EU's capacity to develop a solid collective response to those challenges" (European Commission, 2015d; p. 4).

4.2 Performance of the new facilities: achievements and criticism

But are these new financial facilities working? Their **speed of implementation** seems to be good, with the four facilities having approved 280 projects by August 2018, for a total contracted valued of EUR 5.8 billion.⁴⁸ And in terms of the nature and quality of the projects, they are helping to **bridge the gap between humanitarian and development assistance**, as intended. Indeed, many of the projects funded have gone beyond the provision of basic humanitarian support for refugees, IDPs and other vulnerable people and have tried to support their training, labour market integration and economic development, thus contributing to address the root causes of migration. The projects financed by these facilities have also stressed the modernization of, and improved access to, public services such as health and education, another welcome development that is in line with the empirical findings and recommendations in Chapter 2 regarding aid effectiveness. And the fact that these facilities **help coordinate donors assistance**, thus creating positive spillovers among donors, is also consistent with those findings and recommendations, which underline the importance for donors to act together when dealing with migration challenges.

On the other hand, there has been some criticism that many of the projects financed by **these facilities respond to a European political sense of urgency to stop irregular migration and support returns**. This criticism has been focused on the EUTFAs. Oxfam (2017), for example, argues, after analysing the project portfolio of this trust fund, that its long-term development projects have mainly focused on the countries of origin of migration and far less on those of transit. In particular, Oxfam notes that many projects in the transit countries covered by the Sahel and North African windows of the fund were designed to discourage and contain irregular migration, support returns and improve the identification of countries' nationals. It also complained that few projects were aimed at developing safe legal routes for migration. Oxfam does seem to have a point, which reflects the general bias seen so far

48 For the latest annual reports on the implementation of these facilities, see European Commission (2018g, 2018h, 2018i and 2018j).

in the implementation of the EU's Partnership Framework with Third Countries on Migration (see Chapter 9) on defensive measures (returns, fight against irregular migration). On the other hand, its analysis confirms that the EUTFAs are focusing on migration-related projects. Indeed, 22% of the fund's project portfolio (in value terms) fell into the migration management category while the majority of what Oxfam classifies as development projects (representing 63% of the EUTFAs' portfolio) are directed to people with migratory status (refugees, returnees, irregular migrants) or to areas of origin or transit of migrants. Moreover, some of the projects related to returns policy aim at developing new livelihoods for the beneficiaries.

Another criticism against these three trust funds concerns the possible **conflict of interests** stemming from the fact that EU donor countries seat at their Operational Committees. Thus, according to the already mentioned report by Carrera et al. (p.8), which was commissioned by the European Parliament, there has been a "recurrent tendency to select member states' projects, lobbied for and not rarely involving their own implementing agencies". This raises questions, according to these authors, over the impartiality of the selection process. Similar concerns were expressed by the European Court of Auditors, which conducted in 2016-2017 a report on the Bêkou Trust Fund and warned that the project selection procedure and excessive reliance on "delegated cooperation" with EU member states could in some cases entail a conflict of interests.⁴⁹

The creation and operational flexibility of the trust funds has also been criticized for escaping the **democratic scrutiny** of the European Parliament.⁵⁰ Neither the constitutive agreements setting up the trust funds nor the EU-Turkey Statement are international agreements and, therefore, the formal consent of the Parliament was not required for their adoption. The Commission's implementing decisions authorizing the signing of such agreements must be formally endorsed by a committee of EU member states and the European Parliament has a "right of scrutiny" under the so-called examination

49 The report of the ECA was, however, rather positive both on the justification for setting up the Bêkou Trust Fund and on its design and results achieved so far. See ECA (2017).

50 See, in particular, Carrera et al., op. cit. Oxfam, op. cit., also makes this point.

procedure. But the Parliament can only adopt a non-binding resolution against those decisions and only if it can argue that the Commission has overstepped its implementing powers. According to the above-mentioned report, this does not guarantee a sufficient oversight and control by the Parliament, particularly in light of the large size, regional scope and political importance of most of these facilities. Possible counter-arguments are the fact that these facilities are funded mostly by financial instruments of the EU budget, the volume of which has already been endorsed by the Parliament in the context of the MFF and the EU's annual budgets, and the rest comes from either the EDF (until now an extra-budgetary fund fully financed by EU countries) or direct contributions from EU countries, for which EU national parliaments have the budgetary authority. Also, the new Financial Regulation of the EU adopted in 2018 has strengthened the oversight of the European Parliament by subjecting the creation of EUTFs to either the approval of the Parliament (in the case of thematic funds) or its prior consultation (in the case of emergency or post-emergency funds).

The report commissioned by the Parliament also underlines the insufficient involvement of the Parliament in the monitoring of the activities of the fund, noting also that its observer role in the Board remains informal, not having been recognized in the constitutive agreements. On the other hand, it could be argued that getting involved into the operational activities of financial facilities falls within the implementation realm of an executive agency and is, therefore, beyond the (legislative) role of a parliament. Also, the EU Financial Regulation requires the Commission to submit annually a detailed report to the Parliament and the Council on the activities of each EUTF and foresees that the Parliament and/or the Council may, where appropriate, request the Commission to cease allocating funds to the EUTF and to revise the constitutive agreement with a view to unwinding the trust fund. Similarly, the decision establishing the FRT requires the Commission to submit an annual report to the Parliament and the Council on its implementation and to keep the co-legislators informed regularly of ongoing developments regarding the facility. All these provisions provide certain guarantees of democratic control and scrutiny, as well as of proper utilization of the funds, while ensuring the more

agile and flexible operation that the challenging refugee and migration situation requires.

A final issue to consider is whether these facilities really add value, as actually required by the EU's Financial Regulation. Indeed, some experts contend that their actions could be equally accomplished by relying on the existing instruments, particularly given that, in the end, they did not trigger as many contributions from EU countries and other donors as initially hoped for. They criticize the ongoing trend to set up trust funds that fall outside the normal EU budgetary instruments and framework. Moreover, as discussed in Chapter 3, the Commission's proposal for the 2021-2027 MFF already entails a lot of flexibility and potential speed, including through the thematic, rapid response and emerging challenges pillars of the NDICI. One could, therefore, argue that for simplicity, transparency as well as democratic accountability reasons, it might be preferable to try to achieve the objectives of these funds through the standard instruments, particularly now that the EDF is expected to be integrated into the EU budget as part of the NDICI. Indeed, while the creation of these facilities as emergency tools might have been justified by the humanitarian challenges the EU faced in 2014-2016, there might be a case now for **returning back to normality** and the ordinary procedures as soon as possible. The new MFF provides an opportunity to do so.⁵¹ A related problem with these facilities is their temporary nature and the uncertainty about their renewal. This is underlined by the difficulties encountered to renew the FRT in terms of ensuring contributions to it from EU member states. Against this view, and in favour of renewing these facilities are the arguments that they have already acquired experience and developed an infrastructure for addressing refugee and migration issues in priority regions, that their creation has managed to earmark effectively substantial funds to those activities and that, if properly played out, their renewal could attract additional funds from other donors.

51 This suggestion is made, for example, by Carrera et al., *op. cit.*

5. Other external financial instruments of the EU

The discussion in the previous two chapters has focused on development and humanitarian aid instruments that are counted as part of ODA. They are also, as noted, the type of instruments on which most empirical studies on the relation between aid and migration are based. This chapter looks at three other EU financial instruments that are also of potential relevance for migration and refugee policy, namely the EIB's external lending operations (and in particular its recently launched Economic Resilience Initiative), the EEIP and Macro-Financial Assistance (MFA). These instruments are relevant not only because of their potential impact on development and macroeconomic and political stability but also because they can be directly targeted on migration- and refugee-related projects or reforms. In fact, both the EIB's Resilience Initiative and the EEIP have been partly justified by their possible direct impact on the root causes of migration and refugee flows.

Through these three instruments, the EU can leverage its constrained budgetary resources by moving beyond the traditional development aid based on grants and using, instead, loans and innovative financial products such as risk-sharing guarantees and the blending of grants and loans, which help involve other development banks and the private sector. Similar to the multilateral facilities discussed in the next chapter, these instruments stretch donors' budgets and multiply their developmental impact by bringing in other official financiers and galvanizing potentially powerful private investment.

The argument for promoting private investment in the countries that are at the source of migration and forced displacement is partly based on fact that foreign direct investment (FDI) and other private flows to developing countries are, like migrant remittances, much larger than ODA flows (see Figure 8.1 in Chapter 8). In combination with the mixed evidence on the developmental impact of traditional aid, this underlines the importance of private investment (and re-

mittances) in any strategy aimed at encouraging economic development in the countries of origin, transit and first asylum of migration and forced displacement. Macro-financial stabilization instruments can also play a catalytic role for private investment by reassuring investors about the sustainability of the macroeconomic framework and reducing transfer risk. This is in addition to their already noted moderating role on migration and refugee flows through their contribution to macroeconomic and political stability.

5.1 The EIB's External Lending and its Economic Resilience Initiative

While the EIB was set up in 1957 by the Treaty of Rome as the main lending institution of the EU with the objective of promoting economic integration within the EU, it also lends to third countries. Its external lending currently represents about 10% of its total lending activity. Given the EIB's huge total size, its annual operations outside the EU have averaged about EUR 8.3 billion in the last five years, not far from the average total annual investments of the European Bank for Reconstruction and Development (EBRD) during the same period (EUR 9.2 billion). Through its external operations, the EIB promotes economic development and stability in third countries and their economic integration with the EU, thus supporting the EU's foreign policy.

The main part (about 60%) of the EIB's lending outside the EU takes place with the protection of guarantees from the EU budget under the so-called **External Lending Mandate (ELM)**, which covers the sovereign and political risk associated with that lending. The ELM encompasses the lending operations in the pre-accession countries, the EU's Mediterranean and Eastern neighbours, Russia, Asia, Latin America and South Africa. The total ceiling for operations under the ELM is determined in the context of the EU's MFF and the related Decision on the EIB's ELM. For the period 2014-2020, the ELM implied, taking into account the EUR 5.3 billion increase agreed at its mid-term review, a total lending capacity of EUR 32.3 billion (European Parliament and EU Council, 2014 and 2018b). A second part of the EIB's external lending takes place under the **Cotonou Partnership Agreement (CPA)** and

Table 5.1: Regional allocation of the EIB's external lending

(in EUR mn, unless otherwise indicated)	2007-13	2014-20	2007-13	2014-20	2007-13	2014-20	Shares in total external lending	
							2007-2013	2014-2020
External Lending Mandate (ELM) area	ELM¹		At own risk²		ELM + own risk		ELM + own risk	
Pre-Accession countries	9,148	8,075	10,511	10,710	19,659	18,785	40.5%	33.7%
o/w: Turkey ³	7,138	2,179	8,806	9,756	15,944	11,935	32.8%	21.4%
Mediterranean Neighbours	9,400	13,030	835	1,155	10,235	14,185	21.1%	25.4%
Eastern Neighbours, Russia	4,048	6,650	220	5	4,268	6,655	8.8%	11.9%
Asia	1,290	1,389	1,562	3,509	2,852	4,898	5.9%	8.8%
Latin America	2,662	2,694	1,070	1,349	3,732	4,043	7.7%	7.3%
South Africa	936	462	50	28	986	490	2.0%	0.9%
Climate Change Mandate (2011-2013)	2,000				2,000	0	4.1%	0.0%
<i>Total</i>	29,484	32,300	14,249	16,755	43,733	49,055	90.0%	88.0%
Contonou Partnership Agreement (CPA) area	CPA		At own risk		CPA + own risk		CPA + own risk	
ACP Investment Facility + OCT Facility ³	2,451	4,081			2,451	4,081	5.0%	7.3%
Under own resources ⁴	2,374	2,600			2,374	2,600	4.9%	4.7%
<i>Total</i>	4,825	6,681	16	28	4,841	6,709	10.0%	12.0%
Total	34,309	38,981	14,264	16,783	48,573	55,764	100.0%	100.0%

Source: European Commission.

(1) After augmentations or reallocations agreed as part of the mid-term reviews of the ELM.

(2) Includes lending under the Pre-Accession Facility, the Neighbourhood Finance Facility, the Climate Action and Environment Facility and the Strategic Projects Facility.

(3) Actual signatures. For 2014-20, projections based on the extrapolation of actual signatures in 2014-17.

(4) Guaranteed directly by EU member states. For 2007-13, ceiling for 2008-13 (EUR 2,030 mn) plus 1/5 of ceiling for 2003-07 (EUR 1,720 mn).

covers operations in the ACP countries, mostly in SSA.⁵² This includes operations financed by the ACP Investment Facility, a revolving fund that has been operational since 2003 and is part of the EDF. This facility focuses on private sector operations, often through blending operations. The EIB also lends under the CPA with its own resources under guarantees directly provided by the EU countries, mainly for public infrastructure projects. The total lending capacity for the period 2014-2020 under the CPA is about EUR 6.7 billion. In addition, the EIB provides a very substantial amount of loans to third countries without guarantees, i.e. **at its own risk**. This own-risk lending has been rising and is mostly directed to a few large countries covered by the ELM, in particular, Turkey, Brazil, China and India. In 2007-2014, the EIB's own-risk lending amounted to EUR 14.3 billion.

Table 5.1 shows the volumes and allocation by main region of the external lending activities of the EIB for the three types of external lending just

52 Like for the EDF grants, a small part of the EIB's lending under the CPA goes to overseas countries and territories (OCT) linked to EU countries. See Bilan and Grosse-Puppendahl (2016) for a discussion of EIB operations under the CPA.

mentioned. Their aggregation yields an impressive total projected lending activity of nearly EUR 56 billion for the period 2014-2020, which underlines the (often forgotten) importance of the EIB as an instrument of the EU's foreign financial policy and the significant role it could play in the EU's external migration policy.

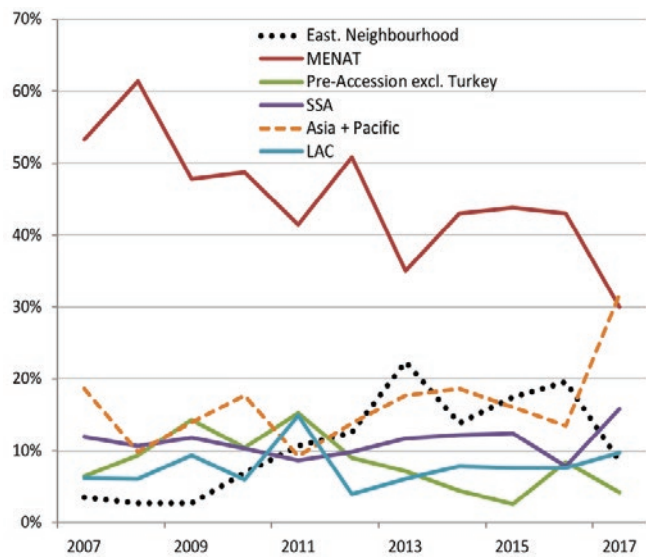
The growing importance of the EIB's external lending, its insufficient expertise in lending to developing countries and the unclear future role of EBRD as transition countries graduate from its lending has led to calls to revamp the architecture of European development banks. Thus, a committee of wise men chaired by former IMF Managing Director Michel Camdessus, commissioned to make proposals in the context of the mid-term review of the 2007-2013 ELM, recommended in 2010, as one of several possible options for the future, the merger of the external lending activities of the EIB with the EBRD in order to create a "European Bank for Cooperation and Development" (Camdessus et al., 2010). The idea has not faded away and, at a recent bilateral summit, France and Germany agreed in a formal joint declaration to set up another group of high-level wise persons to assess the European

financial architecture for development, especially regarding the respective roles of the EIB and the EBRD, and to make concrete proposals for consideration by the European Council.⁵³ While this discussion is unlikely to materialise in the short-term and is beyond the scope of this book, the creation of such a European development bank would mean that the contributions of the EIB and the EBRD to the investment aspects of the EU's external migration policy would be taken over by the new institution, with possible implications also for the EEIP.

But let us return to the current role of the EIB as it stands. From the point of view of migration policy, two things seem important: first, the EIB should give more priority in its external lending to countries that are at the origin of, or very affected by, migration and refugee flows. In this respect, Table 5.1 shows that the EIB's external lending has so far been concentrated in two regions (the pre-accession countries, led by Turkey, and the EU's Mediterranean neighbours) that are significant as sources, hosts or transit countries of migration. Together, these two regions are expected to receive about 60% of the EIB's external lending in the period 2007-2020. In terms of the regional classification used throughout this book, the focus of the EIB's external operations is, therefore, clearly on the MENAT region, although the share of this region in the EIB's external lending has declined substantially since 2007 (see Figure 5.1). Another important beneficiary region is Eastern Europe (including Russia), which has seen a substantial increase in its share since 2010, partly reflecting efforts to support Ukraine since its 2014 revolution. The share of Asia has also increased significantly in recent years, driven by a surge in relatively large operations in China and India. By contrast, SSA is underrepresented when compared with its current and potential future importance in EU migration inflows, having received only 11% of the EIB's external lending during the 2007-2017 period.

Figure 5.1: Trends in regional shares in EIB's external lending, 2007-2017

(In percent of total external lending; based on loan signatures)



Source: EIB

One problem with the EIB's external lending is its excessive concentration on a few middle-income countries, most of them countries with high absorption capacity and larger markets and in which EU companies are actively involved. As Table 5.2 shows, ten countries received 60% of all the external lending provided by the EIB between 2000 and 2017, with some of them accounting for the bulk of the lending to the regions they belong to (for example, Turkey and Brazil received 62% and 41% of the lending to the pre-accession countries and Latin America, respectively).⁵⁴ These countries often do not coincide with those where migration and refugee pressures originate. Even when they do coincide (Turkey is a case in point), the EIB often devotes important amounts of its lending to large infrastructure projects that have little relevance for migration or refugee pressures.

Beyond its geographical pattern, the migration-relevance of the EIB's external lending also depends crucially on the extent to which the EIB focuses on projects that can directly help ease migration pressures. As suggested in Chapter 2, these should include, in particular, projects aimed at strengthening the infrastructure for the provision of key public services (water, energy,

53 See "France and Germany Pledge New Elysée Treaty in 2018" (<https://uk.ambafrance.org/France-and-Germany-pledge-new-Elysee-Treaty-in-2018>). See also Wolff (2017).

54 The shares of these top ten countries in the EIB's total or regional lending are even higher if regional projects, i.e. projects benefiting several countries in the region, are excluded from the total.

Table 5.2: Concentration of EIB's external lending in top 10 countries, 2000-2017

	EUR million	Share in EIB ext. lending	Region of reference	Share in EIB lending to region
Turkey	23,011	22.4%	Pre-accession	61.6%
Serbia	4,949	4.8%		13.3%
<i>Total above</i>	<i>27,960</i>	<i>27.2%</i>		<i>74.9%</i>
Egypt	7,070	6.9%	Mediterranean	28.2%
Morocco	5,603	5.4%		22.4%
Tunisia	5,431	5.3%		21.7%
<i>Total above</i>	<i>18,104</i>	<i>17.6%</i>		<i>72.3%</i>
Ukraine	2,486	5.3%	East. Neighbours + Russia	25.1%
India	2,239	2.2%		
China	2,225	2.2%	Asia	28.9%
<i>Total above</i>	<i>4,464</i>	<i>4.3%</i>		
Brazil	3,228	3.1%	Latin America	41.4%
South Africa	2,486	2.4%	ACP + OCT + South Africa	16.5%
Total 10 countries above	58,728	60.0%		
Total all countries	102,826	100.0%		

Source: EIB

Note: Includes lending under the ELM, the CPA and at the EIB's own risk.

education, health care, etc.) of communities that are important sources of migration or that are hosting large number of displaced people, as well as rural development projects. Projects aimed at encouraging the development of Small and Medium-Sized Enterprises (SMEs) and at facilitating access to finance (including microfinance) by individuals in those communities may also help. While the EIB's traditional operations are admittedly not well suited for the type of social support projects that the facilities examined in the previous chapter often deal with, it can make a contribution in the area of basic public service infrastructure and access to finance, usefully complementing their activities. The EIB should also continue to attach high importance to climate change-related projects. As discussed in Chapter 7, while the bank is making a serious effort to increase the share of climate finance in its lending to developing and transition countries, there is substantial scope for increasing the share of adaptation (as opposed to mitigation) finance, which is more relevant for easing forced displacement pressures, and for improving its geographical allocation.

Two recent initiatives should enhance the future involvement of the EIB in migration issues.

This section focuses on one of them, namely its Economic Resilience Initiative. The following section examines the second one, i.e. the adoption of the EEIP.

The Economic Resilience Initiative (ERI) was launched by the EIB in October 2016, following a request by the European Council in March of that year, in order to mobilise additional financing to support growth, vital infrastructure and social projects in 15 countries and territories of the EU's Southern Neighbourhood and the Western Balkans that have been most affected by the migration and refugee crisis, in the case of the Western Balkans beneficiaries because of their role as transit countries. The initiative, which was endorsed by the European Parliament and the EU Council in February 2018 as part of the mid-term review of the 2014-2020 ELM, amounts to EUR 5.7 billion.⁵⁵ This includes EUR 2 billion that the EIB is expected to achieve at its own risk, that is, without relying on a commensurate increase in the EU Budget guarantee (this is called *building block 1* of the initiative), EUR 1.4 billion aimed at supporting the public sectors of the beneficiary

⁵⁵ See European Parliament and EU Council (2018b). The ERI is also sometimes presented as a contribution of the EIB to the EEIP, discussed in the next section (ibid.; recital 4).

countries (*building block 2*) and EUR 2.3 billion to enhance the range of products offered to their private sectors (*building block 3*). For the projects under building block 3, it was agreed to extend the EU guarantee to commercial risks. Except building block 1, the ERI was covered by the EUR 5.3 billion increase in the EU Budget guarantee agreed at the mid-term review of the ELM, 3 billion of which were the optional increase for climate change projects that was already envisaged when that ELM was first adopted.

The amendments to the original Decision on the ELM introduced at the mid-term review represent a sea change in the importance that the European co-legislators want the EIB to attach to migration in its external lending, and this goes beyond the ERI. In fact, the first recital of the amended Decision starts by noting that “The international community faces an unprecedented migration and refugee crisis” and goes on to say that “all actors need to work together to [...] develop and support initiatives which contribute to the UN’s sustainable development goals and to addressing the political, economic and environmental factors that constitute the root causes of migration.” Then, Article 3(1)(d) adds, as a new general objective of the ELM, the promotion of “the long-term economic resilience of refugees, migrants, host and transit communities, and communities of origin as a strategic response to addressing the root causes of migration.”

The amended ELM Decision is also very explicit regarding the types of projects the EIB should finance in order to support the objective mentioned in Article 3(1)(d). And these are precisely the kind of projects recommended by the new literature on the impact of aid on migration and on the developmental approach to refugee protection. Indeed, Article 3(8) of the revised ELM Decision calls for the EIB to finance operations that will: “a) address increased needs for infrastructure and related services to cater directly or indirectly for the influx of migrants while also benefitting the local population; (b) boost employment opportunities for host and refugee communities; (c) foster economic integration and enable refugees to become self-sufficient; and (d) strengthen humanitarian action and support the creation of decent jobs.” And later, the same Article calls on the EIB to support SMEs, mid-caps, corporate finance and microfinance, which can help provide

new livelihood opportunities for potential migrants, returnees and refugees, and to address pressures on healthcare, education and childcare facilities. There is, therefore, a welcome attempt to move the EIB, to some extent, away from its traditional lending for large infrastructure projects and into an area of assistance that is more social, more micro and more focused on the quality of those public services that, according to the recent literature, are key for migration intentions.

The ERI (and the revised ELM more generally) is, therefore, a step in the right direction in the efforts to increase the share of the EIB’s external lending devoted to migration- and refugee-related projects. These efforts are also supported by the decision to allocate at least EUR 1.4 billion of the ERI (and at least EUR 3 billion of the total increase in the ELM agreed at the mid-term review) to climate change projects, given the importance of climate finance for easing forced displacement related to natural catastrophes. It will be important for the EIB, however, to make sure that this increase in the EIB’s lending power for the Southern Neighbourhood and the Western Balkans focuses on projects that are of direct relevance for migration and refugee policy, as required by the amended ELM Decision, and is not spent on big infrastructure projects in a few relatively large countries with a capacity to generate profitable investment opportunities.

It will also be important to continue to support the ERI and, more generally, the ELM in the context of the next MFF. This is an issue that, like other important elements of the future MFF, remains to be negotiated and agreed. The budgetisation of the EDF under the Commission’s proposal for the next MFF is likely to result in the merger of the guarantee systems of the ELM and the CPA, presumably under the proposed new External Action Guarantee. This new Guarantee instrument would support operations of up to a maximum total of EUR 60 billion, including the operations guaranteed by the EEIP and macro-financial assistance loans (see the next two sections). The Commission’s proposal is, however, not specific about the total amount of guarantees that the EIB will be able to rely upon for its external lending, let alone about its breakdown by region. In fact, the Commission’s proposed regulation on the NDICI and its Communication of 12 September 2018 on the EU’s future financial architecture for invest-

ment outside the EU suggest that EIB external lending guarantees will be part of those provided by a reformed and expanded EEIP, which will be covered by the new External Action Guarantee and will also be open to operations managed by other European financiers.⁵⁶ Whatever the approach finally chosen, it will be important to ensure that sufficient priority is attached to migration-relevant projects in the design and allocation of the EIB's external lending.

5.2 The European External Investment Plan

In September 2017, the EU adopted a Regulation establishing the European Fund for Sustainable Development (EFSD) as the core of a EEIP.⁵⁷ The EEIP is aimed at promoting the “achievement of the Sustainable Development Goals of the 2030 Agenda, [...] thus addressing specific socio-economic root causes of migration and fostering sustainable reintegration of migrants returning to their countries of origin, and strengthening transit and host communities” (ibid.; Article 3). The EEIP is intended to promote investment, particularly by the private sector, in the EU's Neighbourhood (more precisely, in the 16 countries covered by the European Neighbourhood Policy) and SSA, two regions that, as noted, are key sources and major hosts of irregular migrants and displaced people.

The EEIP has been modelled on the relatively successful Investment Plan for Europe (IPE) (also known as “the Juncker Plan”), launched in July 2015, which is also managed by the EIB Group.⁵⁸

⁵⁶ See European Commission (2018e) and European Commission (2018k).

⁵⁷ European Parliament and EU Council (2017). The creation of the EEIP had been proposed by the Commission in its Communication of 7 June 2016 establishing a new Partnership Framework with Third Countries on Migration (European Commission, 2016a).

⁵⁸ The IPE has at its core the European Fund for Strategic Investments (EFSI), which provides guarantees to support the risk-bearing capacity of the EIB Group, comprising the EIB and the European Investment Fund (EIF), and crowd-in private investment. Initially launched in July 2015 for three years, its success led to its extension until 2020 and to the doubling of the guarantee capacity of the EFSI. Currently, the EFSI can provide up to EUR 26 billion in guarantees, which, together with the own resources contributed by the EIB Group, is intended to mobilise at least EUR 500 billion of additional investments, mainly within Europe. Under the Commission's proposal for the 2021-2027 MFF, the IPE would be integrated into a wider investment promotion programme called Invest EU, which would bring together under

It also builds on the EU's experience with the blending facilities managed by the European Commission, which “blend” grant contributions with loans provided by the EIB and other financiers in order to reduce the overall risk of investment projects, subsidise the interest cost of the loans or provide technical assistance supporting the projects in question.⁵⁹

The EEIP consists of three pillars⁶⁰:

- i) **A financing pillar**, known as **the EFSD**, amounting to EUR 4.1 billion in the form of grants for the period up to 2020. The EFSD consists, in turn, of two regional **Investment Platforms**, which reformat into this new framework two already existing blending facilities, namely the Africa Investment Facility, amounting to EUR 1.5 billion, and the Neighbourhood Investment Facility, amounting to EUR 1.1 billion, as well as a new guarantee facility, the so-called **EFSD Guarantee**, amounting to EUR 1.5 billion, which has been funded with contributions from the EU Budget and the EDF.⁶¹ It was hoped that EU countries and possibly other donors would contribute financially to the EFSF but, unfortunately, the contribution of EU countries has so far been limited, adding to their disappointing contribution to the trust funds discussed in the previous chapter.⁶²
- ii) **A technical assistance pillar**, to help develop bankable projects and support reforms aimed at improving the investment climate of the recipient countries.

one roof other existing internal EU financial instruments, building on the guarantee model of the EFSI.

⁵⁹ Blending was introduced in the EU at the beginning of the 2007-2013 MFF and has evolved into an important tool of the EU's external cooperation assistance.

⁶⁰ For a good description of the EEIP, see European Commission (2017d).

⁶¹ The total contribution from the EU Budget and the EDF to the EFSF Guarantee amounts to only EUR 750 million because only 50% of the guarantees extended by the EFSD Guarantee need to be provisioned for.

⁶² By end-August 2018, only three EU countries had contributed to the EFSD (the Czech Republic and Estonia had pledged together EUR 400.000 to the Guarantee Fund, while Estonia and Germany had contributed each EUR 1 million to the Neighbourhood Investment Platform). Contributions from other donors were limited to a commitment of about EUR 50 million by the Gates Foundation, mostly for the Guarantee Fund, to support health sector investments in SSA.

iii) **An investment climate pillar**, foreseeing a structured dialogue with both the private sector and the authorities of the recipient countries on ways to strengthen the investment climate and business environment, drawing on a number of existing dialogue fora such as the Sustainable Business for Africa (SB4A) Platform and the EU4Business Platform for the Eastern Partnership countries.

The EFSD offers credit enhancement, risk-sharing and investment grants. It also finances part of the technical assistance provided under the second pillar. With its EUR 4.1 billion budget until 2020, it is expected to catalyse up to EUR 44 billion in new investments, assuming a leverage ratio of 1:11 based on the experience with existing blending schemes. While projects may, in principle, be lead-managed by any financial institution meeting certain requirements, including private institutions, the EFSD Regulation, in its Article 11(2), expresses a preference for implementing the projects covered by the EFSD Guarantee under the lead of European eligible counterparts, either regional institutions (such as the EIB, the EIF and the EBRD) or national development banks from EU countries (such as KfW, AFD or DFID). And this is essentially what has been happening.⁶³ The same is true for the blending operations financed by the Investment Platforms. Non-European regional and multilateral development banks have until now mostly acted only as supporting financial institutions, only contributing to co-finance the projects.

The EFSD is steered by a Strategic Board co-chaired by representatives of the European Commission and the EU's High Representative for Foreign Affairs and Security Policy, and also including representatives from all the EU countries and the EIB. The European Parliament has permanent observer status, while contributing financial institutions and beneficiary countries might also attend as observers on an ad hoc basis. Each regional Investment Platform continues

⁶³ Thus, out of the first 12 projects approved under the EFSD Guarantee in July 2018, worth EUR 800 million, only two are lead-managed by a non-European institution (the African Development Bank) (see European Commission, 2018). In the Commission's interpretation of Article 11(2), for a non-European counterpart to be selected for implementing an EFSD guarantee programme, it should be demonstrated that no European financial institution is in a position to do so.

to be managed separately by the Commission (through two separate Operational Boards, one for each platform) but the approach is now coordinated by a newly created EEIP Secretariat that also manages the EFSF Guarantee.

Whether one looks at the EFSD Regulation or at the Communication of the Commission that accompanied the proposal (European Commission, 2016b), the objective of addressing the socio-economic root causes of migration figured prominently in the political justification of the EIPP. By shifting budgetary resources and investment by the participating development banks and the private sector towards two regions that are key sources of migration pressures, the initiative could have some positive impact on their economic development and, to the extent that development affects migration, on migration flows. But, as underlined in Chapter 2, this cause-effect mechanism is far from certain. Hopes about the effectiveness of the EIPP must be, rather, based on its direct, shorter-term impact, provided that it focuses on social and public service infrastructure projects with direct bearing on the livelihoods of refugees and potential migrants. And, in that respect, the five investment windows approved by the Strategic Board in September of 2017 represent a serious effort to shift from the large and capital-intensive infrastructure projects that have characterized the operations of the EIB and many development banks to interventions that act at the microeconomic and social level.⁶⁴ This is true, in particular, for the windows in support of MSME finance and agricultural and rural development. Also, the sustainable cities window could potentially be used to address key urban and social problems such as pressures on water, sanitation and social infrastructure (including health and educational facilities). Moreover, several windows (in particular the energy and agricultural development ones) place a welcome emphasis on climate change-related projects, including the impact of climate change on desertification, agricultural production and food security, which is, as noted, of direct relevance for alleviating migration pres-

⁶⁴ The five windows are: 1) Sustainable Energy and Sustainable Connectivity; 2) Micro, Small and Medium Enterprises (MSMEs) Financing; 3) Sustainable Agriculture, Rural Entrepreneurs and Agroindustry; 4) Sustainable Cities; and 5) Digitalisation for Sustainable Development. See European Commission (2017e).

tures.⁶⁵ The emphasis on climate finance is further supported by Article 9(1h) of the EFSD Regulation, which requires that at least 28% of the EFSD Guarantee be allocated to projects that contribute to climate action, renewable energy and resource efficiency.

It is, nonetheless, regrettable that migration is not explicitly mentioned among the areas of intervention of any of the five investment windows and that a window specifically targeting migration-focused projects has not been created. Although migration is among the key policy objectives of the EFSD and, as such, targeted horizontally across the five windows, only two of the first 12 projects approved by the EFSD Steering Board are *directly* related to migration (European Commission, 2018l). These include a project (the so-called NASIRA Risk-Sharing Facility) to give refugees, IDPs and returnees access to investment loans and another one (known as InclusiFI) to encourage diaspora communities in the EU to invest in their regions of origin. While these two projects are undoubtedly welcome steps, the migration relevance of projects should be used more explicitly as a criterion in the screening of projects and in the allocation of the portfolio of the EIPP.

There is also the risk that, as noted when referring to the EIB's ERI, a few relatively large (and often more developed) countries, with more profitable markets and absorption capacity, end up receiving the lion's share of the overall investment this initiative is meant to trigger. This risk is somewhat mitigated by Article 9 (4) of the EFSD Regulation, which foresees that, within the African Investment Platform, a significant share of the EFSD guarantee should be allocated to fragile, conflict-affected, landlocked and least developed countries. Moreover, although this provision refers specifically to the operations in SSA, it has been agreed that it should also guide the operations of the EFSD guarantee in the Neighborhood.⁶⁶ But it would be important that

65 It is also reassuring that in a screening conducted by the European Commission of the pipeline of projects of the African Investment Facility many were deemed to contribute to addressing the root causes of migration. See the Legislative Financial Statement annexed to the Commission's proposal for the EFSD Regulation (<https://bit.ly/2ldGX17>).

66 See European Commission (2017d; p. 14). The EFSD Regulation (Article 9.2.d) also foresees that for countries experiencing fragility or conflict, for those classified as least developed countries and for heavily indebted poor countries more

this principle be applied to the operations of the Investment Platforms more generally, and not only to those covered by the guarantee.

Another potential drawback of the current design of the EEIP is the preference for working with European institutions as lead managers. The same criticism has sometimes been addressed to the IPE, which has an even more strict limitation, namely that all projects must be lead managed by either the EIB or the EIF. While this restriction might be easier to justify in the case of the IPE because its focus is on investment projects within Europe, where the EU financial institutions have, admittedly, a comparative advantage, in the case of investment operations abroad, the argument seems weaker. Further opening the EEIP to other financiers, including from outside Europe, should not only help mobilise more resources but should also make it easier to bring in the expertise of Multilateral Development Banks (MDBs) such as the World Bank or the African Development Bank on the type of social and public services projects that are most relevant for addressing the root causes of migration.

Looking ahead, it is important to ensure the continuity of the EEIP in the next MFF and, in this respect, it is reassuring that the Commission's proposal for the NDICI, as well as its Communication of September 2018 on a more efficient financial architecture for investment outside the EU (Commission, 2018k, op. cit.) foresees its reinforcement. The EEIP would be integrated into a broader external investment framework including a geographically expanded EFSD (the EFSD+), also covering Asia, the Pacific, Latin America, the Caribbean and the pre-accession countries, and the new External Action Guarantee, which would support the operations previously covered by the EFSD Guarantee. Both the EFSD+ and the provisioning of the External Action Guarantee would be financed by the geographical pillars of the NDICI and, for operations in pre-accession countries, by the IPA. The Commission (ibid.; pp. 6-7) stresses that the EFSD+ guarantees would be accessible not only to the EIB Group but also to other financiers. The guarantees would be approved and managed by a new governance structure called the EU external investment platform, which would be steered by the Commission and bring together all actors

concessional terms should be considered.

benefitting from the guarantees. In order to make this new and more ambitious external investment framework fully effective, however, it would be important that EU countries, and possibly other donors, contribute financially to it, for example by augmenting the resources available for the EFSD+ within the future External Action Guarantee.

5.3 Macro-Financial Assistance

Another form of financial assistance that is relevant for migration and refugee policy but that is not captured by the empirical work on aid and migration is, as noted, assistance of a macroeconomic nature, which normally carries policy conditionality. Indeed, for countries where the outflow of migrants or/and asylum seekers is caused by a negative interaction between political and macroeconomic instability, increasing the traditional forms of aid (ODA) may be ineffective and may actually contribute to increase migration by easing the budget constraint. In those scenarios, or in other less extreme cases where migration flows are driven by a poor and relatively unstable macroeconomic performance and the lack of an adequate macroeconomic and structural reform strategy, macro-financial assistance, such as the one provided by the IMF and certain policy-based operations of the World Bank and some bilateral donors, might be fundamental. By helping to restore macroeconomic stability and put in place a sounder institutional and governance framework, it can increase the effectiveness of other assistance instruments.

The EU disposes, in its arsenal of external financial instruments, of an exceptional instrument called Macro-Financial Assistance (MFA) that allows it to provide large amounts of assistance to non-EU countries undergoing severe balance of payment difficulties and having agreed with the IMF on an adjustment programme entailing the actual use of IMF resources.⁶⁷ This instrument was created at the end of the 1980s, after the fall of the Berlin Wall, to support the countries of Central and Eastern Europe as they went through difficult

economic transitions from centrally-planned, socialist economies to fully-fledged market economies, a transition that was initially accompanied by substantial macroeconomic instability and balance of payments needs.⁶⁸

MFA normally takes the form of medium-term loans (with maturities of up to 15 years and similarly long grace periods) but, for relatively poor and highly indebted countries, it can take the form of grants or entail a grant component. MFA loans carry a very low interest rate, normally the same rate at which the EU borrows the funds in the international capital markets with its triple-A rating. Even when it takes the form of loans, therefore, MFA usually provides a relatively cheap source of medium-term finance for the recipient country, which normally has either lost access to the capital markets or can only tap them at prohibitive interest rates. The assistance goes either to the budget of the beneficiary country (budget support) or it is kept by the central bank to rebuild its reserves or intervene in the foreign exchange markets (balance of payments support). It is normally disbursed in two or three tranches, with the disbursement being conditional on the beneficiary country implementing a number of policy conditions negotiated by the European Commission with the authorities and making good progress under the IMF programme that the MFA is linked to.⁶⁹

MFA is normally reserved to countries in the EU's neighborhood, that is, those that are formally considered candidates or potential candidates for accession to the EU and those covered by the European Neighbourhood Policy. Exceptionally, however, countries outside this normal geographical scope may receive MFA. For example, the EU approved in 2013 an MFA operation for Kyrgyzstan. Since its creation, the EU has approved 66 MFA operations amounting to a total of EUR 12.7 billion, of which EUR 9.3 billion have been effectively disbursed. They have averaged 192

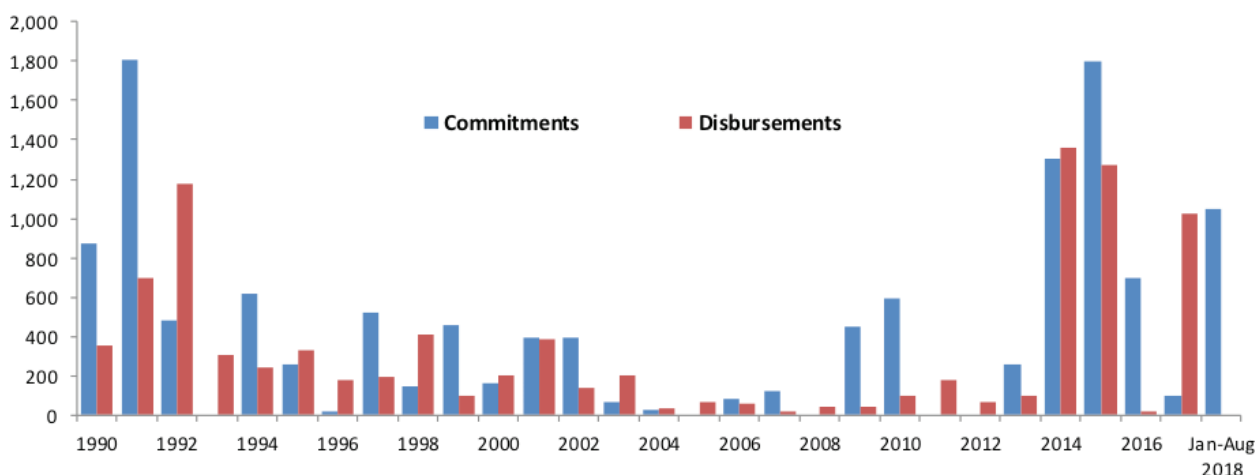
⁶⁸ For a good description of the rationale, historical genesis and evolution of this instrument, see European Commission (2011). For a more critical view, see Emerson (2012).

⁶⁹ Each MFA operation requires an ad hoc legislative decision by the European Parliament and the Council. Contrary to other external financial instruments of the EU, the rules applicable to MFA are not enshrined in a regulation passed by the European Parliament and the Council. However, these two institutions adopted in 2013 a Joint Declaration defining the main principles and rules applicable to MFA. See European Parliament and EU Council (2013).

⁶⁷ A IMF precautionary programme is not enough for a country to be eligible for EU MFA. The programme must be supported by a financial arrangement of the IMF. Another precondition for MFA, known as the political criterion, is the existence in the beneficiary country of democratic institutions based on the rule of law and the respect of human rights.

Figure 5.2: Annual commitments and disbursements of MFA, 1990-Aug. 2018

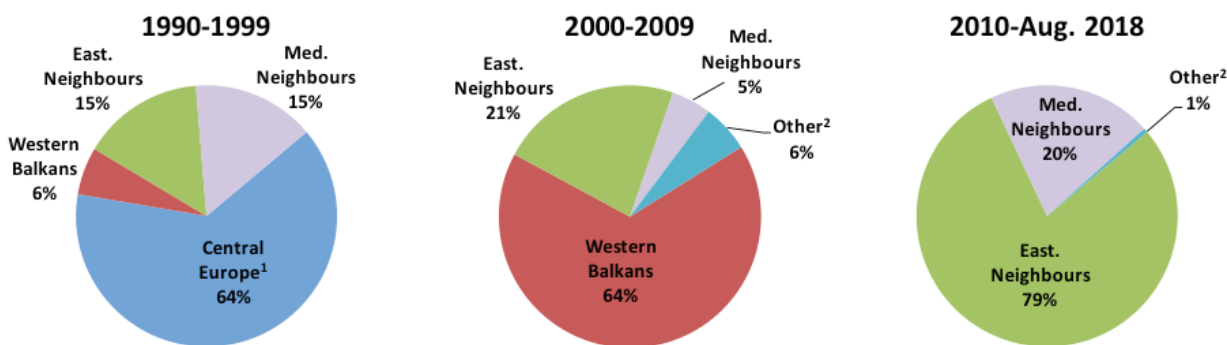
(In EUR million)



Source: European Commission

Figure 5.3: Regional distribution of MFA: a changing pattern

(Shares in total commitments)



Source: European Commission.

(1) Before joining the EU in 2004 or 2007.

(2) Countries out of the normal geographical scope of MFA. Includes 2 operations, in Tajikistan (2000) and in the Kyrgyz Republic (2013).

million in size, going from a minimum of EUR 15 million (in the case of several operations for Moldova) to a maximum of EUR 1.8 billion in the 2015 operation for Ukraine.⁷⁰

70 The latter was part of an exceptionally large package of MFA, including three operations totalling EUR 3.4 billion, made available by the EU to Ukraine during 2014-2017, of which EUR 2.8 billion were effectively disbursed. The package, which accompanied two multi-billion dollar packages of the IMF, was the largest assistance ever disbursed by the EU to a third country in such a short period of time. See European Commission (2018m) and previous annual reports by the Commission on the implementation of MFA, available at <https://bit.ly/2hrkhQV>. On 4 July 2018, the EU approved a fourth MFA operation for Ukraine in the amount of EUR 1 billion (see European Parliament and EU Council, 2018c).

Figure 5.2 summarises the evolution of MFA operations since the creation of this instrument. In recent years, total MFA commitments have risen markedly to a new historical peak, driven not only by the large operations for Ukraine but also by operations directed to the Southern Mediterranean, notably Tunisia and Jordan, in the wake of the Arab spring upheavals of 2011 and the Syrian war. Figure 5.3 shows that the geographical focus partly shifted from Central and Eastern Europe until the mid-1990s to the Western Balkans in the 2000s (reflecting the economic impact of the wars and dissolution of the former Yugoslavia) and to Eastern Europe and the Southern Mediterranean since then.

In a context of increasing calls on the MFA instrument, the EU decided in 2017, as part of the mid-term review of the 2014-2020 MFF, to increase the annual ceiling for MFA loans from EUR 500 million to EUR 2 billion until 2020. And the same annual ceiling has been suggested by the European Commission in its proposal for the NDICI (European Commission, 2018e), as part of the MFF for 2021-2027. This reflects the realization that an effective assistance strategy requires an appropriate mix of instruments and that quite a few countries in the EU's neighbourhood are suffering from significant macroeconomic instability. It also reflects the hard constraints the EU's traditional aid budget is facing and the fact that since most of the funds for the EU's MFA are obtained through borrowing by the European Commission,⁷¹ its budgetary impact is much more limited.⁷²

Two MFA operations recently conducted by the EU have been of particular relevance for the EU's policy on forced displacement and migration, namely those for Jordan and Ukraine. In the case of Jordan, the assistance (two medium-term loans of up to 15 years approved in 2013 and 2016 amounting to a total of EUR 380 million), helped the country cover part of the budgetary impact of the large number of Syrian refugees living in Jordan, estimated by the authorities at 1.3 million (or 14% of Jordan's population), of whom 668,000 had been registered as refugees by the United Nations High Commissioner for the Refugees (UNHCR) by July 2018. The assistance, together with that of other donors, notably the IMF and the Gulf Cooperation Council (GCC) countries, helped restore macroeconomic stability, counter-balancing the economic impact of the Arab spring revolts of 2011 and the Syrian conflict, which also affected negatively Jordan's trade and tourism inflows. In addition, the second operation contained specific policy conditionality supporting the scheme agreed in the EU-Jordan Compact, which eased the EU's rules of origin for Jordanian export companies employing a minimum share

of Syrian refugees.⁷³ In this way, MFA usefully complemented the efforts the EU was making through other instruments to address the refugee emergency in Jordan, including the ENI, humanitarian assistance and trade policy. The EU has committed itself to a third MFA for Jordan of at least EUR 200 million, if and once the second operation has been completed successfully and following an updated assessment by the Commission of Jordan's external financing needs.⁷⁴

In the case of Ukraine, the series of exceptionally large MFA and IMF operations implemented since 2014 were crucial to restore macroeconomic stability in the challenging context that emerged after the orange revolution of 2014 and the eruption of a military conflict in the East of the country. The crisis led to a large displacement of people from the East of the country to other parts of Ukraine and abroad, many moving to Russia and other countries as refugees. At the same time, the difficult political and economic situation in the country encouraged many Ukrainians to emigrate, with the EU being the main destination.⁷⁵ By helping to restore macroeconomic stability, this assistance package is likely to have contributed to moderate the total outflow of both forcibly displaced people and economic migrants. Moreover, the third MFA operation also contained conditionality aimed at ensuring appropriate social assistance from the Ukrainian government to IDPs, thus contributing to some extent to reduce their motivation for moving abroad.

One could also mention the MFA operations approved by the EU for Tunisia (two operations for a total of EUR 800 million approved between 2014 and 2016) and Moldova (EUR 100 million, approved in 2017), two important sources of migration (including irregular flows) to the EU in recent years, as relevant examples of the use of MFA to support, at least implicitly, migration policy. Egypt is another case in point. Indeed, with

71 There is also a line in the EU budget to finance MFA grants, but it normally amounts to only between 70 and 100 million euros per annum.

72 Under current budgetary rules, the budgetary implication of a MFA loan is limited to the need to provision the so-called Guarantee Fund for External Action in the amount of 9% of each actual disbursement two years after it takes place.

73 For the EU-Jordan Compact and its rules of origin scheme, see Chapter 9.

74 See Joint Statement of the European Parliament, the Council and the European Commission annexed to the Decision granting the second MFA to Jordan (European Parliament and EU Council, 2016).

75 According to Eurostat data, Ukraine was, by far, the country that received the largest number of residence permits issued by the EU between 2014 and 2016 (1.4 million, or 17% of the total). See <http://ec.europa.eu/eurostat/data/database>, series migr_resfirst.

a very large, young and rapidly growing population, and a difficult political and macroeconomic situation since the 2011 revolution, the risk that a destabilization of the country triggers substantial population flows and threatens stability in the Middle East has been on the minds of many European politicians. The EU considered an operation in the order of EUR 500 million in early 2013 to complement a large IMF programme that was being negotiated at the time, to help the country regain macroeconomic stability and to support its political transition process. But the failure of the administration under President Morsi to confirm the agreement reached at staff level with the IMF in late 2012 and the subsequent political developments in the country led to an interruption of the discussions on possible MFA. In November 2016, with the country approaching a balance of payments crisis, the IMF agreed with Egyptian government on a programme supported by a very large (USD 12 billion) Extended Fund Facility. While the EU decided not to supplement it with its own MFA, EU countries supported the programme at the IMF Board.

The financial crisis that Turkey has been experiencing since the summer of 2018 could also create a situation where the EU may want to use MFA partly on refugee policy grounds. With Turkey hosting already about 3.5 million Syrian refugees, the combination of macroeconomic instability and a possible new and important inflow of refugees into its territory due to the expected offensive by the Syrian regime against the last rebel stronghold in the Idlib province, in Northern Syria, could trigger a fresh strong flow of refugees to the EU.⁷⁶ Indeed, recession and inflation, together with Turkey's increasingly polarized political situation, could well encourage not only Syrian refugees but also Turkish citizens to seek asylum or/and better economic opportunities in the EU, similarly to what has been happening between Venezuela and its neighbours in the last two years. By helping restore macroeconomic stability, a package of macro-financial support, which given Turkey's large potential

financial needs would necessarily have to be led by the IMF, could help ease refugee pressures.⁷⁷

Although the increase in the budgetary envelope for MFA decided in 2017 and proposed by the Commission for the next MFF is a welcome development from the point of view of the EU's external migration policy (even if the decision reflected mainly other considerations), a significant shortcoming of the EU's MFA instrument at present is the fact that its normal geographical scope is restricted to the countries in the immediate EU neighbourhood. Unfortunately, many of the countries that should be priorities in the EU's migration policy (because of their role as source, transit or host countries) are beyond the EU's neighbourhood and many of them, in particular in SSA, suffer from very fragile and vulnerable macroeconomic situations (characterised by considerable balance of payments and fiscal needs), where MFA could make a useful contribution.

The EU should, therefore, consider enlarging the normal geographical scope of MFA operations, at least to countries in SSA but perhaps also in a more general manner. The Commission should also further emphasise, where appropriate, migration- or refugee-relevant reforms in the policy conditionality that it negotiates with countries receiving MFA, as it has done in the recent operations for Jordan and Ukraine. In addition, priority could be given in the allocation of MFA funds to countries experiencing serious migration or displacement pressures or risks, provided that their macroeconomic situation and financial needs warrant a package of macro-financial support. Moreover, the EU should encourage the adoption of such an approach by the IMF and the World Bank.

Some observers have also called for an easing of the link of MFA programmes to the existence of an IMF programme, arguing that this unduly constrains the EU's room for manoeuvre.⁷⁸ However, the participation of the IMF with a funding programme seems important for several reasons:

76 Idlib is home to about 3 million people, a third of whom are Syrians displaced by the conflict from other parts of the country and, according to the UN, an offensive there could cause a new humanitarian catastrophe, pushing up to 800.000 people to try to flee to Turkey. See <http://www.abc.net.au/news/2018-09-07/could-the-rebel-stronghold-of-idlib-be-about-to-fall-in-syria/10213156>.

77 Claeys and Wolff (2018), from Bruegel, the Brussels-based think-tank, have called on the EU to use its MFA instrument to help avoid an escalation of the crisis in Turkey.

78 See, for example, Emerson (op. cit.; pp. 41-44), who proposes to overcome the subordination of MFA to IMF programmes and to allow partnerships with other international financial institutions as well.

first, it is a sign of the gravity of the situation and of the existence of genuine macro-financing needs; second, it helps enlarge the potential size of the support package and extend the burden-sharing to other institutions and donor countries; third, it is useful in order to benefit from the IMF's expertise in the design and monitoring of macro-economic adjustments programmes; and finally, the IMF's seal of approval of a country's economic programme can have a catalytic effect on foreign investment.

In sum, macroeconomic stabilisation assistance can make in certain cases a useful contribution to alleviating migration and refugee pressures and, although its impact should not be exaggerated, it should be seen as part of the panoply of financial instruments that the EU can use to address the root causes of migration and forced displacement. This requires both making the EU's own MFA instrument more operational and using the EU's political weight at the boards of international financial institutions and in other fora in order to support, where warranted, the organisation of rescue packages for countries that are a priority for the EU's migration and refugee policy.

6. The new multilateral facilities for refugees

At the international level, some new multilateral financial facilities, managed by development banks, have been launched to respond to the refugee crisis. They are all aimed at low- and middle-income countries hosting large populations of refugees and are intended to support both the refugees and their host communities, reflecting a growing international consensus that those countries are not only being deeply affected by the refugee inflow but are also providing a global public good by hosting them. The EU, who seats at the boards of those institutions, has generally been supportive (with varying degrees of enthusiasm) of such initiatives. This Chapter discusses the main ones.

6.1 The IDA's refugee facility for low-income countries

In the context of the 18th replenishment of International Development Association (IDA), the concessional lending arm of the World Bank for the poorest countries, which was agreed at the end of 2016, a USD 2 billion Financing Window for Refugees was created. In order to qualify for the facility, a country must host at least 25,000 UNHCR-registered refugees, or refugees must represent at least 0.1% of its population, and it must have an adequate framework for the protection of refugees as assessed by the World Bank, with guidance from the UNHCR, based on criteria such as whether the country has ratified the UN's 1951 Convention for Refugees and the related 1967 Protocol. Moreover, the country must have an action plan or reform strategy, with concrete steps, aimed at providing long-term solutions that benefit refugees and host communities. When deciding on a country's eligibility, the World Bank also takes into account the impact refugee inflows are having on the country in question, including on its fiscal position and the pressure on public services, and the risk of increased instability in the country and the surrounding region.

The IDA's refugee facility is aimed at both refugees and host communities. Top-up assistance under this facility is provided in grant terms only for highly-indebted distress countries or, in cases where the beneficiary country has only a moderate or low risk of debt distress, for projects that only benefit the refugees and not the host communities. In other cases, a 50%-50% mix of grants and concessional loans is used. Moreover, in all projects, the required financial national contributions are half of those normally required by the IDA.⁷⁹

This World Bank initiative reflects the realization that, as indicated above and illustrated in Annex 1, the vast majority of the refugees hosted outside the developed world live in a few low- and lower middle-income countries and that many of these are IDA-eligible countries. Actually, the majority of the refugees hosted by IDA-eligible countries are in SSA and the MENA region. Eight countries (Cameroon, Chad, Republic of Congo, Djibouti, Ethiopia, Niger, Pakistan and Uganda) have been found to be eligible for this facility so far, although discussions are underway with other potential beneficiaries.⁸⁰ These eight countries collectively host 4.1 million refugees or 60% of the total number of refugees living in IDA countries.

The USD 2 billion of the refugee window are to be provided during the IDA's 18th replenishment period, which spans from July 2017 to June 2020. The decision to link eligibility to the facility to the existence of an appropriate refugee protection framework and an action plan for refugees and host communities is consistent with the development approach to forced displacement, whereby assistance is linked to commitments by host governments to enact policy changes that address the economic and social dimensions of refugee situations.

6.2 The Global Concessional Financing Facility

While the IDA's refugee window was a welcome step to address the refugee crisis, it had the problem that it did not cover a number of mid-

⁷⁹ See World Bank (2016b and 2017a).

⁸⁰ According to the World Bank (2016b; p. 19), Syria, which it considers an IDA-eligible country, could in principle also qualify for this refugee window. But the continuing conflict in this country has so far prevented this.

dle-income countries that are not IDA beneficiaries but that account for a large share of the refugees living outside developed countries. They include countries such as Jordan, Iraq, Lebanon and Turkey (see Annex 1). To try to fill this gap, the World Bank, in partnership with the Islamic Development Bank and the UN, proposed at the end of 2015 to establish a so-called Concessional Financial Facility to support refugees and strengthen the resilience of host communities in the middle-income countries of the MENA region.⁸¹ The facility was effectively created at the 2016 Spring Meetings of the IMF and the World Bank and was initially focused on Jordan and Lebanon. However, following an initiative by President Obama, it was expanded to the global level through its transformation in September 2016 into the Global Concessional Financing Facility (GCFF), which can address refugee crises anywhere in the world.⁸²

While the funding objective is to raise USD 1.5 billion in grants, by early 2018, only USD 512 million had been raised. The rest is supposed to be raised during the next five years. Nine countries have made pledges, five of them (Denmark, Germany, the Netherlands, Sweden and the UK) from the EU.⁸³ The EU budget has also provided a token contribution of EUR 5 million, the minimum required for a donor to become a decision-making member of its Steering Committee. Total contributions from the EU, including the one from the EU budget, amount to USD 269 million, or a bit more than 50% of the facility. Donor contributions have been pooled in a trust fund managed by the World Bank as trustee. Four MDBs, namely the World Bank, the Islamic Development Bank, the EIB and the EBRD, can lead-manage projects financed by the GCFF (as Implementing Support Agencies), which positions the EU prominently in the facility as two of them are EU-controlled institutions.⁸⁴

81 The Concessional Financing Facility was part of a more general initiative, known as the MENA Financing Initiative, launched at the time by these three institutions, which also included the creation of a so-called Guarantee Facility to support reconstruction and economic recovery in conflict-affected countries of the MENA region, but this part of the initiative has so far remained at pilot level.

82 The GCFF was formally announced at the Leaders' Summit on Refugees organised in the context of the UN General Assembly in New York in September 2016. For a description of the facility and progress with its implementation, see World Bank (2016c and 2017b).

83 In addition, Japan has pledged to provide JPY 100 billion in concessional loans.

84 The UN can also act as Implementing Support Agency.

The funds of the GCFF, as its name suggests, are used to provide development assistance on highly concessional terms to medium-term countries that are most affected by the refugee crisis. This is done mainly by subsidizing the interest loans on loans granted by the MDBs to these countries for projects that benefit refugees and host communities. The World Bank estimates that each dollar of grants from the facility can bring approximately four dollars of loans to IDA-type concessional terms. If the objective of raising USD 1.5 billion in grants is met, this would allow the GCFF to unlock about USD 6 billion in concessional finance for middle-income countries hosting refugees. The argument is that although these middle-income countries should in principle not have access to IDA-type of concessional finance, the refugees they host often come from countries that do have such access under normal conditions. Moreover, as already noted, it is considered that host countries are providing a global public good by hosting and protecting the refugees and should, therefore, be supported by the international community on concessional terms and in ways that do not harm their debt sustainability.

Like the IDA refugee window and several of the facilities discussed above, the GCFF tries to bridge the gap between humanitarian assistance and traditional development assistance by supporting projects directly aimed at easing the socio-economic conditions of refugees and their hosting communities. Projects financed by the GCFF's soft loans try to address infrastructure and public service needs that have been overstretched by the presence of large populations of refugees. The nine projects approved by January 2018 covered areas such as water and wastewater infrastructure, health care services, urban transport, employment and education.

The country eligibility criteria for accessing the GCFF are very similar to those applicable to the IDA Refugee Window but the GCFF is not open to IDA countries; only to middle-income countries. While any middle-income country in the world meeting those criteria is in principle eligible for the GCFF, most of the funding pledges made so far have been earmarked for Jordan and Lebanon and all the projects approved so far have been for these two countries. Indeed, the USD 1.5 billion funding objective is broken down between a target of raising USD 1 billion for Jordan and Lebanon (an objective that had already been agreed when the CFF, the predecessor of the GCFF,

was created) and a target of USD 500 million for the so-called global window within the facility.⁸⁵ This is, currently, a significant shortcoming of this facility. Indeed, while the facility is supposed to have been transformed into one of global scope, it remains de facto focused on Jordan and Lebanon. Although Jordan and Lebanon are the top second and fourth refugee-hosting countries in the world and the international donor community is strongly committed to supporting them, as made clear in the three high-level conferences on supporting Syria held since 2016, there are other middle-income countries that also host very large populations of refugees and should be supported by a facility of global nature.

Another limitation of this facility is that it has not elicited, until now, an enthusiastic donor response. Even the unachieved objective of raising USD 1.5 billion seems unambitious. For example, the EU's EEIP alone already has a size about three times as big and the four EU facilities discussed in Chapter 4, which also target forced displacement, amount together, as noted, to EUR 8.6 billion (about USD 10 billion). Some major donors such as the GCC countries are notably absent from the GCFF, despite their geopolitical interest and involvement in the Middle East region, from which many of the refugees come. The EU could also do more, both through the EU budget (the contribution of which remains, as noted, symbolic) and by having more EU member states among its supporting countries. Unfortunately, there is some competition among all these different facilities, with some EU countries apparently being reluctant to channel GCFF funds, for example, to SSA countries or Turkey because they already benefit from the other special EU facilities created for them. This is understandable. But establishing a few well-designed refugee facilities at global level, and managed by multilateral institutions such as the World Bank, with ample experience in supporting fragile and conflict-ridden countries, is important to strengthen donor coordination and to produce real improvements in the socio-economic environment refugee communities live in. This facility was designed to be one of them and deserves to be supported.

85 Moreover, Lebanon and Jordan can also access in principle the global window.

6.3 The EBRD's refugee response package

Another recent multilateral initiative aimed at addressing the socio-economic needs of refugees and their host communities that is of particular interest for the EU is the one launched in 2016 by the EBRD, which focuses on the Syrian refugee crisis. Indeed, an overview of the EU's toolkit of financial instruments relevant for migration and refugee policy would not be complete without mentioning the EBRD. In fact, with the EU holding a controlling stake of 63% in the capital of the EBRD (including the stakes of the European Community and the EIB, each amounting to 3%), this bank is sometimes seen as another development bank of the EU.

The EBRD's involvement in the Syrian refugee crisis has been made possible by the extension of its mandate first, in 2009, to Turkey and then, in 2012, to the Southern and Eastern Mediterranean (SEMED) region. Five SEMED countries are currently shareholders and countries of operation of the EBRD, namely, Egypt, Jordan, Morocco, Tunisia and, since September 2017, Lebanon.⁸⁶ By the end of 2017, the EBRD had invested EUR 10.3 billion in Turkey and EUR 6.7 billion in the SEMED region. Together, these clients already accounted for to 30% of the investment portfolio of the EBRD outstanding at the end of 2017 (see Figure 6.1) and for nearly 40% of the new investment approved by the bank during that year. This is quite a transformation for a bank that was originally created, in 1991, to support the economic transition of the former communist countries of Central and Eastern Europe and the former Soviet Union. And this transformation is a welcome development from the point of view of the EU's availability of financial power for a region that has become one of the main sources of refugee and irregular migration flows.

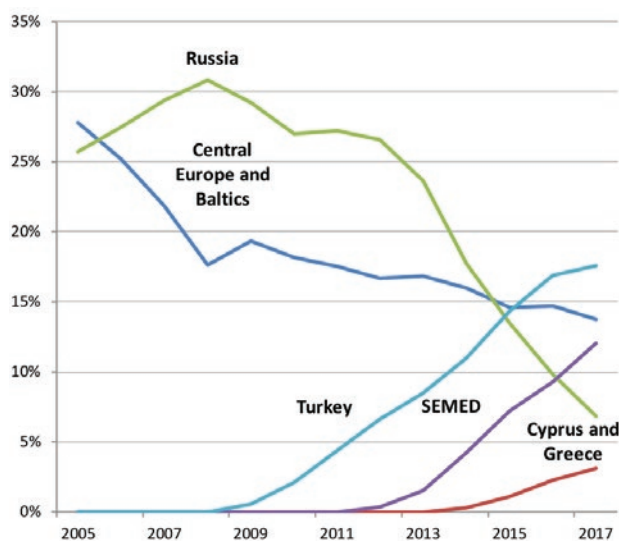
At the same time, the EBRD has remained very active in some Eastern European countries such as Ukraine and Moldova, which are significant sources of economic migration into the EU, with Ukraine having also become, as noted, a source of substantial flows of forcibly displaced people since 2014. Indeed, in the context of the

86 In addition, In May 2017, the EBRD agreed to start operations in Palestine for an initial period of five years, financed through the creation of two special trust funds.

Ukrainian crisis, the EBRD has stepped up its investment effort in Ukraine, while freezing the approval of new operations in Russia. The interruption of lending to Russia, combined with the gradual reduction in lending to the Central European countries and the Baltic states as these countries complete their economic transitions,⁸⁷ has opened space for the EBRD to shift focus towards the Mediterranean (Turkey, the SEMED, as well as Cyprus and Greece), putting it in a better position to play a role in migration and refugee policy (see Figure 6.1).⁸⁸

Figure 6.1: Allocation of the EBRD's investment to selected regions, 2005-2017

(As a share of the outstanding stock of investments)



Source: EBRD.

But the EBRD has, as noted, moved more explicitly to tackle the refugee crisis. In the context of the London Conference of February 2016 on Supporting Syria and the Region, it announced a financing package, worth EUR 900 million for the period mid-2016 to mid-2019, aimed at providing concessional financing through blending operations to countries directly affected by the Syrian refugee crisis (see EBRD, 2016). This so-called Community Resilience initiative is supported by the mobilisation of grants funded from contri-

87 One of these countries, the Czech Republic, has fully graduated from EBRD lending.

88 Since 2015, the EBRD has been, exceptionally, also active in Greece and Cyprus, among the EU countries, in an effort to help these countries recover from their debt and financial crises. This would in principle also open the possibility of refugee-related projects in Greece, a key country in the Eastern Mediterranean refugee route. But the involvement of the EBRD in these two countries is meant to be temporary, with the plan being to end it by 2020.

butions from both the EBRD's accumulated net income (EUR 100 million) and other donors, including bilateral donors, the EU and the GCFF.⁸⁹ The aim is to mobilise EUR 400 million in grants, to be combined with EUR 500 million in loans provided by the EBRD from its own resources. Unfortunately, grant contributions from donors other than the EBRD have been somewhat below target, amounting to EUR 237 million by end-July 2018.⁹⁰

The package focuses on projects that can benefit directly refugees or their host communities and in which the EBRD has a comparative advantage. This includes: i) projects to strengthen municipal infrastructure and services such as water, wastewater, solid waste and urban transport, strained by the presence of large populations of refugees; ii) credit lines to support refugee-led MSMEs and advisory projects to help develop the small-scale private sector in host communities, drawing on the EBRD's expertise in private sector development; and iii) projects to support skill mapping, training and employment opportunities (notably for women) in priority sectors such as textile and food processing, which offer significant employment possibilities for both refugees and the local population.

While the EBRD's Community Resilience package may also benefit other countries in the Eastern Mediterranean region and even transit countries in the Western Balkans route affected by the refugee flow, the initiative has so far focused on Turkey and Jordan. By end-June 2018, the EBRD had approved 11 projects for these two countries under the initiative, for a total of EUR 354 million, blending EUR 231 million in EBRD loans and EUR 123 million in grants (both co-investment grants and technical assistance). Within these two countries, the package has been narrowly targeted at the cities and regions that are hosting large numbers of Syrian refugees (Amman and the northern governorates of Jordan and the South of Turkey, notably cities such as Gaziantep and Hatay).

89 As one of the MDBs that can lead-manage projects supported by the GCFF, the EBRD can also obtain grant financing from this facility, which has so far supported two EBRD-led projects in Jordan in the area of wastewater management.

90 At the time of writing, only Finland, Norway, Taipei China, the UK, the United States, the EU and the GCFF had contributed. A EUR 150 million contribution from the EU's FRT that the EBRD was hoping for has not materialized.

With Lebanon, which hosts over one million Syrian refugees (equivalent to nearly one quarter of its resident population), having become, as noted, a country of operations of the EBRD, the bank is already preparing an extension of its refugee programme to this country. It would seem advisable, however, to accompany this expansion of the geographical scope with a reinforcement of the financial resources allocated to it by the EBRD and other donors. It would also seem important to ensure the continuity of the programme beyond mid-2019.

In sum, both the extension of the EBRD's geographical scope to Turkey and the SEMED region and its Community Resilience initiative have increased the relevance of the EBRD for the efforts of the EU and of the international community to address the refugee crisis. The package seems very well targeted, both geographically and regarding the type of projects that it finances, to facilitate the professional development and economic integration of refugees, improve strained municipal infrastructure and increase the resilience of host communities. Regrettably, the financial contributions of donors, including the EU, to it have so far been less than hoped for. The EBRD's comparative advantage in private sector development and the financing of MSME is particularly useful for supporting the entrepreneurial development of refugees and does not overlap with actions financed through other external financial instruments of the EU. It would, therefore, seem in the EU's interest to support this EBRD initiative, including by increasing its financial contribution to it.

7. The relevance of climate change finance

Environmental change, and in particular climate change and climate-related disasters, can be a significant factor contributing to migration, notably forced displacement, and there is indeed a rapidly growing literature on the matter. This chapter looks at the debate and at the potential role of international climate finance as an instrument to mitigate climate change-related displacement.

Climate change is expected to worsen over time and the number of climatological, meteorological and hydrological events is already increasing worldwide (see Figure 7.1). According to *flow* data compiled by the Internal Displacement Monitoring Centre (IDMC), natural catastrophes already account for a dominant share of new internal displacements of people, far exceeding the number of displacements caused by conflict and generalized violence (Figure 7.2; first panel).⁹¹ And the bulk of natural disaster-driven annual displacements are due to weather-related disasters (Figure 7.2; second panel). Moreover, the data in Figure 7.2 only refer to disasters triggered by rapid-onset hazards. It does not capture the people who abandon their homes because of slow-onset events or gradual environmental transformations related to climate change.

Unabated climate change (including global warming) is expected to accelerate the desertification of arid areas such as the Sahel and increase the frequency of heat waves, droughts, extreme precipitation, coastal flooding and other extreme events. Arid and semi-arid regions, low-lying coastal areas, deltas, small island states, as well as some regions in high latitudes exposed to floods, are particularly at risk. And although these trends are being felt across the globe, the poorest regions are the most affected. According to the World Bank, during the 2005-2015 period, IDA-eligible countries experienced eight times

more natural disasters than in the 1980s, with the annual economic losses resulting from them averaging 1% of GDP but being much higher for relatively poor countries, notably small island states (World Bank, 2016b; Hsiang and Jina, 2014). Poor countries are not only more exposed to climate shocks but also tend to have a weaker capacity and readiness to buffer their economies from them. As a result, their overall vulnerability to climate change tends to be higher, as reflected by composite indicators like the ND-GAIN Vulnerability Index, which measures a country's exposure, sensitivity and ability to adapt to the negative impact of climate change (see Figure 7.3). Disasters in developing countries tend to affect agriculture the most, which is critical for food security, jobs, livelihoods and export earnings, adding to the motivation of their citizens to migrate. Within developing countries, poor people are more exposed to hazards because they are more dependent on agricultural earnings and hold more vulnerable and less diversified assets (Hallegatte et al., 2016).

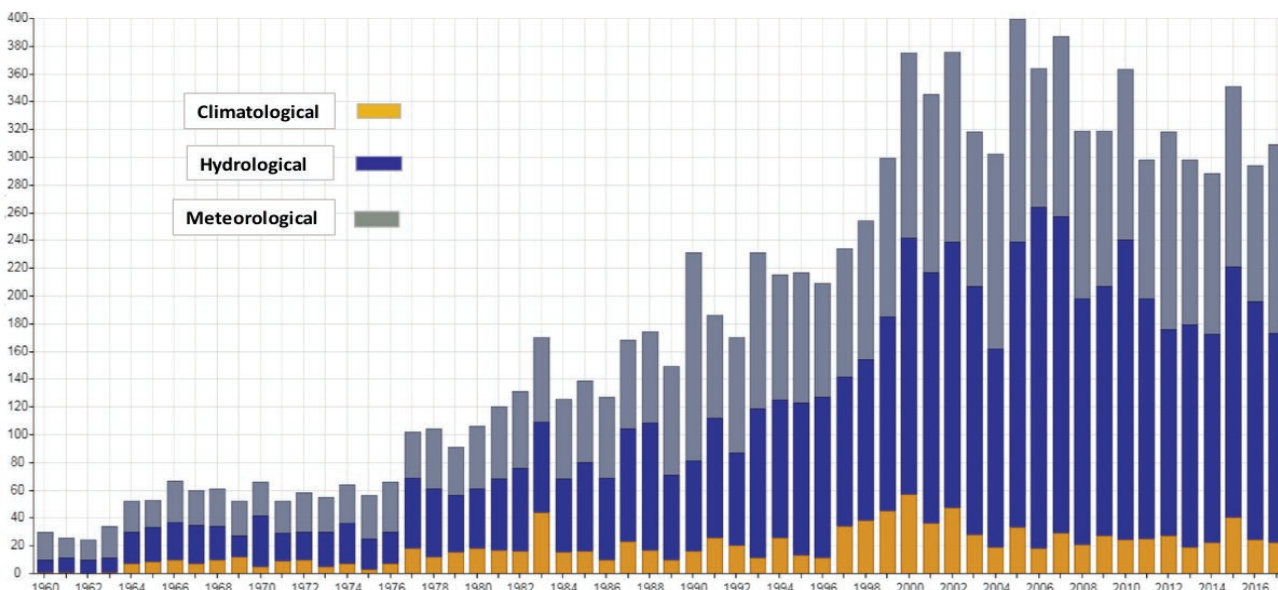
The higher vulnerability of the poorest countries to weather-related catastrophes is illustrated by the estimates of prospective annual displacements due to natural disasters recently produced by the IDMC using its Global Displacement Risk Model.⁹² These estimates are displayed in Figure 7.4, which shows that low- and lower middle-income countries are much more likely to experience, in proportion to their population, displacements due to natural disasters, in particular those related to the types of catastrophes that are being exacerbated by climate change, such as floods, storms, and wind.

91 There are, for the time being, no data on the global *stock* on persons displaced by natural disasters. However, over the period 2008-2016, the number of *new* IDPs associated with disasters reached 227.6 million (an annual average of 25.3 million each year). This compares with an estimated stock of 40.3 million of people displaced by violence and generalized conflict at the end of 2016. See IDMC (2017a).

92 For an explanation of the methodology behind these estimates, see IDMC (2017b).

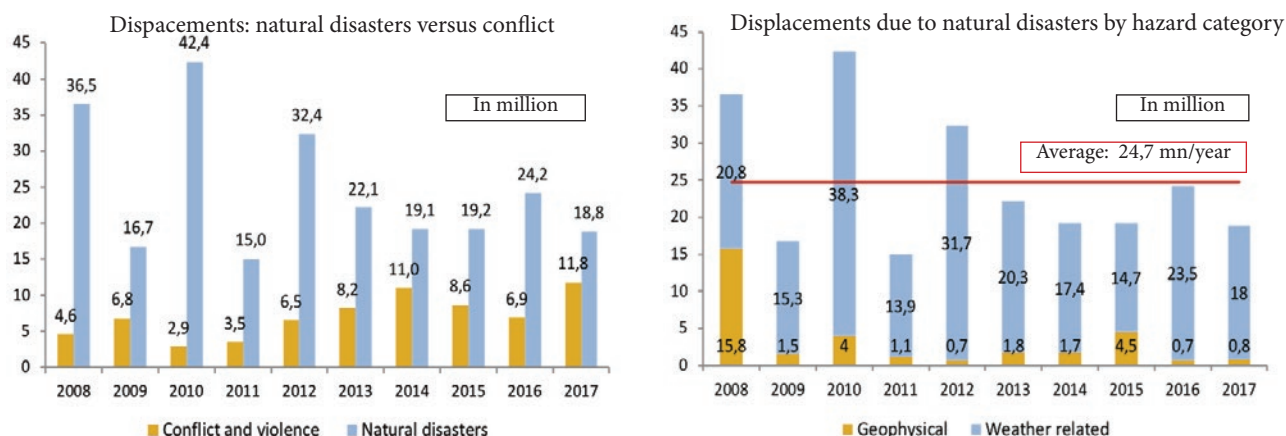
Figure 7.1: Incidence of climate change-related natural disasters, 1960-2017

(Number of disasters per disaster subgroup)



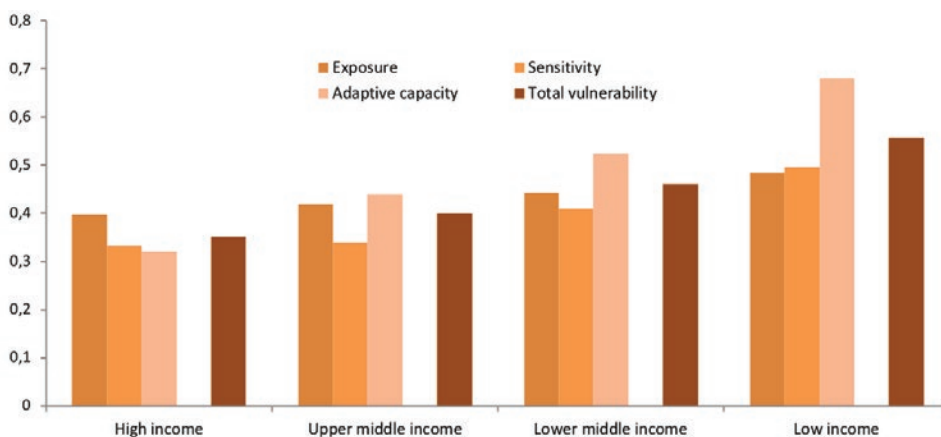
Source: EM-DAT: The Emergency Events Database. University of Louvain(UCL) - CRED. D.Guha-Sapir-www.emdat.be

Figure 7.2: New forced displacements: the role of climate change



Source: Internal Displacement Monitoring Center.

Figure 7.3: ND-GAIN Index of Vulnerability to Climate Change



Source: Notre Dame Global Adaptation Initiative (ND-GAIN) database.

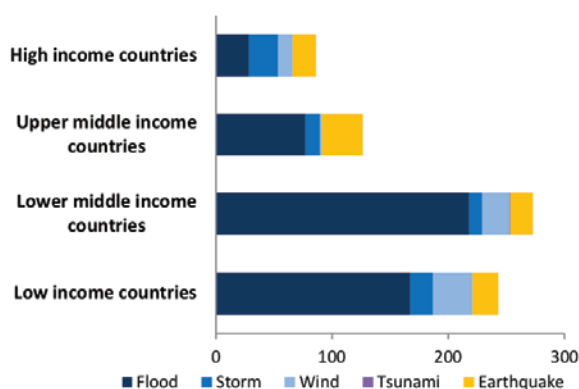
Note: Vulnerability measures a country's exposure, sensitivity and ability to adapt to the impact of climate change. It is measured in six life-supporting sectors (food, water, health, ecosystem service, human habitat and infrastructure). The subindices can varie from 0 to 1, with 1 reflecting maximum exposure, maximum sensitivity or a minimum capacity to adapt. The total vulnerability index is the average of the subindices.

7.1 The debate on the relationship between climate change and migration

In this context, a strand of the migration literature has been warning about the emergence and rapid expansion of a new type of refugees, called “environmental refugees,” i.e. people who have been forced to migrate due to deteriorating environmental conditions, of which climate change is a subset of growing importance.⁹³ Among the most quoted contributions are those of El-Hinnawi (1985), and Jacobson (1988), as well as the influential work of British ecologist Norman Myers (Myers and Kent, 1995; Myers, 2002). Myers claimed that in the mid-1990s there were already about 25 million “environmental refugees”, which compared to the 22 million officially registered as refugees by the UNHCR, and that their total number could reach 200 million by the middle of the 21st century. Other authors or organizations also made alarming predictions.⁹⁴ And the UN, in its first intergovernmental report on climate change, warned that “the gravest effects of climate change may be those on human migration as millions will be displaced” (IPCC, 1990; p. 103).

Figure 7.4: Prospective annual displacements due to natural disasters

(IDPs per 100,000 inhabitants)



Source: IDMC, estimates produced by the Global Displacement Risk Model, 2018.

Some political scientists have even argued that environmental degradation is at the root of some conflicts that have provoked important refugee movements, which means that climate change

⁹³ In this context, some authors have been calling for a broadening of the definition of refugee in international law to include people displaced by climate change.

⁹⁴ See McLeman (2011) for examples of these predictions.

could also result in forced displacement through this indirect route. For example, Kelley et al. (2015) suggest that climate change contributed to the civil unrest that led to the war in Syria, by causing the most serious drought in modern Syrian history. The draught provoked a mass migration of about 1.5 million people from rural areas to the cities, which overcrowded urban centers. Social dissatisfaction was exacerbated by the government’s decision to reduce fuel and food subsidies and the rise in international commodity prices, which pushed up local food and energy prices. Similarly, Diessenbacher (1998) links the Rwanda genocide with a problem of overpopulation in a context of environmental degradation.⁹⁵

Other authors argue, however, that the link between climate change and migration or refugee flows has been exaggerated.⁹⁶ They note that estimates or predictions of environmental refugee flows are in general not based on rigorous empirical evidence and that many episodes characterized as environmental displacement were in fact driven by a multiplicity of factors, of which climate change was only one, and often not the main, cause. For example, Findlay and Geddes (2011) question the conventional view that sees Bangladesh as a paradigmatic example of mass displacement due to sea-level rise, arguing that migration in this country has more to do with socio-economic factors such as poverty, access to social networks and household and community structures. In a more recent study based on a panel dataset of bilateral migration flows from 1960 to 2000, Beine and Parsons (2015) found no direct effect of long-term climatic factors on international migration, although they found strong evidence that natural disasters produced greater flows of migrants from rural to urban areas. They see this as consistent with the mixed results yielded, according to their reading (pp. 726-727), by the existing literature on the effect of environmental change and natural disasters on migration. Some authors have also noted that environmental degradation can in some cases discourage, rather than encourage, international migration because populations impoverished by factors such as droughts or floods are less capable

⁹⁵ For a discussion of possible channels through which environmental change can affect conflict, see Homer-Dixon (1994).

⁹⁶ See Black (2001), Castles (2002), Castles, De Haas and Miller (2013), McLeman (2011) and Foresight (2011).

of financing the costs of migration.⁹⁷ Finally, it has been noted that migration or internal displacement can be a useful adaptation strategy of threatened populations to environmental change and should not necessarily be discouraged (Tacoli, 2009; Zetter, 2010; McLeman, 2011; Castles et al., 2013; Adger et al., 2014).

This is not to say that environmental change does not matter for migration but, rather, that some of the literature has tended to exaggerate its importance and that it is often hard to disentangle its influence from that of other factors driving migration. At the same time, the literature points towards an increasing role of climate change in future forced displacement and migration, given that the disruptive effects of climate change are expected to intensify over time.

An important finding of the literature is that people in relatively poor, rural areas and without previous experience with international migration are more likely to move within the country or to the nearby region in response to a natural disaster, rather than internationally and far away.⁹⁸ They are, therefore, often counted (when they are counted at all) as IDPs rather than as refugees or migrants. Also, displacements induced by disasters tend to be temporary in nature, with the affected people often returning home after a few months or a few years, once conditions in the area hit by the natural shock improve.⁹⁹ With people in developing countries displaced by climate change tending to stay close to their original location, much of

97 For example, Findley (1994) found that a major and protracted drought in Mali, occurring over a three-year period, reduced long-term international migration, reflecting the tightening of credit constraints, although it provoked some temporary, circular migration within the country. For other evidence that long-distance migration might, in some cases, be reduced or interrupted by drought or other effects of climate change, see Adger et al. (2014; pp. 767-768).

98 Thus, Pigué, Pécoud and De Guchteneire (2011) review a number of micro-level studies and conclude that natural disasters are more likely to result in short-term internal displacements than in long-term, long-distance migrations. Foresight (2011), Adger et al. (2014; pp. 767-768) and IDMC (2017a; p. 53) reach the same conclusion. Empirical evidence also suggests, however, that developing countries are more likely than developed countries to experience international migration following a disaster (even if their dominant reaction to disasters is internal displacement). Belasen and Polachek (2013; p. 316) make this point after conducting a meta-analysis of past findings.

99 As noted by IOM (2017b; p. 38), citing the IDMC, “a significant portion of the global total of those newly displaced by disasters is usually associated with short-term evacuations in a relatively safe and orderly manner.”

what we are seeing for now is a very sizeable increase in the number of IDPs, rather than in the number of “environmental refugees.” However, while a significant share of people displaced by natural disasters tends to return home within a relatively short period of time, many stay away for protracted periods of time. This suggests that there is a significant potential for such internal or regional displacement to transform itself into longer-range international migration, especially once the diasporas of migrants that can provide logistical and financial support are sufficiently developed. Indeed, IDMC data on displacement associated with conflict show a significant correlation between IDP and refugee movements (IDMC, 2017a; p.51) and ten of the 15 countries that generate more IDPs are also among the 15 countries that originate more refugees (see Annexes 1 and 2).¹⁰⁰

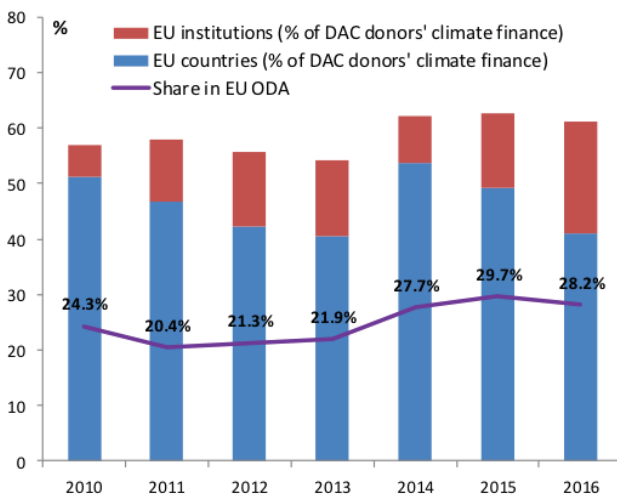
There is, therefore, a significant prospect that today’s IDPs could become tomorrow’s refugees or irregular migrants. And if climate change and environmental degradation continue to advance as in recent years, they will undoubtedly become a more important underlying cause of migration, even if it will still be incorrect, in most cases, to talk about environmental migration, for the reasons just discussed.

7.2 The EU’s climate finance response in an international context

Despite the controversy, the analysis above suggests that strengthening international climate finance for developing countries should help mitigate, especially over the medium-term, one significant source of forced displacement and migration flows. But what are the EU and the international donor community actually doing to that effect, and what else could they do? The response, in a snapshot, is that, over the last ten years, both have been making impressive efforts to reorient part of their official assistance towards projects with climate co-benefits and to increase the involvement of the private sector in them.

100 For example, a high share of the Afghan and Syrian refugees interviewed in Greece in early 2016 (about 55% and 85%, respectively) said that they had not come directly from their areas of origin. And nearly 70% of the female asylum seekers from Central America surveyed in 2015 had also been internally displaced before deciding to flee abroad. See IDMC (2017a; p.51), citing surveys conducted by the UNHCR in 2015.

Figure 7.5: EU climate finance to developing countries, 2010-2016



Source: Creditor Reporting System, OECD.

The EU is not only the world's biggest donor in terms of total ODA but it has also become the biggest donor in terms of climate finance. According to the data compiled by the OECD's DAC based on the Rio Markers methodology,¹⁰¹ the EU institutions and the EU countries accounted together for 59% of the bilateral climate finance provided by DAC donors to developing countries in the period 2010-2016, with the share having increased from 57% in 2000 to an average of 62% in 2015-2016 (see Figure 7.5). In 2016 alone, they provided a total of nearly EUR 23 billion in bilateral climate finance to developing countries. This rapid increase has been spearheaded by the EU institutions, which multiplied by five their climate finance to developing countries during that period, although EU countries continue to account for the bulk (over two thirds) of the EU's total. In recent years, the share of climate finance in total EU ODA has increased significantly, reaching 29% of it in 2015-2016 (Figure 7.5).

The **EU budget**, in particular, has been devoting an important share of its expenditure to climate change programmes and, as noted, the Commis-

¹⁰¹ The Rio Markers on climate change mitigation and adaptation were introduced in 1998 and 2010, respectively, and help determine whether a given project can be classified as contributing to climate change *mitigation* (because it reduces or limits greenhouse gas (GHG) emissions or enhances GHG sequestration) or *adaptation* (because it reduces the vulnerability of countries to the impact of climate change). See *OECD DAC Rio Markers for Climate. Handbook*, (https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf).

sion's proposal for the 2021-2027 MFF implies a marked increase in the share of climate mainstreaming, which would reach 25% of total expenditure.

The EIB has also been making strong efforts to increase the share of climate finance in its lending to developing countries. This is part of a more general strategy of the EIB aimed at making climate-related projects account for at least one third of its total lending, including lending within the EU. The EIB defines a so-called global target for its climate finance over its total operations and this target has been gradually increased and is currently set at 25%.¹⁰² Indeed, when its domestic operations (those inside the EU) are included, the EIB is the largest multilateral provider of climate finance in the world. Moreover, as part of its current ELM (covering, as noted, the period 2014-2020), the bank is committed to providing at least 25% of its lending for climate mitigation and adaptation, a target that it has been amply met so far (see next paragraph).¹⁰³ In fact, at the ministerial meeting of the United Nations Framework Convention on Climate Change (UNFCCC) that took place in Lima in October 2015, ahead of the Paris COP 21 conference on climate change, the President of the EIB announced a more ambitious target: by 2020, the EIB intends to devote to climate change projects at least 35% of its lending to developing countries (including lending under the ELM, the CPA and at its own risk).¹⁰⁴ A reference to this more ambitious, 35% target for 2020 was added to the Decision on the ELM at the time of its mid-term review.¹⁰⁵

The EBRD, the other key MDB in which the EU has a controlling capital stake, has also been investing a large and growing share of its portfolio in climate change relevant projects. Figure 7.6 and Table 7.1 show the climate finance to devel-

¹⁰² This target was set at the EIB Climate Strategy adopted in September 2015. See EIB (2015a).

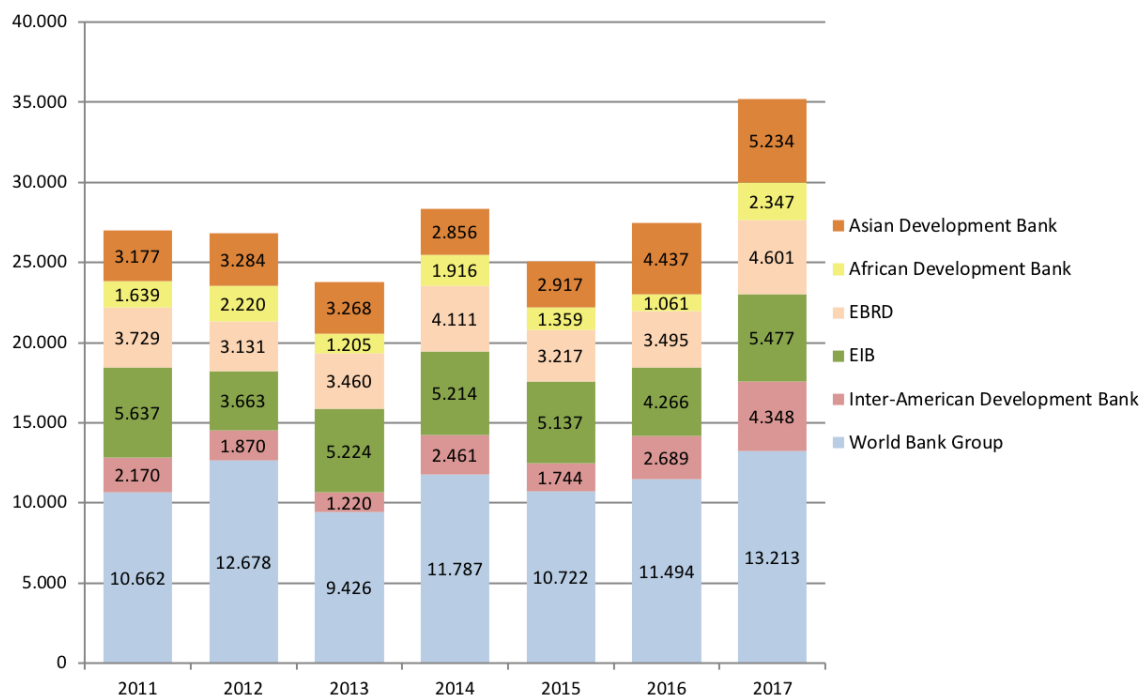
¹⁰³ See Recital 16 and Article 3 of European Parliament and EU Council (2014).

¹⁰⁴ At the same meeting, other MDBs also announced ambitious targets for their climate finance, to be met by 2020. See "Climate Finance Ministerial Meeting, Lima, October 9th: Co-Chairs Conclusions" (<https://www.economie.gouv.fr/files/files/PDF/Lima-conclusions-20151009en.pdf>).

¹⁰⁵ See Recital 16 and Article 3 of European Parliament and EU Council (2018b). The 35% target, as an objective to be gradually met by 2020, as well as the already applicable 25% target, are also mentioned in the External Lending Mandate Climate Strategy adopted by the EIB in December 2015. See EIB (2015b).

Figure 7.6: MDBs' climate finance to developing and transition countries, 2011-2017

(In USD million)



Source: 2017 Joint Report on Multilateral Development Banks Climate Finance (EBRD et al., 2018).

Note: For 2016 and 2017, the EIB includes climate finance provided to 12 EU countries, namely, Bulgaria, Croatia, Cyprus, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The EBRD includes climate finance provided to Greece.

Table 7.1: MDBs' climate finance to developing and transition countries, 2017

(In USD millions, unless otherwise indicated)

	ADB	AfDB	EBRD	EIB	IDBG	WBG	Total
MDB climate finance ¹	5,234	2,347	4,602	5,477	4,348	13,213	35,221
Mitigation	4,236	1,564	4,105	5,327	3,508	9,129	27,869
Adaptation	998	783	497	150	840	4,084	7,352
<i>Memorandum items:</i>							
MDB climate finance in percent of their total operations in those countries	23%	28%	38%	27%	29%	21%	25%
Share of adaptation in MDB climate finance	19%	33%	11%	3%	19%	31%	21%

Source: Joint Report on Multilateral Development Banks' Climate Finance (EBRD et al., 2018).

oping and transition countries provided by the **six main MDBs** since 2011, based on the most recent (2017) Joint Report on Multilateral Development Banks' Climate Finance produced by these six banks using commonly agreed methodologies for tracking climate mitigation and adaptation projects.¹⁰⁶ Figure 7.6 shows that the EIB and the EBRD together provided (in terms of new commitments) over USD 10 billion of climate finance to developing and transition countries in 2017 alone, accounting for 29% of the develop-

ment climate finance provided by those six MDBs in that year. Table 7.1, for its part, shows that, by 2017, climate finance projects accounted for 27% and 38% of the total lending committed by the EIB and the EBRD, respectively, to developing and transition countries.

The EU is increasingly leveraging climate investments from MDBs and the private sector in the context of blending operations supported with grants from its **regional blending facilities**, as it does through the EEIP. Between 2007 and 2014, these facilities provided more than EUR 1 billion

106 See EBRD et al. (2018).

Table 7.2: Main Multilateral Climate Funds: size and contributors, 2017

	Total size ¹	Pledges (in USD million)			Share of total pledges (in %)		
		EU	US	Other	EU	US	Other
Funds under the UNFCCC							
Green Climate Fund (GCF)	10,302	4,838	3,000	2,465	47.0	29.1	23.9
Global Environmental Facility (GEF) ²	2,973	1,554	513	907	52.3	17.2	30.5
Special Climate Change Fund (SCCF)	352	243	50	59	69.0	14.2	16.8
Least Developed Countries Fund (LDCF)	1,220	909	158	153	74.5	13.0	12.5
Adaptation Fund	442	426	0	17	96.2	0.0	3.8
Funds outside the UNFCCC							
Climate Investment Funds (CIFs)							
Clean Technology Fund (CTF)	5,466	2,632	1,492	1,342	48.2	27.3	24.6
Pilot Programme for Climate Resilience (PPCR)	1,153	627	290	236	54.4	25.2	20.4
Scaling Up Renewable Energy Programme (SREP)	720	477	50	193	66.3	6.9	26.8
Forest Investment Programme (FID)	722	326	168	228	45.2	23.2	31.6
Other REDD+ related funds (excluding FIP)	3,688	1,007	69	2,612	27.3	1.9	70.8
Global Climate Change Alliance (GCCA)	1,333	998	0	335	74.9	0.0	25.1
Total above	28,372	14,036	5,790	8,546	49.5	20.4	30.1

Source: Climate Funds Update dashboard (<https://climatefundsupdate.org/data-dashboard/>).

(1) Excludes income from investments and proceeds from sales of assets.

(2) Excludes the SCCF and the LDCF, as well as the Adaptation Fund, which, however, is administered on an interim basis by the GEF.

in grants for climate change-related projects in developing countries, triggering a total investment of about EUR 25 billion, and their contribution to climate change projects is expected to double between 2014 and 2020 (European Commission, 2017f). Furthermore, one of the five priority lending windows of the new EEIP focuses precisely, as noted, on climate change and should invest in countries that are key sources of migration pressures.

The EU is also by far the main donor to the plethora of **multilateral climate funds** created by the international community, which contributed USD 2.8 billion to the new global climate finance provided to developing countries in 2016.¹⁰⁷ It accounts for about half the pledges received so far by those climate funds, which compares to a share of about 20% pledged by the United States (see Table 7.2). For some funds the EU contribution is even higher (e.g. 96% for the Adaptation Fund and about 75% for the Least Developed Countries Fund).

These efforts on the part of the EU reflect its commitment to contribute its fair share towards the **developed countries' goal**, agreed at COP16 (Copenhagen Accord and Cancun Agreements reached by the Conference of the Parties of the UNFCCC), of making available by 2020 USD 100 billion per year in climate finance to developing

countries through a variety of public and private, bilateral and multilateral sources of finance. At the Paris Agreement reached at the COP21, this goal was extended until 2025 and it was decided that a new collective goal would be decided before that year. And, indeed, substantial progress is being achieved by the international donor community towards that end. According to a recent report by the OECD (OECD, 2017), total bilateral climate-related development finance, including both concessional and non-concessional finance, has been on an upward trend since 2010 and surpassed USD 30 billion in 2016. Its share in total development finance has also been rising. To this must be added the climate finance provided by MDBs to developing countries (which the OECD estimates averaged USD 21.1 billion per year in 2014-2015), the approximately USD 2.8 billion provided, as noted, by the multilateral climate funds in 2016 and the private sector climate investment in developing countries triggered by that public climate finance.¹⁰⁸

108 The OECD estimates for the climate finance provided by MDBs are significantly lower than those provided by the MDBs in their Joint Reports and shown in Figure 7.6 and Table 7.1. This seems due to several methodological differences. In particular, the figures in the MDBs' Joint Report include climate finance directed to a number of transition countries that are not in the list of developing country beneficiaries used by the UNFCCC Standing Committee on Finance in its Biennial Assessments of Climate Finance (so-called non-Annex I Parties). See note to Figure 7.6.

107 See Carbon Brief (2017).

Looking ahead, the OECD (2016) projects that by 2020 developed countries' public climate-related development finance will be close to USD 67 billion (of which approximately USD 37 billion will be bilateral and USD 30 billion multilateral). Based on a simple extrapolation of the amount of private climate finance *directly* mobilized in the past by public climate finance, the OECD projects that total climate finance from developed to developing countries could be close to, although still somewhat below, the USD 100 billion target in 2020.

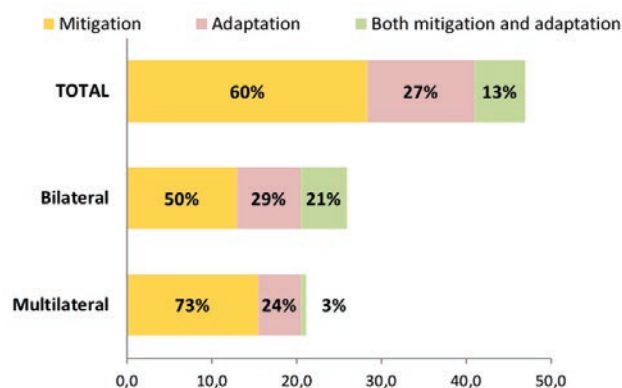
7.3 Scope for improvement in the composition of climate change finance

We have just seen that the EU and other donors are making great efforts to help developing countries respond to the climate change challenge. While the main aim of these efforts is to arrest the worrying climate change trends, they will also contribute indirectly to ease migration and forced displacement pressures by mitigating climate change-induced natural disasters and slow-onset environmental degradation and by making developing countries more resilient to their impact. But can the response be improved from the point of view of migration and refugee policy? This section argues that it can. It can be strengthened by reorienting the climate finance strategy in two ways: by shifting resources towards adaptation and by fine-tuning the geographical allocation of climate finance.

Regarding the first proposed reorientation, it reflects the fact that, although climate change adaptation is much more relevant for reducing forced displacement and voluntary migration because it increases the resilience of poor countries to the impact of climate change, the bulk of the climate development finance provided by the international community is aimed at mitigation. Thus, according to OECD estimates, while 60% of the public climate finance provided by developed countries in 2014-2015 targeted mitigation, only 27% of it targeted adaptation, while the remaining 13% targeted both mitigation and adaptation. The focus on mitigation is particularly marked in the case multilateral climate finance, 73% of which went to mitigation projects (see Figure 7.7).¹⁰⁹ The

EU's climate finance follows the same pattern: only 26% of the climate finance-related ODA provided by the EU during 2010-2015 targeted mainly adaptation, although the share of adaptation shows a distinct upward trend. Moreover, the EIB and the EBRD are the two MDBs that devote the lowest share of their climate-related development finance to mitigation (see Table 7.1).

Figure 7.7: Bilateral and Multilateral Climate-Related Development Finance, 2014-2015



Source: OECD, Climate-Related Development Finance in 2016, December 2017.

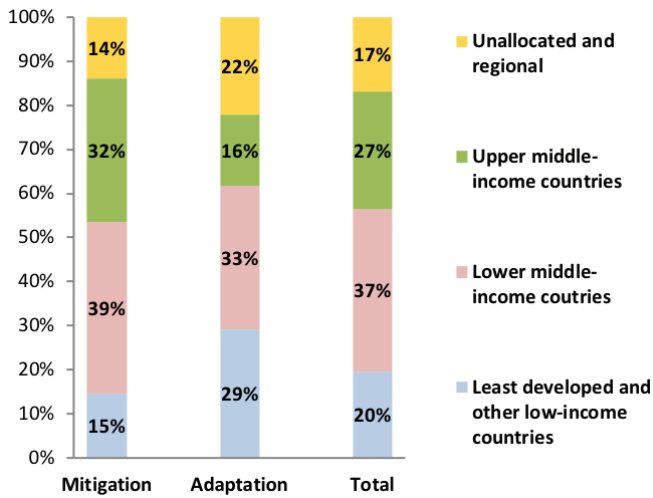
To be fair, the share of public adaptation finance is larger for the poorest and most vulnerable countries and those countries received a larger share of their climate finance in the form of grants, as it should be. This is true both for the EU and for donors as a whole. Indeed, while mitigation finance tends to focus on middle-income countries and is largely channeled in the form of loans, adaptation finance tends to focus on the least developed and other low-income countries, as well as on the lower middle-income countries (see Figure 7.8 and OECD, 2017; pp. 8-11). These two groups together received 62% of the global adaptation finance provided to developing countries in 2014-2015. In per capita terms, SSA countries, Central American and Andean countries, some South-East Asian countries and the small island states were the main beneficiaries, reflecting their high vulnerability to the adverse effects of climate change. Nevertheless, there are still substantial unmet adaptation needs in these countries and in developing countries as a whole (UNEP, 2016).

Committee on Finance in its latest Biennial Assessment show an even stronger concentration on mitigation (about 70% of public climate finance going to developing countries in 2013-2014), particularly for the MDBs (more than 80% of their climate development finance). See UNFCCC (2016; p.6).

¹⁰⁹ The data published by the UNFCCC's Standing

Figure 7.8: Climate-related developing finance, by income group, 2014-2015

(Shares in finance received by developing countries)

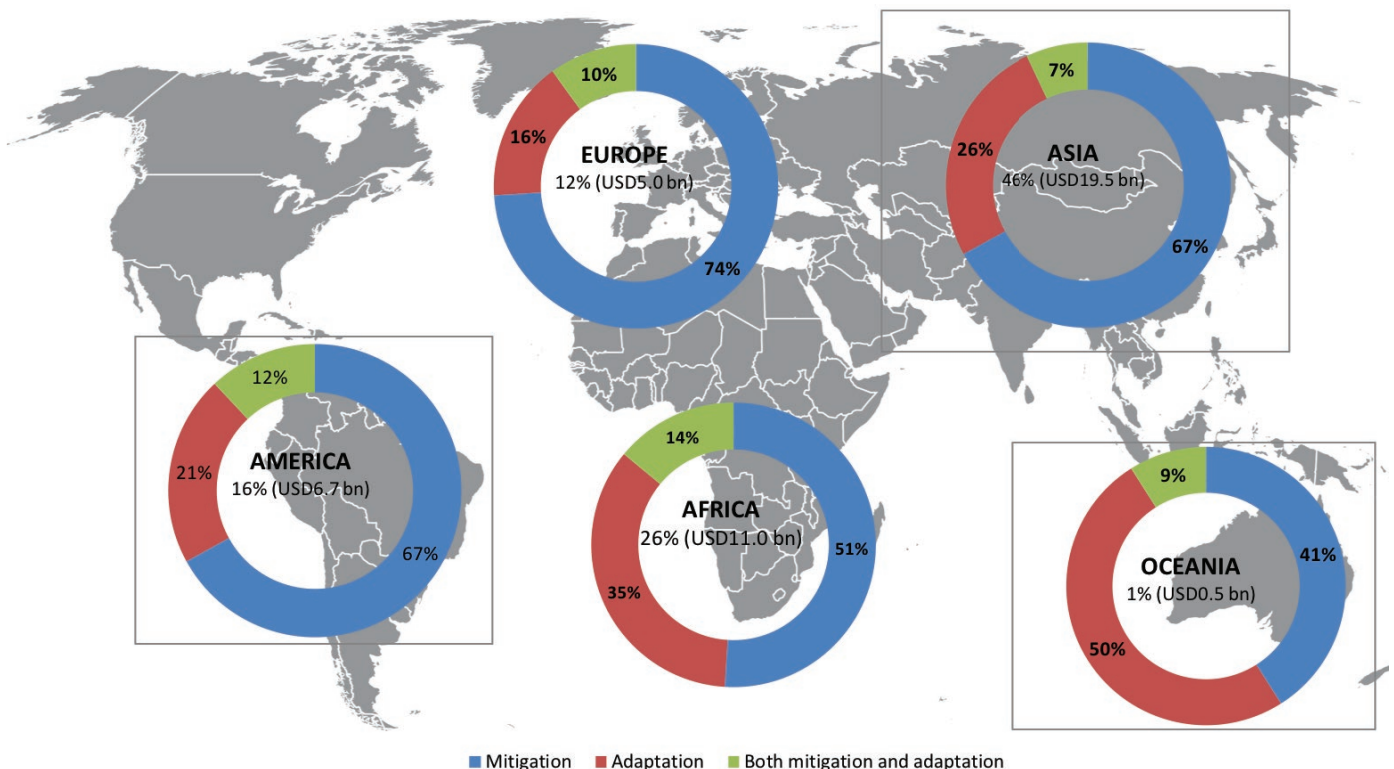


Source: OECD (2017).

Increasing the share of climate finance devoted to adaptation would not only be helpful from the point of view of addressing one major root cause of forced displacement but it would also be consistent with the overall objective, enshrined in the Copenhagen Accord and Cancun Agreements, and reflected also in the Paris Agreement, to rebalance climate finance towards adaptation over time.¹¹⁰ Indeed, although mitigation is what really matters to arrest climate change trends and, therefore, should also help limit, over the medium term, forced displacement and migration pressures in developing countries, getting the mitigation-adaptation mix right is essential to cope with the implications of climate change.

Figure 7.9: Climate-related development finance by region

(2014-2015 average)



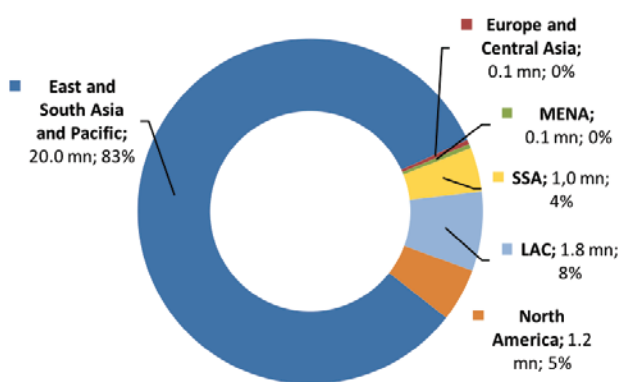
Source: OECD, Climate-Related Development Finance in 2016, December 2017.

110 On the need to increase the share of adaptation in climate finance to the most vulnerable countries, see also UNDESA (2016).

Regarding the geographical focus, there is currently an overwhelming concentration of climate-related development finance on Asia, which received 46% of total commitments in 2014-2015 (see Figure 7.9), and a very sizeable share of climate finance (27%) is going to upper middle-income countries (see Figure 7.8). This is broadly appropriate since Asian and upper middle-income countries are responsible for a high share of the GHG emissions (because they are more industrialised) and also for a large share of the observed weather-related internal displacements inside developing countries (because of their large populations and their high exposure to storms and river and coastal floods).¹¹¹

Indeed, Asian countries account for an overwhelming share of the internal displacements due to sudden-onset natural hazards (see Figure 7.10). It is also reassuring that a relatively high share of adaptation finance is going, as noted, to the low- and lower middle-income countries, including SSA. However, also here there is scope for improvement by shifting climate finance to some extent towards the poorer and most exposed countries, notably towards SSA, where the fatal combination of climate change, conflict and poor living conditions makes it one of the main sources of forced displacement and irregular migration.

Figure 7.10: New displacements due to natural disasters, by region, 2016

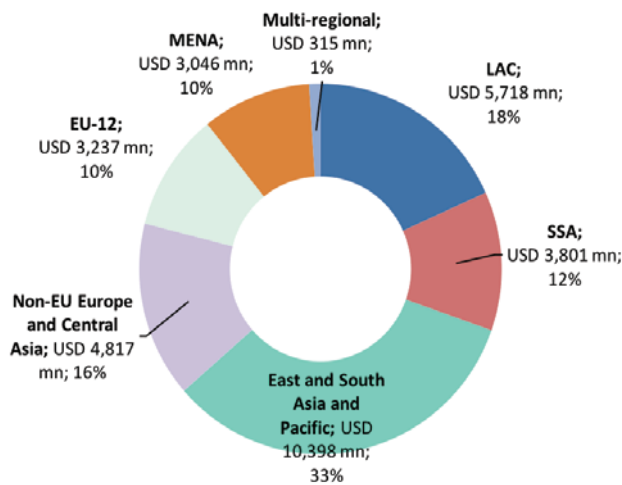


Source: IDMC.

111 Most of the cities with the highest exposure to coastal flood losses are located in South and Southeast Asia. See Hallegatte et. al (2016; p. 84).

Figure 7.11: MDBs' climate finance to developing countries, by region

(2016-2017 average)



Source: 2016 and 2017 Joint Reports on Multilateral Development Banks' Climate Finance.

The scope for regional reorientation is particularly clear for the MDBs, which devote a very large share of their climate-related development finance to Asia and a very low share (only 12% in 2016-2017) to SSA (see Figure 7.11). The two European MDBs (the EIB and the EBRD) have contributed to this trend, in the case of the EBRD, because it does not have operations in SSA at all.

Finally, another strategic consideration one could make, when trying to optimize the EU's mix of external financial instruments with migration and refugee policy in mind, is whether the EU should devote less to climate finance and more to other forms of assistance more directly targeting the socio-economic situation of potential migrants and refugees. Indeed, the EU has been devoting in recent years, as noted, more than one quarter of its ODA and of the EIB's external lending to climate-finance related projects. This is a huge re-orientation of its external assistance, achieved in little time. Is the EU not overdoing it given other pressing external priorities?

The right answer to this question is probably negative. There are several reasons for this. First, and as argued throughout this chapter, climate finance directly addresses one significant source of forced displacement and potential migration and refugee flows. Second, climate finance to developing countries is also development finance. Indeed, there is ample evidence that natural disasters and slow-onset environmental degrada-

tion greatly complicate poverty reduction efforts in developing countries.¹¹² Moreover, climate finance, including that for mitigation, helps developing countries introduce modern and more efficient technologies that, for example, save energy or produce energy more cheaply. This not only helps the world climate but also the recipient countries' economic efficiency and development. Third, in contrast to humanitarian assistance and other forms of income support provided through standard ODA, climate finance projects do not normally encourage migration by easing credit constraints. Finally, the effectiveness of the EU's external development finance strategy, including with regards to migration, hinges, as noted, on ensuring an appropriate balance between different types of assistance. This includes not only humanitarian, development and macroeconomic stabilization assistance but also, and increasingly so, climate change assistance. The effort to provide at least one fourth of the EU's assistance for projects with climate change relevance seems consistent with achieving such balance, and it is a welcome development from the point of view of migration and refugee policy.

112 See Hallegatte et al. (2016; Chapter 3). In particular, there is evidence that natural disasters tend to increase poverty and inequality because, as noted, poor people tend to be more exposed and normally lose a greater share of their assets and income when hit by disasters (see, for example, Karim and Noy, 2014).

8. The role of remittances

While this book focuses on the potential role of official financial flows in migration and refugee policy, the role of international migrant remittances cannot be disregarded. Although private in nature, remittances are a financial flow that is directly related to both development and migration and is often seen as an alternative to ODA. Indeed, remittances have been growing so rapidly over the last two decades that they already dwarf ODA flows. Worldwide remittance flows have increased almost five-fold since 2000 (from USD 126 billion in 2000 to USD 575 billion in 2016)¹¹³ and their growth has been largely driven by flows to developing countries, which account at present for about three quarters of global remittances. Larger stocks of migrants, rising incomes in developed countries and a reduction in the costs of transferring remittances have all contributed to this trend.

8.1 A financial flow of growing importance

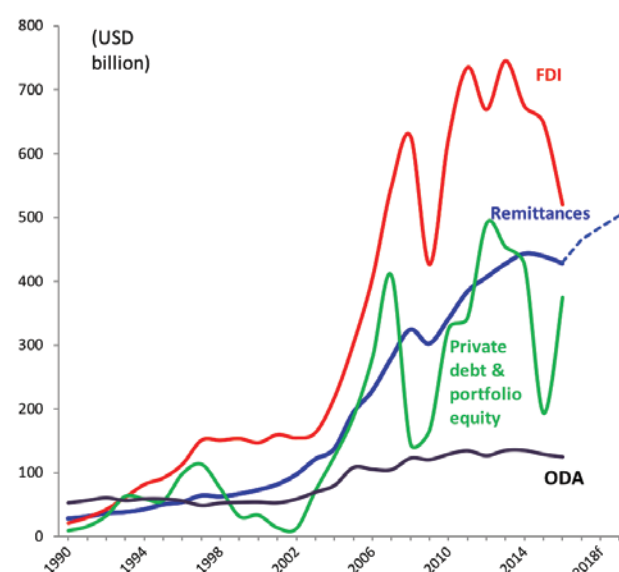
Figure 8.1, which displays data compiled by the World Bank, shows trends in remittances to developing countries since 1990. After increasing very rapidly since the early 2000s and, despite some brief and moderate decline in 2009 (reflecting the global financial crisis) and, again, in 2015-2016 (reflecting lower transfers from oil exporting countries such as the GCC countries and Russia due to the downturn in oil prices), total remittances to developing countries (the vast majority of which come from developed countries) resumed a strong upward trend in 2017. On that year, total inward remittances to developing countries are estimated to have reached USD 466 billion, a new record. This is four times larger than total ODA and about 80% of the total value of FDI flowing into developing countries.¹¹⁴ And the World Bank projects that this upward trend will continue in the coming years.¹¹⁵

113 IOM (2017b; pp. 30-31).

114 In fact, if China is excluded, remittance flows to developing countries also exceed significantly FDI flows (World Bank, 2016d; p.16)

115 World Bank (2018a; pp. 3-6).

Figure 8.1: Remittance flows to developing countries, 1990-2019



Sources: World Bank (2018a); World Development Indicators.

Note: FDI=foreign direct investment; ODA=official development assistance.

Moreover, officially recorded remittances (those shown in Figure 8.1) substantially underestimate actual flows because they do not capture flows that occur through a number of informal channels operating outside the banking system. In particular, they do not include flows through so-called Alternative Remittances Systems, such as the *Hawala* system, used extensively in Middle East and South Asian countries, nor remittances transferred in cash by hand. Available estimates of the size of unrecorded remittances to developing countries in percent of official flows range widely, from a conservative estimate of 10% produced by the IMF (El Qorchi, Maimbo and Wilson, 2003) to estimates exceeding 100%.¹¹⁶

The EU is the second source of world remittances, accounting for approximately 24% of them. In 2017, it sent an estimated EUR 148 billion of remittances to developing countries, a volume just behind that of the United States (USD 149 billion) (see Table 8.1).¹¹⁷

116 Estimates tend to be higher (mostly in the 40-100% range) for SSA countries but much lower, and often negligible, for the Asian countries. See Page and Plaza (2006) for a comparison across regions. See Brown and Jiménez-Soto (2015; pp. 1084-1089) for a general discussion on unrecorded remittances and a good survey of available estimates.

117 The analysis here is based on the Bilateral Remittances Matrix estimated by the World Bank. The estimated outflows are substantially above official data on remittance outflows based on IMF Balance of Payments statistics supplemented with data

The other main source of global remittances are the GCC countries. Together, these three areas accounted for 66% of global remittances and for 67% of those sent to developing countries. Because a large share of the remittances sent from EU countries go to other EU countries (most of which are classified as high-income countries), the share of the EU in the global remittances directed to developing countries is much lower (16.6%) than its share in global remittances and lower than that of the GCC countries. Despite this, the very large remittance flows from the EU

Table 8.1: Top remittance-sending countries or regions, 2017

	Worldwide		To low- and middle-income countries	
	USD bn	Share (%)	USD bn	Share (%)
United States	148,5	24,2	127,3	27,3
EU	148,0	24,1	77,4	16,6
GCC countries	109,3	17,8	108,8	23,3
Canada	24,6	4,0	16,1	3,5
Australia & New Zealand	19,3	3,1	12,7	2,7
Russia	16,5	2,7	15,0	3,2
Switzerland	9,2	1,5	2,3	0,5
Japan	9,1	1,5	7,0	1,5
Total above	484,5	79,0	366,6	78,7
World total	613,5	100,0	466,1	100,0

Source: World Bank (KNOMAD).

Note: Based on estimates of remittances outflows produced by the Bilateral Remittances Matrix.

to developing countries underline their potential importance in the EU's external migration policy and the role the EU can and should play in international discussions on the matter.

The main remittance-receiving region is Asia, accounting for more than half of the remittances received by developing countries (see Table 8.2). This partly reflects the dominant role of India and China, which are by far the largest recipients of remittances in the world, having obtained each well over USD 60 billion of remittances in 2017. But it also reflects substantial remittances to other Asian countries (e.g. Philippines and Pakistan) that are also among the top ten global recipients.

After Asia, Latin America is the main beneficiary region, led by Mexico, followed by the MENA region and SSA, in this order. Remittances have become very large for a number of countries in terms of their GDP, playing a crucial role in financing both their balance of payments and their economic development. As can be seen in Figure 8.2, while the top recipients in dollar terms tend to be large countries, those that show the highest ratios of remittances inflows over GDP and are, therefore, most dependent on them, tend to be small economies.

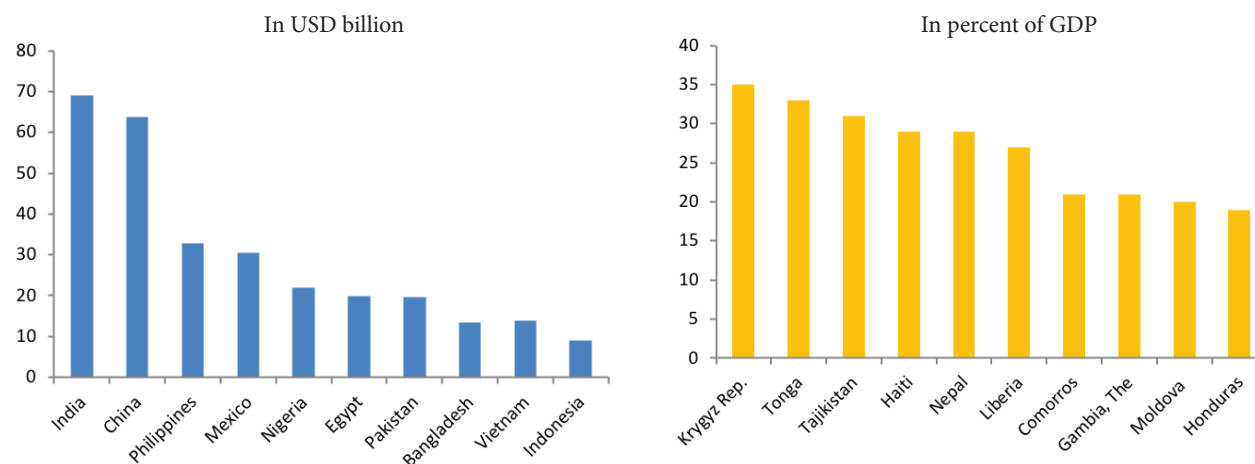
Table 8.2: Remittance inflows received by low- and middle-income countries

(In USD billion and in percent of inflows)

	2014	2015	2016	2017p	2018f	2019f	Share in 2014-17 inflows
East Asia and the Pacific	121	126	123	130	135	140	28.1 %
South Asia	116	118	110	117	120	123	25.9 %
Europe and Central Asia	52	41	40	48	51	53	10.2 %
Latin America and the Caribbean	65	68	74	80	83	87	16.1 %
Middle-East and North Africa	54	51	49	53	56	57	11.6 %
Sub-Saharan Africa	37	36	34	38	41	43	8.1 %
<i>Total low- and middle-income countries</i>	445	440	430	466	486	503	100 %
<i>Memo item:</i>							
World	598	582	573	613	642	667	

Source: World Bank (2018a).

from central banks. This partly reflects the under-recording of outflows in official statistics. The estimates in Table 8.1 are, however, consistent with official estimates of remittance inflows. For a discussion of the methodology behind the calculation of the World Bank's Bilateral Remittances Matrix, see World Bank (2017c; Appendix A).

Figure 8.2: Top 10 remittance-receiving developing countries, 2017

Source: World Bank (2018a).

8.1 Why remittances matter for migration

We have seen that global remittances are very large and that the EU is one of the main sources of remittance flows going to developing countries. But why are remittances important in the context of the EU's migration strategy? There are several reasons for it. First, because there is evidence, though not conclusive, that they can be an effective channel to foster economic development in poor countries and because, by complementing official ODA, they can help potential migrants reach the income threshold beyond which the propensity to migrate starts to decline. Regarding the first point, while empirical evidence on the impact of remittances on economic growth and income inequality is mixed, the literature generally highlights positive impacts on education, health, nutrition and financial development (see Box 2).

But perhaps the most relevant effect of remittances on migration has to do with their stabilizing and social safety net properties. Indeed, remittances tend to be more stable than other international private financial flows, and can even play a counter-cyclical role from the point of view of the recipient countries, as illustrated by the relative modest contraction that they experienced during the global financial crisis when compared to the sharp declines witnessed in FDI and other private capital flows (see Figure 8.1).¹¹⁸ Two factors help explain the relative stability of remittances even in the face of economic shocks in the sending country: first, remittances

depend on the accumulated stock of migrants living abroad rather than on the current flow of migrants. While the latter often responds rapidly to changes in economic conditions in destination countries the former responds much more slowly. Second, migrants make efforts to sustain the transfers to their families even when the economic situation deteriorates in the destination countries and their personal incomes drop. There is also evidence that migrants increase transfers to their families following natural disasters in their home countries (Yang and Choi, 2007; Brown, Leeves and Prayaga, 2014). For example, after the 1998 flood in Bangladesh, remittances helped smooth consumption and finance reconstruction (Mohapatra, Joseph and Ratha, 2009).

Their stability and the fact that they tend to increase when family dependants in the home country experience financial hardship or a natural disaster makes them act as a sort of informal social safety net or insurance, which can alleviate migration (and forced displacement) pressures in difficult times regardless of their medium-term impact on growth and development. Several authors have stressed this point. For example, Brown and Jiménez-Soto, 2015 argue that although empirical evidence on the impact of remittances on economic growth and other key macro variables (including Gini coefficients) might not be conclusive, microeconomic studies confirm that remittances play a useful social protection role by putting in place an informal, fam-

absorption capacity of remittances, see Bugamelli and Paterno (2009), Chami, Hakura and Montiel (2009) and World Bank (2006a and 2015).

118 For evidence on the relative stability and shock-

Box 2: Remittances and development: a reading of the literature

There is a large body of empirical literature on the relationship between remittances and different measures of development in the receiving countries. Mohapatra and Ratha (2011), Brown and Jimenez-Soto (2015) and World Bank (2016d) provide useful surveys of it. The results of the literature focusing on the impact of remittances on economic growth are mixed. An early and often cited study produced by IMF staff (Chami, Fuellekamp and Jahjah, 2005), based on panel data for 82 developing countries for the period 1970-98, found a negative impact of remittances on growth. It explained the negative relationship by the moral hazard effect of remittances on labour supply (and investment in human capital) by the recipients of the remittances. Other studies (e.g. Azam and Gubert, 2006 and Bussolo and Medvedev, 2007) have also found that remittances lower work effort and hence long-term growth. Remittances may also affect growth negatively by putting upward pressure on the real exchange rate and causing Dutch-disease situations (e.g. Amuedo-Dorantes and Pozo, 2004, for a sample of 13 Latin American countries).

However, other papers have questioned the methodological approach of the studies just mentioned or/and have detected a positive impact of remittances on growth. Lucas (2008), for example, has argued that the negative relationship could simply reflect reverse causality from lower growth to higher remittances, consistent with the observed counter-cyclical behavior of remittances. He also questioned Chami et al.'s results because they ignored the impact remittances could have on growth through their effect on investment. Subsequent studies including investment as explanatory variable (e.g. Adelman and Taylor, 1990, for Mexico, and Bougha-Hagbe, 2004, for Morocco) generally found a positive effect of remittances on growth, and the effect was even stronger when controlling also for institutional quality (Faini, 2002). The World Bank (2006a) and the IMF (2005) also found a positive or neutral relationship between remittances and growth. Moreover, some authors have found positive growth effects of remittances in countries with certain characteristics, e.g. Giuliano and Ruiz-Arranz (2009) for countries with underdeveloped financial sectors, Singh et al. (2011) for countries with sounder political institutions and Feeny, Iamsiraroj and McGillivray (2014) for the small island states of Africa and the Pacific.

In a recent, influential paper, Clemens and McKenzie (2018) provide three new explanations why macroeconomic studies have struggled to detect an effect of remittances on economic growth. First, much of the recorded rise in remittances may be illusory, reflecting measurement errors. Indeed, only about one fifth of the measured increase in remittances can be attributed to the observed growth of migrant stocks and income in countries of destination. Second, cross-country panel regressions may have too little power to detect the growth effect of remittances. Third, even if increases in remittances do raise GDP, they are typically associated with a relocation of labour from countries of origin to countries of destination, which in itself reduces the labour force and GDP in the former. The authors conclude that although remittances have clear first-order positive effects on migrant households' welfare and global GDP, their effect on growth in the countries of origin is hard to detect econometrically.

The literature on the impact on inequality is also mixed. It generally finds that, although remittances contribute to increase inequality in the early stages of migration because only the relatively more skilled and well-off can afford the costs of migration, inequality tends to fall later on as diasporas and networks expand, facilitating the migration of poorer households.

Other strands of the literature are more encouraging. For example, studies examining the impact of remittances on education, health and nutrition outcomes in the home country come up, by and large, with positive results. Regarding education, quite a few studies (e.g. World Bank, 2006b; pp. 42-97; Edwards and Ureta, 2003) have found that households receiving remittances tend to invest more in education and have lower drop-out rates. This might be due to the fact that remittances ease the budget constraint and increased the motivation of recipient households to acquire skills for future migration. But it might also reflect an endogeneity bias through self-selection as households with higher school attendance rates and skill levels have a higher propensity to migrate and send remittances home.

Finally, the literature generally finds a positive effect of remittances on financial development, and some studies find that the resulting financial deepening improves the responsiveness of growth to remittances (Gupta, Patillo and Wagh, 2009; Mundaca, 2009).

ily-based system of transfers that contributes to alleviate poverty and provides essential support in times of hardship in the home country.¹¹⁹

Having said that, whether remittances will encourage or discourage migration will also depend, as it does for official aid, on where exactly the recipient country finds itself on the hump-shaped curve linking per capita GDP with migration. If a country is relatively poor (if it is situated in the positively sloped part of the curve), remittances may encourage migration by easing the budget constraint. In fact, when compared to ODA flows, remittances are likely to entail stronger network effects, which tend to encourage, as noted, further migration. Indeed, the migration of a family member sending remittances brings very relevant information and logistical support for other family members or friends wishing to migrate. It also demonstrates the potential success of the migration decision. And perhaps more importantly, remittances ease the budget constraint of family members (such as wife and children) that would like to reunify with the migrant, helping them pay for the travelling and settlement costs related to family reunification. All this could offset the stabilizing and social insurance advantages of remittances just discussed. Over time, however, the developmental impact of remittances is likely to intensify and as the country reaches the position in the migration-income curve where the propensity to migrate declines, remittances should contribute to ease migration flows also through their income effect.

8.3 An EU policy strategy for remittances

Given that remittances provide a useful social safety net for migrants' relatives and are likely to encourage development and diminish migration pressures over time, the EU should support efforts aimed at facilitating their transfer, including by reducing their costs. Indeed, evidence from surveys and field experiments suggests that remittance flows do respond to reductions in the cost of transferring them (see, for example, Aycinena,

119 When compared to aid, remittances also have the advantage that they do not have to go through complex administrative mechanisms to be delivered. Instead, they flow directly and rapidly to the families of migrants and are therefore, arguably, a more efficient way to meet the needs of the recipients.

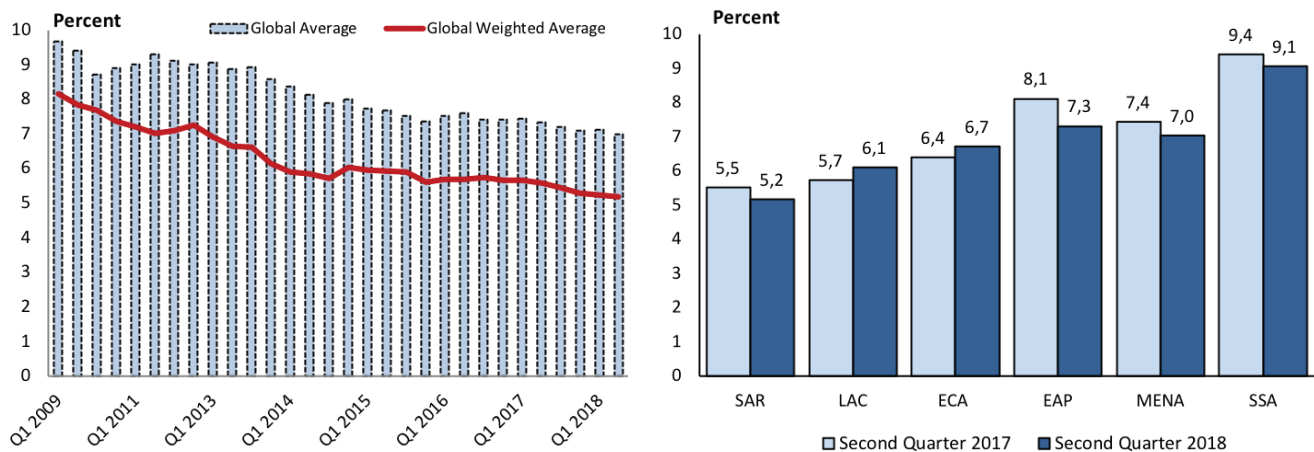
Martínez and Yang, 2010 and Gibson, McKenzie and Rohorua, 2006). Unfortunately, according to World Bank estimates based on its Remittance Price Worldwide database, which covers 365 remittance corridors, while the average cost of sending remittances has been on an encouraging downward trend since the World Bank started to monitor and publish the cost of remittances in the late 2000s, it remains very high (see the first panel of Figure 8.3). The average cost of a transferring USD 200 internationally (inclusive of all fees and charges) was estimated at 7% in the second quarter of 2018, which is well above the 3% target set by the UN's SDGs.¹²⁰ Among the different regions, South Asia had the lowest costs, at 5.2%, while SSA continued to have the highest average cost (9.1%) (Figure 8.3; second panel). Target 10c of the SDGs commits signatory countries to: "By 2030, reduce to less than 3 percent the transaction costs of migrant remittances and eliminate remittances corridors with costs higher than 5%."¹²¹ Furthermore, at the EU-African Union Valletta Summit on Migration held in November 2015, the EU committed itself to a more ambitious goal by agreeing to substantially reduce remittances costs by 2020 in the main corridors between EU and African countries and within Africa.¹²² The situation in SSA is clearly inconsistent with these commitments.

The reduction in remittance costs achieved since the late 2000s, while welcome, also under-shoot the target announced by G-8 leaders at their summit of L'Aquila of July 2009, when they agreed to endeavour to cut the global average cost of remittances from about 10% to 5% in five years (an undertaking that became known as the 5 x 5 objective). The World Bank had estimated that a 5 percentage point reduction in the average cost of sending remittances could save migrants

120 See World Bank (2018b). The World Bank also calculates a global weighted average cost of remittances, which takes into account the relative size of the flows in each remittance corridor. This weighted average has always been significantly below the global average, reaching 5.2% in the second quarter of 2018, although it has shown a similar downward trend since 2008. This indicator is shown as the red line in Figure 8.3.

121 See UN, Sustainable Development Knowledge Platform (<https://sustainabledevelopment.un.org/sdg10>). Reducing the cost of transferring remittances is also an objective of the UN's global Compact on Safe, Orderly and Regular Migration. See World Bank (2018a; p. 16).

122 See point 1(2) of the Action Plan of the Valletta Summit, 11-12 November 2015 (https://www.consilium.europa.eu/media/21839/action_plan_en.pdf).

Figure 8.3: Trend in the cost of sending \$200 of remittances and situation by region

Source: Remittance Prices Worldwide, World Bank.

Note: EAP = East Asia and Pacific; SA = South Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = Sub-Saharan Africa; ECA = Europe and Central Asia.

up to USD 16 billion a year (<https://remittance-prices.worldbank.org/en>). Since the mid-2000s, the G-8 and the G-20 have been coordinating world efforts to reduce the cost of remittances. In addition to the G-8's LAquila target, which was subsequently endorsed by the G-20, these efforts have included, inter alia: the launching in 2008 of the above-mentioned Remittance Price Worldwide database, in order to monitor trends in the price of sending remittances; the creation of the Global Remittances Working Group in 2009; the development by the World Bank and the Bank for International Settlements of a set of General Principles for International Remittances Services; and the adoption by the G-20 of several action plans. In 2014, G-20 leaders agreed on a Plan to Facilitate Remittances Flows¹²³ and committed to implementing National Remittances Plans, which are reviewed annually and updated every two years.¹²⁴ The 5 x 5 objective has now been superseded by target 10c of the SDGs, which has also been included in the G-20's Financial Inclusion Action Plan, as updated in 2017.¹²⁵ As a member of the G-8 (now the G-7) and the G-20, the EU has been supportive of all these efforts.

One serious problem encountered by the ongoing efforts to reduce remittance costs is that, with the threat of international terrorism rising since the September 2011 attacks, there has been a much

closer scrutiny of the informal money transfer systems favoured by migrants, such as *Hawala*. This tightening of regulations on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) has tended to increase the costs of sending remittances. A major issue here has been the de-risking behavior of international banks, that is, their decision, under pressure from AML/CFT regulations, to close the accounts of Money Transfer Operators (MTOs) such as Western Union and MoneyGram in order to limit the risk of money laundering and financial crime. This is also preventing new, smaller operators with modern technologies from entering the market, which reduces competition (World Bank, 2017c; pp. 5-6; World Bank, 2018a; pp. 6-8). De-risking could also push remittances back toward informal channels. In response to increasing concerns about the impact of de-risking on remittance costs, the G-20 has been working closely with the Financial Stability Board (FSB) and the Financial Action Task Force to identify possible solutions.¹²⁶ Addressing de-risking is also an explicit objective of the above-mentioned G-20's Financial Inclusion Action Plan.

Another problem, affecting the EU in particular, is the existence of exclusivity partnerships between national post offices and a single MTO or other financial intermediaries for the conduct

123 <https://bit.ly/2OGqrcd>.

124 For an overview of the National Remittances Plans, see: <https://bit.ly/2I6vIr5>.

125 <https://bit.ly/2Nzvfnl>.

126 In November 2015, the FSB launched an action plan to assess and address the decline in correspondent banking and it has reported regularly on its implementation since then, most recently in March 2018 at a meeting of G-20 Ministers of Finance and Central Bank Governors. See FSB (2015 and 2018).

Box 3: Why the EU's Payment Services Directives should help reduce remittance costs

Since 2007, the EU has taken a number of steps to reduce the cost of intra-EU payments while increasing transparency, security and consumer protection. Progress has been particularly marked in the case of cashless payments in euros, with the creation of a so-called Single Euro Payments Area (SEPA), covering the EU countries and six other European countries and territories. This box focuses on the aspects of this legislation that might have a favourable impact on remittance costs.

The first EU Payment Services Directive (PSD1; 2007/64/EC) was adopted in 2007 and entered into full effect in November 2009. It applies to the whole European Economic Area, including the EU as well as Iceland, Liechtenstein and Norway (European Parliament and EU Council, 2007). By introducing a new category of payment service providers—the so-called “payment institutions”—it eased access to new market entrants, thus increasing competition and consumer choice. This has helped reduce transaction fees. The Directive also increased transparency obligations, in particular by banning implicit fees. These obligations only applied to “two-leg transactions”, that is, to transactions in which the two institutions involved (those of the payer and the payee) are located in the EU. However, when transposing the Directive into national legislation, some EU countries extended those obligations to “one-leg transactions,” with potential positive effects on international remittances.

In addition, the Directive of 2007 laid the ground for the introduction of the SEPA, which harmonized and made faster, cheaper and safer cross-border bank payments in euros between the 32 participating European countries. The creation of the SEPA was supported by the adoption of Regulation (EC) 924/2009, which required charges applied to cross-border payments in euros or other EU currencies to be the same as those for corresponding

payments within the EU country undertaking them, and Regulation 260/2012, which harmonized conditions for electronic credit transfers and direct debits in euros, including for transfers to countries outside the euro area.

In 2015, the EU adopted a more ambitious Payment Services Directive (PSD2; (EU) 2015/2366), which had to be transposed into national law by EU countries by January 2018 and superseded PSD1 (European Parliament and EU Council, 2015). The new directive extended the information and transparency obligations to payments to and from non-EU countries (“one-leg” transactions), as well as to payments involving non-EU currencies. It also incorporated new categories of payment service providers (such as internet and mobile payment providers), which were previously unregulated but that have brought innovation and competition to the market by offering cheaper payment options. The PSD2 was complemented by a new Regulation ((EU) 2015/751) that limits fees for transactions based on credit cards and banned retailers from imposing surcharges on customers. By increasing competition and extending most of the transparency obligations and caps on fees to payments to third countries and in third currencies, the PSD2 is expected to help reduce also the cost of international remittances.

While these legislative changes are mainly relevant for intra-EU payments (including intra-EU migrant remittances), some of them are also applicable, as noted, to remittance transfers towards non-EU countries. Moreover, by promoting competition and structural change in the electronic payments market and transparency in fee-setting practices, they should help reduce the cost of international remittances more generally, including those going to developing countries.

of international transfers of remittances. While many developing countries forbid these exclusivity contracts, the EU continues to allow them despite the fact that they stifle competition and tend to increase remittances fees (see World Bank, 2017c; pp. 4-5, and Ponsot, 2011).

The analysis above suggests that the EU should do more to reduce the cost of sending remittances, and that it should encourage other developed

countries to do the same as part of the initiatives agreed in multilateral fora. The EU has made some progress in this direction, notably through the entry into force of the Payment Services Directives of 2007 and 2015, which although focused on intra-EU money transfers had the advantage of increasing competition among payment service providers and (especially the second Directive, which applied also to one-leg transactions involving non-EU countries) limited

the fees they can apply to payment transactions (see Box 3). But it should now go beyond this and require financial intermediaries to reduce the cost of international transfers by migrant workers meeting certain conditions. It should favour competition among MTOs or other financial intermediaries, including by avoiding exclusivity partnerships with national post offices. It should also support an increased use of digital technologies such as smartphones and computers among migrants, which allow cheaper and more convenient online transfers. All this should go hand-in-hand with regulatory changes ensuring that remittance transfers are properly recorded statistically and do not weaken the fight against tax evasion, anti-money laundering and counter-terrorism financing. But this should be compatible with a simplification of AML/CFT regulations for small-value transfers, where the risks are more limited, as some experts are proposing (Mohapatra and Ratha, 2011; pp. 38 and 41).

In addition to taking regulatory measures to help reduce the cost of remittances, the EU could promote the mobilization of both remittances and migrant savings to finance development in the countries of origin of migrants. Indeed, migrants from the developing world not only transfer to their home countries, as noted, more than USD 450 billion in remittances each year but they also save large amounts of money that remain in their countries of destination. One idea recommended by experts is the use of diaspora or remittances bonds. For example, Ratha and Plaza (2011) argue that, with the African diaspora saving an estimated USD 53 billion annually, if every one in ten members of that diaspora could be persuaded to invest USD 1,000 in such bonds, Africa could raise USD 3 billion a year to finance development.¹²⁷ The EU could facilitate investment in such bonds by migrants residing in the EU by easing applicable foreign exchange or tax regulations.

¹²⁷ Diaspora bonds are retail saving instruments marketed to diaspora members. They can be issued by either the governments or reputable corporations of the country of origin. They can be issued in small denominations to tap into the savings of relatively poor migrants, but also in larger denominations to attract the capital of wealthier migrants or diaspora groups, as well as institutional investors not necessarily related to the diaspora. Their funds may be earmarked to social or development projects that are of the interest of migrants (such as schools, hospitals and other projects directly benefitting their home communities), thus contributing to trigger a patriotic or emotional interest by diaspora members. For an in depth-discussion of the potential

Another idea is to encourage the use of remittances or the repatriation of other capital to finance productive investments at home. The EU and other countries have already put in place schemes to stimulate the establishment of business by entrepreneurial migrants in their countries of origin, as part of their co-development policies, but their impact has so far been mixed (see Gubert, 2014; pp. 134-137).¹²⁸ There is scope for fine-tuning and allocating more funds to these schemes.

Finally, EU countries should refrain from taxing remittance transfers. In addition to increasing the cost of remittances, taxing remittances would amount to double taxation, since migrant income is already subjected to personal income taxation in the host country, and would be highly regressive. It would also contribute to drive remittance flows into informal, unregulated channels, with also a negative effect on tax collections.¹²⁹

offered by diaspora bonds, see Ketkar and Ratha (2011).

¹²⁸ Sometimes these schemes have been linked to policies to stimulate returns.

¹²⁹ For a discussion of why taxing remittances is a bad idea, see World Bank (2017d; p. 4). Despite the arguments against, some developed countries and several US states have considered taxing remittance outflows, partly to raise revenue and partly to discourage undocumented migrants by imposing a fine on transfers by remitters without a legal status.

9. Increasing aid effectiveness through compacts

In recent years, a number of scholars, policy-makers and institutions have been advocating a fundamental shift in the assistance approach to the refugee crisis as part of a more general rethinking of the international refugee system, which is considered to be dysfunctional. Authors such as Betts and Collier (2017) from Oxford University, and institutions such as the World Bank have been calling for a developmental approach in which refugees are given the right to work formally and to access public services in countries of first asylum and in which traditional refugee camp-based humanitarian assistance is replaced, at least in part, by development support and private sector encouragement, including through trade preferences. This approach is sometimes known as the “compact approach” and it inspired the Compact agreed between the EU and Jordan in 2016.¹³⁰ It is also behind the Comprehensive Refugee Response Framework (CRRF) adopted by the UN in September 2016, as a building block towards the Global Compact on Refugees.

While these ideas and initiatives have focused on the refugee issue, the compact approach, in the sense of a deal in which donors provide developmental assistance and other policy incentives in exchange for commitments on the part of recipient countries to collaborate on migration issues, is also applicable to other migration situations. And, indeed, the EU has used the term compacts to refer to the bilateral cooperation agreements on migration signed with a number of (mostly SSA) countries under the new Partnership Framework with Third Countries on Migration adopted in June 2006, which is meant to offer increased financial assistance and a possible opening of new legal migration pathways in exchange for commitments on migrant returns and the fight against irregular migration on the part of the EU’s partners. Unfortunately, as

130 The new approach was also reflected in a Communication on forced displacement adopted by the European Commission in April 2016. The Communication proposed overcoming protracted situations of aid dependency “by fostering self-reliance and enabling the displaced to live in dignity as contributors to their host societies, until their voluntary return or resettlement” (European Commission, 2016c; p. 2)

discussed below, the developmental idea has not been sufficiently reflected in these compacts.

Some observers have also seen the compact approach in the controversial EU-Turkey Statement of 2016, in which a substantial increase in EU financial assistance was agreed in exchange for Turkey’s commitments to take back asylum seekers and irregular migrants from Greece and to strengthen its border controls. But, like in the case of the compacts with SSA countries, the developmental and labour market access aspects of the agreement with Turkey have not been sufficiently emphasized.

Perhaps for these reasons, these compacts cannot be said to have been successful so far when it comes to fostering refugees’ economic integration and self-reliance, even though some of them might have been effective in stemming the flow of irregular migration to the EU. Moreover, as mentioned in Chapter 4 with reference to the EUTFA, the EU has sometimes been seen as acting in a purely defensive manner, using its aid mainly as a lever to obtain cooperation on border control or returns.¹³¹

Migration or refugee compacts can increase aid effectiveness both by eliciting a regulatory and policy response on the part of recipient countries that is essential for the success of assistance packages and by facilitating coordination among donors. But for them to work, the approach must be developmental and supported by appropriate regulatory and structural reforms by recipient countries. After recalling the main arguments behind the compact approach to refugee protection, this chapter looks at the EU’s experience in channeling aid for refugee and migration purposes in the context of compacts or bilateral agreements, and makes some suggestions on how the approach could be strengthened. It also discusses the UN’s future Global Compact on Refugees, which could provide an appropriate framework in which to apply the Compact approach in order to increase aid effectiveness in forced displacement situations.

131 For example, in its 2017 annual report, the IDMC argues that the readmission agreement signed by the EU with the Afghan government in October 2016 focused on deportation, noting that the EU is understood to have threatened to strip Afghanistan of aid if it failed to cooperate (IDMCa, 2017; p. 63; The Guardian, 2016).

9.1 Compacts as a developmental approach to refugee protection

The new approach to refugee protection (Betts and Collier, *op. cit.*; World Bank, 2017e; CGD and IRC; 2018), starts with the observation that over 85% of world refugees and the overwhelming majority of IDPs live in developing countries, with most refugees actually remaining in neighbouring countries. The new approach is also based on the realization that most refugee (and, to a lesser extent, internal displacement) situations are very protracted. Indeed, the average duration of refugees' exile in 2015 was about ten years, with about half of the refugees having been in exile for at least four years (World Bank, 2017e; p. 5).

And yet, while most refugees tend to stay close at home, developed countries spend much more money on the asylum seekers that come to their territories than on the refugees that stay in developing countries.¹³² Moreover, because refugee situations are so protracted, the current international model of refugee protection for the 85-90% of refugees that remain near their countries of origin has turned into a humanitarian assistance system that excessively relies on the provision of food, clothing and shelter within refugee camps run by the UNHCR. Refugees are often not allowed to work formally or move freely and they lack access to the host country's basic public services such as education and health, even though this goes against the UN's 1951 Refugee Convention and its 1967 Protocol. In this context, camps that were initially meant to be temporary often become permanent while refugees experience an erosion of skills and aspirations, creating a sense of frustration and alienation. Many, if allowed, decide to leave the camps and move to cities, often renouncing at least part the humanitarian assistance they get in the camps, in the hope of finding an informal job and recover their economic autonomy. But they face little support from the host authorities, which often restrict legally or make it expensive and cumbersome to get the necessary work and residence permits.

This system not only constrains the refugees' capacity to become economically autonomous

132 Thus, Betts and Collier (*op. cit.*; p. 129) estimate that the world spends USD 123 on a refugee living in developed countries for each US dollar spent on a refugee living in developing countries.

and to integrate in their host countries but also prevents the latter from benefitting from refugees' skills and potential economic contribution. Moreover, it makes it harder for the refugees to develop or maintain the skills that will be needed to reconstruct their countries after the conflict that led them to flee is over.

The new approach, which has been gaining ground in recent years, proposes to overcome this humanitarian model and to adopt a development-based model of refugee protection that sees refugees also as an economic opportunity for the host countries. Under this approach, refugees must be given the right to work formally outside refugee camps and to access the host countries' basic public services, in particular education and health care. This new model, sometimes referred to as "the Compact approach," is often linked to the proposal to employ refugees in special economic development zones (either already existing or to be created) with financial support from both donors and private investment, in some cases backed up by the granting of special trade preferences for products manufactured in them. This is, indeed, the approach followed until now in the case of the EU-Jordan Compact. But the compact approach does not require the concentration of refugee employment in economic zones.

9.2 The EU-Jordan Compact

The EU-Jordan Compact represents perhaps the best example of the new approach to refugee protection. Proposed by the Jordanian authorities in the run-up to the London conference of February 2016 on "Supporting Syria and the Region" (see Hashemite Kingdom of Jordan, 2016) and formalised a few months later, it is essentially an agreement by the EU to increase very substantially its assistance to Jordan and to ease the rules of origin applicable to its exports to the EU in exchange for commitments by Jordan to facilitate the access of Syrian refugees to formal employment opportunities and to its educational system (EU Council, 2016b).

The EU's assistance package agreed in the EU-Jordan Compact was in fact part of a wider compact (sometimes referred to as the "international compact" for Jordan) agreed at the London conference, which also entailed a large increase in assistance from other bilateral and multilater-

al donors. In fact, the total assistance pledged by donors at the London conference was the largest amount of money ever raised in a single pledging conference in response to a humanitarian crisis, and the pledges were augmented in two follow-up conferences.¹³³ However, while the international compact was essentially about financial aid, the EU-Jordan Compact also included, as noted, a trade concession by the EU, and this was the most innovative aspect of it. Specifically, the EU agreed to ease the rules of origin for certain Jordanian exports produced in 18 designated Special Development Zones and Industrial Areas provided that they employ a minimum share of Syrian refugees.¹³⁴ The scheme entered into force in July 2016, initially for ten years. The EU also agreed that if Jordan meets Jordan's own target, announced at the London conference, of formally employing 200,000 Syrian refugees across the economy, it will consider extending these more flexible rules of origin to the entire economy.¹³⁵

Jordan, for its part, agreed to facilitate the formal employment of Syrian refugees, not only in the 18 designated zones but in the economy more generally. It also agreed to provide free education in public schools to at least 140,000 Syrian children in 2016 and to at least 190,000 Syrian children by end-2017 and to provide access to vocational training for Syrian refugees.

The EU considered offering a similar scheme to Lebanon in the discussions preceding the London conference. However, it appears that the Lebanese authorities showed reluctance to this approach, reflecting Lebanon's particular political context. Indeed, the integration of

133 At the London conference, donors (including the EU) pledged more than USD 53 billion for Syria and five neighbouring refugee-hosting countries (Egypt, Iraq, Jordan, Lebanon and Turkey) for the period 2016-2020, over USD 12 billion in the form of grants and over USD 41 billion in the form of loans. While a significant part of the pledges was not allocated by country (especially for the loan pledges), Jordan was the second main beneficiary of the allocated grant pledges (after Turkey) and the main one in per capita terms. See Development Initiatives (2017). Donors made substantial additional pledges for these five countries at the follow-up conferences organized in Brussels on 5 April 2017 (covering 2017-2020) and 24-25 April 2018 (covering 2018-2020). See Development Initiatives (2018) and EU Council (2018b).

134 For a company to benefit from the scheme, Syrian refugees must represent at least 15% of its workforce in the first two years of application, and at least 25% of it thereafter.

135 For a more detailed description of this rules of origin scheme and an assessment of its results so far, see Temprano Arroyo (2018).

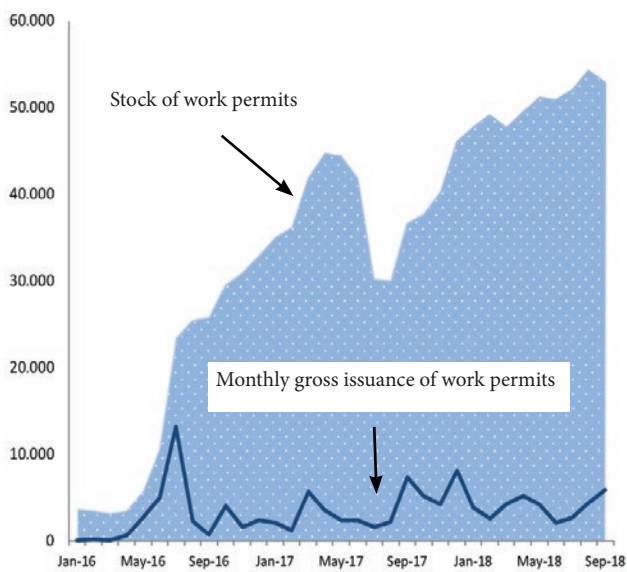
Syrian refugees (estimated to account for about a quarter of Lebanon's population), most of them Sunni Muslims, is seen in Lebanon as a potentially destabilizing development. While a Compact entailing a substantial increase of financial assistance was also agreed between the EU and Lebanon following the London Conference, it did not include trade concessions. Nor were such measures granted to the other countries participating in the London conference.

Efforts to create jobs for Syrian refugees under the EU-Jordan compact are being supported by several policy-based budget support operations and substantial technical assistance from the EU and other donors. Policy based operations include: a EUR 55 million budgetary support grant financed by the ENI, which includes conditionality on the employment of Syrian refugees in the 18 designated areas and on the issuance of work permits to Syrian refugees in the economy as a whole; the second MFA operation mentioned in Chapter 5, which, as noted, is conditional on progress with the implementation of the rules of origin scheme; and a USD 300 million Programme-for-Results operation from the World Bank co-financed by the GCFE, which targets progress with the issuance of work permits to Syrian refugees in the economy as a whole.

Regarding technical assistance, the German development agency and the US Agency for International Development have put in place multi-million programs to increase the competitiveness of Jordanian exporting firms, promote matchmaking with EU firms, and help them take advantage of the rules of origin agreement. The EU and the ILO, for their part, have joined forces to support the creation of employment services and vocational training programs that are general in scope but also assist the factories in the 18 designated zones.

Despite these supportive measures and the collaboration of the Jordanian authorities, the results of the rules of origin scheme, and of the compact more generally, have been mixed until now. On the positive side, there has been substantial progress with the issuance of work permits to Syrian refugees in the economy as a whole. Work permits issued to refugees increased from about 4,000 in early 2016 to over 53,000 in September 2018 (see Figure 9.1). This partly reflects a number of measures taken by the authorities to

Figure 9.1: Jordan - Work permits issued to Syrian refugees, 2016-2018



Sources: ILO, Jordanian Ministry of Labour and author's own estimates.

Note: Monthly changes in the stock do not coincide with monthly gross issuance because work permits expire every 12 months.

stimulate the issuance of work permits, including the waiving of the fee for the issuance of work permits (Howden, Patchett and Alfred, 2017; ILO, 2017). On the other hand, many of those permits simply formalize the existing work situation of refugees, without entailing the creation of new jobs. Indeed, the majority of the Syrian refugees working in Jordan continue to do so informally and, at the recent rate of annual net issuance of work permits, Jordan is unlikely to meet its 200,000 target before 2025.¹³⁶ Moreover, the rules of origin incentives have, until now, had a disappointing impact on the creation of jobs for Syrian refugees in the designated economic development zones. By November 2017, only ten factories had obtained the authorization to export under the scheme. The combined workforce of those ten factories was only 697 employees, of whom 233 were Syrian refugees.¹³⁷ By September 2018, two more companies had been authorized but of the 12 companies participating in the scheme, only six were successfully exporting to the EU.

¹³⁶ According to the World Bank (2016e; p. 61), between 90,000 and 130,000 Syrian refugees were still working informally in Jordan in 2016. Other available estimates suggest that between 85,000 and 331,000 Syrians worked in Jordan in 2017, of which only a small part had work permits (ILO, 2017; p. 29).

¹³⁷ See Ministry of Planning and International Cooperation of Jordan (2017).

There are several reasons why the EU-Jordan rules of origin scheme has not had stronger effects on Jordanian exports and refugee employment. They include the following (Temprano Arroyo, 2018): trade incentives are less attractive than those offered by comparable preferential schemes, given that number of important competitors from Asia in the production of apparel and textiles already benefit from preferential access to the EU market; there is a lack of Jordanian companies with the experience and marketing networks necessary for exporting to the EU the products that benefit from the scheme, and meeting the EU's technical standards for manufactured goods; Syrian refugees are reluctant to work in the designated zones for fear of losing their refugee status and associated cash assistance, for cultural reasons (notably in the case of women) and because they lack the necessary skills; and Jordan continues to impose sectoral quotas on the number of foreign workers that Jordanian companies can employ, which apply also to the sectors benefitting from the rules of origin scheme.

In an attempt to make the rules of origin scheme more effective, the European Commission proposed to the EU Council on 14 June 2018 to ease some of its requirements (European Commission 2018n). In particular, it proposed to drop the requirement that Jordanian exports must be produced in one of the 18 designated zones and to postpone from the third to the fourth year the increase from 15% to 25% in the minimum share of Syrian refugees that companies wishing to benefit from the scheme must employ. While these would be steps in the right direction, they are unlikely to affect fundamentally the effectiveness of the scheme. Other options the EU could consider are to include processed agricultural goods in the scheme and to continue to work with the Jordanian authorities to promote the employment of Syrian refugees in the Jordanian economy at large.

Despite the mixed results, the EU-Jordan Compact represents a welcome change by the EU towards a more effective refugee aid strategy. The combination of a very large and internationally coordinated financial assistance package and trade incentives has triggered a change in Jordan's policy towards Syrian refugees' access to its formal labour market and educational system, a change that would have been unthinkable only

a few years ago. And this change has produced some tangible (if only partial) results. From that point of view, the strategy seems appropriate even if it can be improved, and the EU should continue to work in this direction. As discussed below, the case of the Ethiopian Jobs Compact, within the UN's CRRE, provides another opportunity to test the new approach.

9.3 The EU-Turkey Statement

Another important cooperation agreement recently concluded between the EU and a third country that focuses on migration management and entails very substantial financial assistance is the EU-Turkey Statement. Announced at the EU-Turkey Summit of 18 March 2016, it was preceded by another migration-related statement between the two parties agreed in November 2015, which activated a Joint Action Plan, and by the launching on that same month of the first tranche of the FRT. The main objective of the statements and the Joint Action Plan was to put an end, or to drastically reduce, the inflow of asylum seekers (mostly Syrians) and irregular migrants from Turkey to Greece, which had reached record levels in the final months of 2015, while opening legal and safe channels for the resettlement of refugees from Turkey to the EU.¹³⁸ The significant additional financial assistance offered to Turkey (up to EUR 6 billion between the two tranches of the FRT) was meant to improve the humanitarian situation and integration of refugees and to relieve pressures on host communities. But it should also be seen, together with other elements of the package (see below), as an incentive to persuade Turkey to cooperate.

The main migration-related elements of the March 2016 Statement were the following:¹³⁹

138 In the month of October 2015 alone, irregular arrivals on the Greek islands from Turkey had reached almost 200,000 (European Commission, 2018o). At the time the second statement was agreed, Turkey was already hosting more than 2.5 million Syrian refugees registered under the so-called temporary protection regime. By August 2018, their number had risen to 3.5 million, according to the Turkish Ministry of Interior (http://www.goc.gov.tr/icerik6/international-protection_915_1024_4747_icerik). While 7% of these refugees reside in 21 camps established by the government in the South of the country, the overwhelming majority live in urban, semi-urban and rural areas. In addition, Turkey hosts about 300,000 refugees and asylum seekers from Afghanistan, Iran, Iraq and Somalia (European Commission, 2018g).

139 EU Council (2016a).

- Any new irregular migrant arriving to the Greek islands from Turkey as from 20 March 2016 was to be returned to Turkey.
- For every Syrian returned to Turkey from the Greek islands, another Syrian was to be resettled from Turkey to an EU country.
- Turkey was to take all the necessary measures to prevent new illegal crossing to the EU by sea or land routes.
- Once irregular crossings between Turkey and the EU ended or be substantially and sustainably reduced, the EU would activate the so-called Voluntary Humanitarian Admission Scheme (to which EU countries contribute on a voluntary basis).
- Disbursements under the first tranche of the FRT would be expedited. Moreover, it was agreed, as noted, that, provided that Turkey met in full the commitments in the Statement, the EU would mobilise a second tranche of the same size (EUR 3 billion) by the end of 2018.

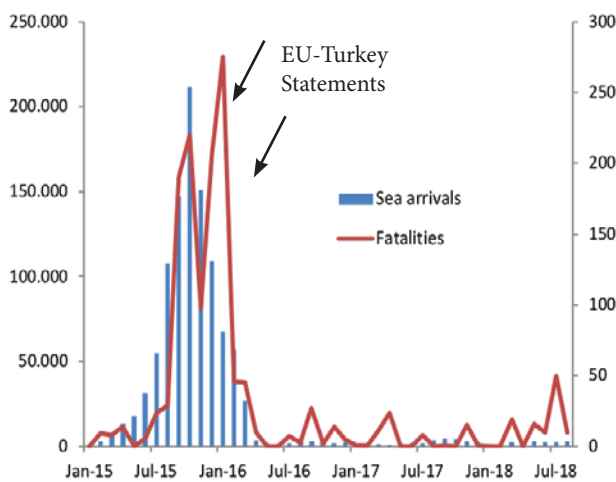
In addition to the elements related to the refugee crisis, the EU offered Turkey to accelerate the implementation of the visa liberalisation plan for Turkish citizens wishing to enter the EU, to work on the upgrading of the Customs Union between the two parties and to re-energise the negotiations on the accession of Turkey to the EU.

Now, has the EU-Turkey Statement helped increase the effectiveness of the EU's refugee- and migration-related financial assistance to Turkey? And is it consistent with the new developmental, compact approach to refugee protection?

The EU-Turkey Statement is often presented, notably by the EU institutions, as a success in that it produced a very rapid decline in irregular crossings from Turkey to Greece and in the number of lives lost at sea (see Figure 9.2). Resettlements from Turkey to the EU also progressed steadily, with nearly 12,500 Syrian asylum seekers having been resettled in the two years following the adoption of the Statement, and a similar number of migrants having returned voluntarily from Greece (including its mainland) during that period, assisted by the EU's Voluntary Return and Reintegration Programme (European Commission, 2018a; p.7; and 2018o; p.3). Moreover, the first tranche of the FRT was fully committed by

end-2017, in 72 projects that delivered welcome relief for refugees and host communities in Turkey (European Commission, 2018g). On the other hand, the pace of returns of migrants from Greece to Turkey has been much lower than intended, reflecting a backlog in the processing of asylum claims in Greece. With migrant arrivals in Greek islands continuing to amply exceed (despite their marked decline) the number of returned migrants, pressure on the hotspots' reception capacity has remained acute.

Figure 9.2: Sea the Turkey to Greece and fatalities in the East Mediterranean



Sources: UNHCR and Missing Migrants Project (IOM).

Despite the partial failure of the returns policy, one could argue that the provision by the EU of refugee-related financial assistance in the context of the EU-Turkey Statement made it more effective in terms of easing short-term migration pressures on the EU. Aid was somehow used as a bargaining chip to elicit more cooperation by a country of first asylum to restrict irregular crossings from its territory. But the strategy was not really consistent with the developmental approach advocated by the new literature on refugee protection. And this meant that its impact on the *underlying*, longer-term migration pressures was more limited. There are several reasons for this. First, the approach was too defensive. Indeed, the policy commitments obtained from Turkey through the Statement were mostly about restricting irregular crossings to the EU, mainly through tighter border management and surveillance, and about Turkey accepting the return of irregular migrants to its territory. Although the EU-Turkey Joint Action Plan of November 2015 included a com-

mitment to facilitate the access of Syrian refugees to employment, and although Turkey passed in 2016 new legislation easing restrictions on the right of refugees to work formally, only about 1% of the more than 1.7 million Syrians of working age estimated to live in Turkey have been able to obtain work permits, reflecting a number of de facto obstacles (İçduygu and Diker, 2017). The vast majority of Syrians working in Turkey continue to do so informally (as it is the case in Jordan and Lebanon).

Another problem is that a lot of the increase in EU financial assistance has focused on providing short-term relief to Syrian refugees to cover basic needs. Almost half of the EUR 3 billion FRT has been allocated to humanitarian assistance projects, although some of these projects (e.g. the Conditional Cash Transfer for Education programme) are also likely to have a longer-term developmental impact. Moreover, while the developmental (non-humanitarian) part of the portfolio seems well conceived and comprises very relevant projects in the education and health sectors (including the construction of schools and healthcare centres), the part devoted to directly supporting refugees' socio-economic integration (e.g. through vocational training and employment assistance) is relatively small. More could also be done to support the significant and growing number of small companies in Turkey that are owned by Syrians (see Kadkoy, 2018), which normally employ Syrian refugees and could facilitate their economic integration in a sustainable way.

The insufficient developmental and refugee integration emphasis of the financial assistance provided under the EU-Turkey Statement is exacerbated by the lack of any mention of the potential role of the EIB. This contrasts, for example, with the EU's financial response to the Ukraine crisis, which, as noted, relied on several key financial instruments, including a large increase in EIB lending as well as MFA, in addition to regular cooperation and humanitarian assistance. Moreover, Turkey is not a beneficiary of the EIB's ERI, nor of the EIPP (although it would become eligible for the EEIP if the European Commission's proposal to expand its geographical scope in the context of the new MFF is adopted). In fact, in the context of the mid-term review of the EIB's ELM, the EU decided to reduce markedly the

ceiling for the pre-accession countries, reflecting concerns about excessive risk exposure to Turkey and political misgivings on the part of the EU following the Turkish government's reactions to the failed coup attempt of July 2016.

The EU-Turkey Statement also fails to incorporate trade incentives related to refugee employment, in contrast with the EU-Jordan Compact. This is despite the fact that Turkey has itself shown interest in that type of preferential scheme. Thus, in a letter sent in August 2017 to seven key members of the WTO, including the EU, Turkey proposed to grant preferential treatment to certain exports of countries hosting large numbers of refugees, provided that they are manufactured by companies employing refugees (Temprano Arroyo, *op. cit.*; pp. 29-31).¹⁴⁰ While Turkey's exports of industrial goods and of many processed agricultural goods already entered the EU free of duties and quotas by virtue of its customs union with the EU, the EU could consider granting preferences to Turkish exports of primary and some sensitive, non-processed agricultural products that have not yet been fully liberalized. Or it could support Turkey's WTO initiative, which could also benefit, for example, Turkey's apparel and textile exports to other countries (such as the United States), two sectors where many Syrian refugees are either employed or have the necessary skills (*ibid.*; p. 30).

Last but not least, another shortcoming of the EU-Turkey Statement is that if, as some observers contend, migrants returned to Turkey receive insufficient legal protection and access to public services and employment, many may decide to either return to their countries of origin (even if the political and economic situation remains unstable) or try again to come into the EU. Indeed, there is evidence that Syrians readmitted to Turkey and receiving "temporary protection status" find it often difficult to register in order to get the temporary protection cards needed to access public services or formal employment. As a result, some decide to return to Syria or to pay a smuggler to re-enter the EU (Alpes, Tunaboylu, Ulusoy and Hassan, 2017). Also, non-Syrian migrants returned by the Greek authorities to Turkey in accordance with the Statement are

140 The proposal was tabled at the WTO Ministerial Conference of Buenos Aires in December 2017 but received only a cautious reaction by WTO countries.

temporarily placed in detention centres and many cannot submit an international protection application because they are not provided with the necessary information or legal and logistical support. Thus, the European Commission (2017g) reported in September 2017 that only 57 out of the 1,144 non-Syrian migrants returned to Turkey since the date of the EU-Turkey Statement had applied for international protection, of which only two had been granted, by then, refugee status. The majority (831) had been repatriated to their countries of origin (on this point, see also Alpes et al., *op. cit.*, and Amnesty International, 2016).

The shortcoming just mentioned might be part of a more general problem underlined by the critics of the EU-Turkey Statement, namely the insufficient guarantees provided by Turkey's refugee legislation. While Turkey has ratified the 1951 Refugee Convention, it applies a geographical limitation restricting its protection to nationals of countries that are members of the Council of Europe. Although it adopted in 2013 and 2014 two pieces of legislation providing the status of either "temporary refugee" (for Syrian nationals) or "conditional refugee" (for other non-European nationals), these are granted under the assumption that refugees will eventually be resettled or repatriated, and entail (*de iure* or *de facto*), particularly for conditional refugees, certain restrictions regarding access to public services, employment and family reunification (Amnesty International, *op. cit.*). Moreover, according to Amnesty International (2017), the legal protection of these two refugee categories has been weakened as a result of legislation adopted under the state of emergency that followed the failed coup d'état of 2016.¹⁴¹

141 For some critics, this legislation and Turkey's actual asylum policies mean that Turkey may not be deemed to be a "safe third country" in the sense the EU's Asylum Procedures Directive. An implication is that a decision by Greece to declare "inadmissible" asylum applications by irregular migrants coming from Turkey and to return them to Turkey, a possibility envisaged by the EU-Turkey Statement, would be in breach of such Directive and of the *non-refoulement* principle of international refugee law. The European Commission has assessed, however, that Turkey can be deemed to be a "safe third country," and/or a country of first asylum meeting the Asylum Procedure Directive's requirements, for the purpose of returning irregular migrants from Greece to Turkey. Also, Turkey has provided written assurances that returned Syrians will be granted temporary protection and that non-Syrians will enjoy protection from *non-refoulement* (European Commission, 2016d). The issue was taken up by several Spanish NGOs and citizens to the European Ombudsman, who, on 18 January 2017, issued a Decision calling on the Commission

In sum, while the EU-Turkey Statement has contributed to make EU financial aid more effective in achieving some of its objectives, notably the short-term containment of irregular migrant inflows from Turkey, its approach is not sufficiently developmental nor sufficiently orientated towards encouraging the economic and social integration of refugees in Turkey. Although the FRT has gone well beyond the traditional humanitarian assistance approach to refugee protection and its projects seem well focused and well designed, the EU's overall assistance strategy is not sufficiently focused on supporting refugees' livelihoods and integration, nor is it complemented by trade incentives. The commitments obtained from Turkey are excessively geared towards restricting irregular crossings and accepting migrants returned by Greece, as opposed to facilitating refugee integration, while the shortcomings of its asylum system, including the lack of long-term settlement prospects, weaken the capacity and motivation of refugees to integrate. The approach differs in part, therefore, from the Compact model proposed by the new literature on refugee protection.

9.4 The Partnership Framework with Third Countries on Migration

In an effort to strengthen bilateral cooperation with developing and transition countries on migration matters, the European Commission launched, through a Communication adopted in June-2016, what it called a new Partnership Framework aimed at implementing some of the objectives of the European Agenda on Migration adopted in May 2015 (European Commission, 2016a). The importance of cooperating with key migration countries was obviously not new: it had already been stressed as part of the Global Approach to Migration the EU adopted in 2005, which had guided the EU's external migration policies for years. But the new Partnership Framework was meant to make the approach more concrete and operational. The initiative also built on the efforts the EU had been making in the previous 12 months to strengthen collaboration

to strengthen, in its forthcoming progress reports on the EU-Turkey Statement, the assessment of its human rights impact and to foresee, where appropriate, mitigating measures (see European Ombudsman, 2017).

on migration issues with third countries, which included a series of high-level dialogues with some countries, a regular and structured dialogue with the Western Balkans, the Action Plan agreed at the EU-African Valletta Summit of November 2015 and, last but not least, the EU-Jordan Compact and the EU-Turkey Statement just examined.

The Valletta Action Plan could be seen as a first cross-country attempt by the EU to apply the compact philosophy because the EU tried to encourage cooperation on migration and forced displacement from its African partners in exchange of increased financial assistance. Indeed, it was, as noted, precisely at the Valletta Summit that the EUTFA was launched.¹⁴² But some of key elements of the compact approach were missing, notably regarding refugee integration. While the Valletta Action Plan stressed the importance of adhering to and complying with the 1951 Refugee Convention and its 1967 Protocol, it included no explicit commitments by the African partners to facilitate access of refugees to their labour markets and basic public services.

The new Partnership Framework can be seen as an attempt to push the Valletta Action Plan beyond, both in terms of actions and geographical scope. However, although the initiative is addressed in principle to all developing and transition countries of relevance from a migration point of view, the Commission initially focused it on five SSA countries (namely Ethiopia, Mali, Niger, Nigeria and Senegal), with which it proposed to conclude tailor-made bilateral compacts. The Communication also mentioned as priority countries Jordan and Lebanon, with which ad-hoc compacts had just been agreed, as well as Libya and Tunisia.

The main declared objectives of the new Partnership are: i) to prevent irregular migration and smuggling; ii) to promote the return, readmis-

¹⁴² The Action Plan agreed at the Valletta Summit defined 16 priority domains, covering pretty much all key aspects of migration and forced displacement. They included: increasing efforts to address the economic and political root-causes of irregular migration and forced displacement; strengthening the protection of refugees and other displaced people; fighting migrant smuggling and trafficking in human beings; opening new legal channels for migration; promoting student and researcher mobility; visa facilitation; and strengthening cooperation on returns and readmissions. The Action Plan also included, as noted in Chapter 8, new commitments to reduce the cost of transferring remittances. See https://www.consilium.europa.eu/media/21839/action_plan_en.pdf.

sion and integration of irregular migrants; iii) to address the root causes of irregular migration; and iv) to incorporate these objectives and approach into other external instruments and policies of the EU (e.g. trade policy and external assistance). Indeed, the Communication mentions the possibility to link trade preferences, in particular the Generalised System of Preferences (GSP)+, to the collaboration by beneficiary countries on migration matters.

Similarly to the Valletta Action Plan, the EU-Jordan Compact and the EU-Turkey Statement, the commitments by partner countries were to be supported by an increase in financial assistance from the EU. And, indeed, the Commission's Communication made reference to the EUTFA, the Madad Fund, the FRT, the financial pledges announced a few months before at the London Conference on Syria, MFA, the EIB and the proposal to put in place the EEIP. The Commission also mentioned the intention to better target aid on migration priority countries and to refocus the multiannual indicative programmes for these countries on migration projects.

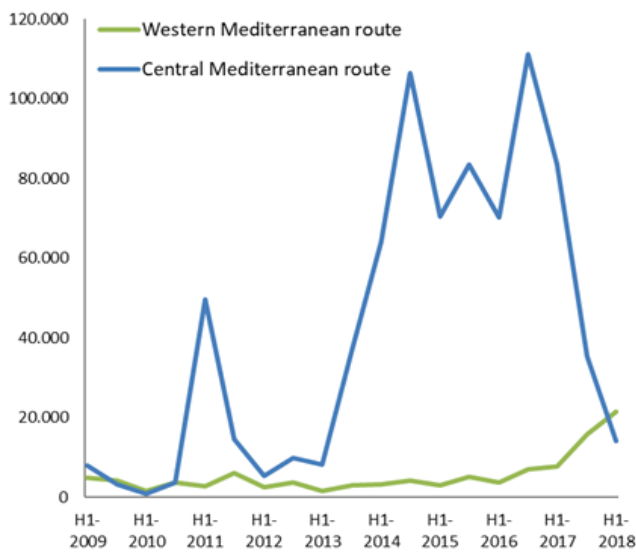
Despite the use of the term compact, however, this initiative is not comparable to the EU-Jordan Compact and the developmental approaches to migration and refugee policy proposed by the recent literature. There are several reasons for this. Firstly, despite the rhetoric, its focus so far has not been on measures to address the root causes of irregular migration or to support the economic integration of displaced people in countries of first asylum. Rather, the emphasis has been put on the first two of its stated objectives (the fight against smuggling and the promotion of returns). Secondly, the new Partnership has not really been accompanied by a quantum leap in financial assistance from the EU. Indeed, with the exception of the EEIP, which was at the time still under discussion, none of the financial instruments mentioned in the Communication was new. In particular, the EUTFA, the Madad Fund and the FRT had already been committed and the pledges of the first London conference on Syria had already been made. Nor has the suggestion made by the Communication to consider trade policy measures to support the initiative materialized (the rules of origin scheme for Jordan had already been agreed when the Partnership Framework was launched). Last but not least, there has been little progress in offering new legal pathways for

migration to the priority partners. All this has contributed to one of the main weaknesses of the initiative, highlighted in the European Commission in its Fourth Progress Report on the Partnership Framework, namely, the insufficient leverage and incentives to persuade partner countries to collaborate (European Commission, 2017h).

To be sure, the total financial assistance made available for the countries covered by the Partnership, even if not new, is very substantial (as it is obvious from the analysis in Chapters 3 to 5). Also, the EU's new financial facilities have been, as noted, targeted in part towards dealing with the root causes of migration. But, unfortunately, this financial assistance has not been, until now, linked to policy commitments on the part of recipient countries to facilitate the economic integration and self-reliance of displaced people and other vulnerable people such as returning and potential migrants.

Not surprisingly, the initiative has only produced significant results in two of its four declared objectives, namely, the fight against irregular migration (notably smuggling) and, to a lesser extent, returns and readmissions. And even here progress has been mixed. Cooperation on the part of Niger in dismantling smuggling networks, combined with targeted support from the EU (including to provide alternative income sources to migrant smuggling in Northern Niger), contributed to a decrease in the number of irregular migrants transiting through Agadez from 340 per day on average in 2016 to 40-50 per day in 2017 (European Commission, 2018a; p. 13). Also, the number of crossings by irregular migrants to Italy through the Central Mediterranean route, the one used by most of the migrants that transit through the five priority countries, decreased to 118,962 in 2017, a 34% decline, and decelerated further in the first seven months of 2018 (see Figure 9.3). This can partly be attributed to the cooperation agreements reached with these countries as well as with Libya and Tunisia. However, the cooperation with Libya has been controversial, producing a humanitarian problem as conditions deteriorated markedly in the detention centres where rising numbers of irregular migrants were placed after Libya agreed to tighten control on irregular departures from its coast. Moreover, efforts to block the Libya route have partly resulted in a deviation of irregular flows towards the Western Mediterranean route, including via Algeria (Figure 9.3).

Figure 9.3: Irregular entries to the EU: Central and Western Mediterranean routes



Source: European Border and Coast Guard Agency (Frontex).

Note: The last observation covers the six months from February to July 2018. For the Western Mediterranean route, includes arrivals via the Western African route, connecting Senegal, Mauritania and Morocco with the Canary Islands.

The EU has been trying to address the appalling conditions many migrants experience in Libya, in particular by helping them return home or by resettling them. Thus, a Joint African Union-EU-UN Nations Taskforce set up in November 2017 at the EU-Africa Summit of Abidjan has been helping, with the support of the International Organisation for Migration (IOM), many irregular migrants stranded in Libya (often in detention centres) return to their home countries, mostly countries in Central and Western Africa. Between end-November 2017 and early April 2018, it helped more than 15,000 migrants return to their home countries, bringing to nearly 25,000 the number of assisted voluntary returns from Libya organised since the start of 2017. In addition, over 1,300 vulnerable refugees have been evacuated from Libya (mostly to Niger) under the new EU-funded UNHCR Emergency Transit Mechanism, with the aim of being resettled in Europe. While these efforts have significantly eased the humanitarian situation in Libya, the EU's cooperation with Libya on migration remains overly defensive, focusing on improving border management, restricting irregular migration and fighting smuggler networks, and lacks a substantial developmental component and the support of sizeable financial assistance package.

Another problem regarding cooperation with Libya on border security and irregular migration is that it was initially based on a Memorandum of Understanding concluded on 2 February 2017 between Italy and the Libyan authorities, rather than on an agreement with the EU.¹⁴³ While the Memorandum of Understanding was endorsed by the EU immediately after, in the context of the Malta Declaration on addressing the Central Mediterranean route,¹⁴⁴ and the EU provides substantial support to both Italy (logistical and financial) and Libya (notably by supporting its national coast guard, enhancing its border management capacity and helping Libya fight migrant smuggling activities), the EU as such has not yet concluded any cooperation agreement or compact on migration with Libya. This is despite the fact that this country is obviously a priority for the EU's migration policy. While this is in part due to the still fragile political situation in Libya, it would seem important for the EU to conclude a bilateral compact with Libya, including substantial financial assistance, to provide a framework for increased cooperation on migration matters.

Regarding returns, despite recent progress with the irregular migrants stranded in Libya, results have been rather disappointing as it has been very difficult to encourage partner countries to cooperate and sign return and readmission agreements. While standard operation procedures (SOPs) on returns have been signed with Afghanistan, Bangladesh, Ethiopia, Guinea and Gambia, the EU has not managed to sign a single fully-fledged, formal return and readmission agreement cooperation with any country since the Partnership Framework on Migration was launched and, in fact, there are no SSA countries among the 17 countries that have signed such agreements with the EU.¹⁴⁵ For many partner countries, these agreements are politically difficult, especially in a context where the EU is not doing as much as it was hoped to create new

¹⁴³ “Memorandum d'intesa sulla cooperazione nel campo dello sviluppo, del contrasto all'immigrazione illegale, al traffico di esseri umani, al contrabbando e sul rafforzamento della sicurezza delle frontiere tra lo Stato della Libia e la Repubblica Italiana” (<http://www.governo.it/sites/governo.it/files/Libia.pdf>).

¹⁴⁴ “Malta Declaration by the members of the European Council on the external aspects of migration: addressing the Central Mediterranean route” (<http://www.consilium.europa.eu/en/press/press-releases/2017/02/03/malta-declaration/>).

¹⁴⁵ For the list of countries with which the EU has signed formal readmission agreements, see <https://bit.ly/2thDUfe>.

Figure 9.4: Return decisions and effective returns of third country nationals


Source: Eurostat.

(1) Five countries selected as priorities of the EU's Partnership Framework, namely Ethiopia, Mali, Niger, Nigeria and Senegal.

(2) The rate of return is the ratio of the number of persons effectively returned to the number of persons issued with a return decision, irrespective of whether the return is voluntary or forced.

legal pathways for migration. Moreover, their negotiation is complex and lengthy, requiring the Commission to obtain a mandate from the EU Council that normally takes about a year to be adopted. For some experts, formal readmission agreements are, in any case, much less effective in supporting returns than intended, even when the EU manages to conclude them (see Carrera, 2016). This reflects a number of obstacles that affects their operability, notably technical problems with the identification of migrants and the delivery of travel documents for their return.

Data on returns published by Eurostat (Figure 9.4) confirm that progress in this area has been very slow, both in the five priority countries selected by the Partnership Framework and more generally. The Commission acknowledged this lack of progress in its report of May 2018 on the implementation of the European Agenda on Migration, noting that although there have been some increase in 2017 in the number of return decisions issued by EU countries (largely attributed to the completion with negative decisions of a large number of asylum appeals in the countries most affected by the refugee inflow surge of previous years), this had been accompanied by a marked decline in the number of implemented returns, resulting in a significant decline in the rate of return (the ratio between effective returns and return decisions issued) from 45.8% in 2016 to 36.6% in 2017 (European Commission, 2018b). The rate of return also declined for the five priority countries, and from much lower

levels, prolonging a downward trend observed since 2014, despite the incentives for enhanced collaboration that the Partnership Framework was supposed to offer (Figure 9.4).

The only effective way for the EU to persuade partner countries to strengthen their cooperation on returns is by offering new legal pathways. This should be part of a more general change in the EU's migration policy aimed at gradually shifting, particularly concerning flows from SSA, from irregular to regular migration. Politically, it is the best way in which local governments can explain to their populations their decision to cooperate with the EU on returns. Increased financial assistance and trade concessions can also help but they are constrained and should only come as complements to the opening of new legal pathways. Without new legal avenues for migration, increased financial assistance can be seen by local populations as their governments agreeing to betray their citizens by cooperating with the EU on returns in exchange for cash handouts. Regarding trade concessions, the scope is limited by the fact that many of the priority countries of the Partnership Framework (notably in SSA) already enjoy a high degree of preferential access to the EU market under either the GSP or the Economic Partnership Agreements.¹⁴⁶ The Commission's Communication of September 2018 on Enhancing Legal Pathways to

¹⁴⁶ For the potential use of development aid, trade agreements and legal pathways to support cooperation with third countries on returns, see MEDAM (2018; pp. 39-50). This

Europe (European Commission, 2018p) recognises the importance of opening legal avenues for migration in order to ensure a balanced migration policy and as an incentive to improve cooperation by third countries on migration, including on re-admission and returns, and proposes to develop pilot projects on legal migration with African countries. But with decisions on legal migration being in the hands of EU member states, the success of this initiative will hinge on the actual engagement and cooperation of their governments.

In sum, the Partnership Framework initiative has not lived up to its ambitions. On the part of the EU, the associated increase in financial assistance and the commitment to open legal pathways to migration has not been enough to produce the necessary political response by recipient countries, and insufficient emphasis has been put on projects aimed at addressing the root causes of migration. The Framework, like the EU-Turkey Statement, has been too focused on defensive measures aimed at limiting irregular migration to the EU and supporting returns. It has also failed to engage the beneficiary countries into legal reforms and policies to support the socio-economic integration of displaced and other vulnerable people. Also, a more comprehensive approach with a key country like Libya, probably in the form of a bilateral compact entailing a sizeable financial assistance component, is still missing. The Partnership Framework should, therefore, be modified to overcome these shortcomings.

9.5 A new framework for refugee aid: the UN's Global Refugee Compact

The UN's future Global Refugee Compact provides a promising framework for enhancing the effectiveness of refugee protection aid through the compact approach, particularly in SSA countries.

At the UN's General Assembly of September 2016, its 193 member countries adopted a series of commitments that imply an ambitious attempt

report proposes to expand formal access to EU labor markets, notably for African citizens, conditional on effective inter-governmental cooperation to reduce irregular migration and accelerate readmissions. It also notes, however, that "regardless of the direct effects of foreign aid on incentives to emigrate, foreign aid could still serve as a bargaining chip in the negotiation of EU readmission agreements" (p. 40).

to move from a humanitarian to a developmental approach to refugee protection in countries of first asylum. These commitments are known as the New York Declaration for Refugees and Migrants, which sets out the main elements of the new CRRF.¹⁴⁷ The New York Declaration also calls for the adoption of a Global Compact on Refugees, comprising both the CRRF and a concrete action plan to ensure its implementation.¹⁴⁸

At the heart of this approach is the idea that refugees should be integrated in their host communities by giving them full access to the local labour markets as well as the local education and health systems, so that they can build their skills and become self-reliant, thus benefitting also the host communities and reducing their dependency on aid. The New York Declaration recognizes that refugee camps should be the exception and only a temporary response in situations of emergency. Instead, refugees should live among host communities. The CRRF is based on the Compact idea of a deal between host countries, which commit themselves to adopting legislation and policies ensuring the socio-economic integration of refugees, and the international donor community, which commits itself to increasing assistance to host communities and transforming it into developmental support. The UNHCR is given a leading role in managing the new system, which means that it must make an effort to modernize its organization and expertise to move beyond a purely humanitarian support agency and help coordinate measures and assistance strategies aimed at promoting the economic autonomy and integration of refugees in host countries. The CRRF also stresses the use of new multilateral financial facilities, such as the IDA's refugee window and the GCFE, designed, as noted, to support refugees' self-reliance and host communities' resilience, as well as the participation of the private sector.

Seven SSA countries (Djibouti, Ethiopia, Kenya, Rwanda, Tanzania, Uganda and Zambia), most of which are among the top 20 refugee-hosting countries (see Annex 1), have already agreed to apply the CRRF as pilot cases. The new Framework will also apply, although through regional ap-

¹⁴⁷ "New York Declaration for Refugees and Migrants," Resolution adopted by the General Assembly on 19 September 2016, A/RES/71/1 (<http://www.unhcr.org/57e39d987>).

¹⁴⁸ See <http://www.unhcr.org/58e625aa7>. The New York Declaration also foresees the adoption in 2018 of the "Global Compact for Safe, Orderly and Regular Migration."

proaches, to Somalia and six Central American countries. Furthermore, at the Leaders' Summit on Refugees that took place in New York a few days after the adoption of the New York Declaration, 17 countries with significant refugee populations, including many of the above-mentioned countries, pledged to enact policy measures favouring the socio-economic integration and access to public services of their refugee populations. In the same Summit, donors pledged to increase financial assistance by approximately USD 4.5 billion above 2015 levels, and made also substantial new commitments on refugee admission and resettlement.¹⁴⁹

A good example of the application of the compact philosophy that guides the CRRF is the "Jobs Compact" being negotiated with Ethiopia, the country with the second largest refugee population in Africa. This compact will entail the creation of industrial development zones employing up to 100,000 people, with a significant portion of the jobs reserved for refugees, and the distribution of 10,000 hectares of available irrigable land to some 20,000 refugees, where they will be allowed to grow their own crops. Ethiopia has also committed, *inter alia*, to expanding its "out-of-camp" policy, to issuing the necessary work permits for refugees and to facilitating access by refugees to its education system and essential social services. The Jobs Compact is expected to be supported by substantial, well-targeted development assistance projects co-financed by a coalition of key donors, including the EU, the UK and the World Bank, using some of the new financial facilities for refugees discussed in this book. Because of its emphasis on industrial development zones, some analysts already see the Ethiopian Jobs Compact as a follow up to the EU-Jordan Compact, although, in contrast with the latter, no special preferential trade scheme is being planned for Ethiopia.¹⁵⁰

Other SSA countries also made significant policy commitments at the Leaders Summit on

149 See United Nations, "Summary Overview Document. Leaders' Summit on Refugees," 20 September 2016: https://refugeesmigrants.un.org/sites/default/files/public_summary_document_refugee_summit_final_11-11-2016.pdf.

150 Ethiopia already enjoys very favourable preferential access to the EU market under its Economic Partnership Agreement, equivalent to the access granted by the Everything-But-Arms version of the GSP, and to the US market under the US GSP regime for least developed countries and the African Growth Opportunity Act.

Refugees. For some of them, these commitments represent a historical change in their policies on refugee integration. Relevant examples include: Kenya's plan to further develop the economic potential of the Kalobeyei Integrated Settlement, a refugee settlement that has, since its creation in 2015, promoted refugees' economic self-reliance; Chad's commitment to facilitate the access of up to 236,000 refugees to arable land; Rwanda's pledge to provide, by mid-2018, formal employment opportunities to 60,000 refugees and to provide access to banking services to 58,000 refugees, while graduating camp-based refugees out of assistance programmes; and Uganda's pledge to provide access to legal employment to 120,000 additional refugees, mainly by allocation to them plots of land where they can live and do farming. Several countries also made detailed pledges regarding the access of refugees to the education system (Djibouti is a clear case in point), the issuance of residence permits, ID cards and travelling documents to refugees, and the adoption or amendment of key refugee legislation.

In sum, the UN's new CFFR and the future Global Compact on Refugees represent a fundamental departure from the camp-based, humanitarian aid-focused refugee protection system that has prevailed since the 1980s. The CFFR is already producing policy commitments on the part of host countries and the EU is actively participating in it, notably through its support for the Ethiopia Compact. Together with the new, better focused financial facilities adopted by the EU and the international community in recent years, the CFFR should provide a good framework for the EU to coordinate with other donors the negotiation of refugee compacts with key countries of first asylum. Such compacts could increase the effectiveness of aid for two main reasons. First, because they would combine a developmental, public services orientation of assistance with serious policy commitments by recipient countries to facilitate the integration of refugees. And second, because they would provide a platform to coordinate assistance with other donors, increasing in this way both the consistency of assistance projects and donors' leverage to trigger the necessary regulatory and policy changes in refugee-hosting countries.

Admittedly, while the CFFR might provide a useful framework to enhance aid effectiveness

in dealing with refugee and IDP situations, it is not meant to deal with other migration challenges. However, it illustrates how compacts can help increase the effectiveness of migration-related assistance more generally through: i) improved donor coordination, focus and leverage; ii) policy commitments on the part of beneficiaries; and iii) a developmental approach to aid. Migration compacts (as opposed to refugee compacts) should contain those elements as well, but other aspects such as the opening of legal pathways, border cooperation, returns and measures to discourage irregular migration are likely to figure prominently.

10. Conclusions and policy recommendations

This book has examined the potential contribution of external financial assistance to the EU's new external migration policy, notably to the EU's efforts to address the underlying causes of migration and refugee flows.

Can aid help reduce migration pressures?

Much of the academic literature of the last 25 years finds that the hope of politicians that aid will help reduce migration pressures is not born out by the empirical evidence. Instead, there is a significant, though not full, consensus on the existence of an inverted U curve relationship between per capita income and migration, which carries over to the link between aid and migration. For countries still in the upward sloped part of the curve, therefore, aid might actually encourage, rather than reduce, migration.

However, after revisiting the debate on the link between aid and migration, drawing on the most recent literature, the book concluded that aid can still be effective in reducing migration pressures if it is properly designed and if it is part of a comprehensive strategy encompassing also other policy instruments (such as labour market reforms, trade preferences and regulatory cooperation by third countries). First, recent empirical evidence suggests that development aid can be more effective than humanitarian aid in stemming migration flows. This is especially the case when aid is directed towards facilitating access by potential migrants or refugees to basic public services such as health care, education, water and electricity. Rural development aid and governance assistance also seem to be relatively effective. Second, aid can be more impactful if donors coordinate well their aid policies. Third, the effectiveness of aid depends on its mix more generally, including the dose of other assistance instruments that are typically not included in the definition of ODA because they do not meet the concessionality requirement and that, for that reason, are also not included in the empirical studies that have tried to measure the link between aid and migration. This is the case, in particular,

of macro-financial assistance and non-concessional development loans and guarantees (such as those provided by the EIB and other multilateral development banks). A well-balanced assistance package can increase the impact of each of its components. Last but not least, aid effectiveness can be increased if framed in the context of bilateral cooperation compacts or partnerships that facilitate donor coordination and increase their leverage to persuade recipient countries to adopt the necessary regulatory and policy reforms, including, where appropriate, measures to facilitate the access of displaced people to their formal labour markets and public services.

The book recommended applying these guidelines to the EU's aid strategy towards migration-relevant countries. This entails shifting, where possible, from humanitarian to development aid, further stressing public services and livelihood projects, and increasing the share of rural aid and aid aimed at strengthening governance and institutions. It also implies redoubling efforts among EU institutions and EU countries to better coordinate their aid policies, including through joint programming.

Actual response of EU external assistance to the migration and refugee crisis

The book then looked at the actual response or sensitivity of the EU's ODA to the migration and forced displacement challenge, using the historical data provided by the OECD's CRS and drawing on existing academic studies. It found that EU aid is sensitive to forced displacement pressures and that the EU has in fact been increasingly targeting its aid, particularly since the mid-2000s, on the 31 countries that host or are at the origin of about 90% of the refugees and IDPs living in low- and middle-income countries. But the response of EU aid to forced displacement, like that of other donors, has been much stronger in the case of humanitarian aid than in the case of long-term development aid, resulting in a marked increase in the share of humanitarian aid in total aid to those countries. There is, therefore, substantial scope for rebalancing the mix of aid to those countries in a manner consistent with the new approach to refugee protection.

The book also examined the geographical allocation of ODA among the main developing country regions and found that the EU is clearly prior-

itizing SSA and, although to a lesser extent, the MENAT region. The share of MENAT in total aid has increased markedly since the beginning of the decade (largely reflecting the refugee migration crisis originating in that region) and this has mostly been financed by a decline in the share of SSA and, to a lesser degree, Asia. It was argued that although SSA remains substantially overrepresented in aid terms compared with its share in migration stocks in the EU, this seems broadly appropriate given the strong future migration potential of this region and other considerations. But for this strategy to work, the EU must restructure its aid mix to SSA, and to developing countries more generally, along the guidelines just mentioned. Otherwise, the very large aid flows that the EU is providing to SSA, which some have characterized as a new Marshall Plan, will encourage rather than discourage migration pressures from SSA, while taking away finance from other priority regions and countries. The book also argued that there is a case, on migration grounds, for increasing the share of EU ODA directed to Eastern Europe and the Western Balkans.

The role of the EU institutions and the new MFF

The book then looked at the particular role being played by the EU institutions, noting that their aid policies have largely contributed to the trends in total EU aid, both in terms of an improved targeting on the top displacement countries and regarding the geographical allocation of aid. The EU budget has been making an important effort over the last few decades to increase the share of expenditure devoted to international aid, while EU countries have been increasing the share of GNP they devote to ODA, consistent with the SDGs. This has increased the capacity of the EU to use external assistance as a policy tool for migration policy. The new MFF proposed by the Commission for 2021-27 maintains this strategic direction by foreseeing an additional (moderate) increase in the share of resources dedicated to external action (including the EDF), at a time when the EU budget will lose the substantial net contribution from the UK. The proposed creation of the NDICI (which also implies the budgetisation of the EDF) and the important share of its resources devoted to the thematic, rapid response and emerging challenges pillars (some of which specifically mention migration as a priority)

will increase the EU's flexibility and capacity to respond to emergencies such as refugee crises. All this bodes well for the potential to use the external assistance heading of the EU budget to support migration and refugee policy. But the proposal implies a further shift in resources towards SSA, which would increase its overrepresentation beyond what an optimal regional allocation of the EU's would suggest.

Suitability of the EU's financial toolkit and other multilateral facilities for migration policy

The book took stock of the arsenal of EU external financial instruments that are directly relevant for migration and refugee policy. Decisions taken in recent years in response to the migration and refugee challenge have considerably strengthened this arsenal, not only in terms of the volume of resources available but, perhaps more importantly, in terms of the design of the instruments. Indeed, new instruments, such as the trust funds or facilities for Africa, the Syrian refugee crisis and Turkey, the EIB's Resilience Initiative and the EEIP, have been created with a migration or refugee management objective in mind. Moreover, they are in part aimed at bridging the gap between humanitarian and development assistance and are partly focused (some more than others) on strengthening public services of host communities and providing real livelihood opportunities to refugees and other potential migrants. Some of them also have the advantage of allowing the EU to act in a swifter, more flexible and better coordinated manner. The MFA instrument has also been appropriately reinforced in the context of the mid-term review of the 2014-2020 MFF and some recent operations have either been in part justified by the macroeconomic impact of the Syrian refugee crisis (the two recent MFA operations for Jordan) or/and have included conditionality related to the situation of refugees (Jordan) or IDPs (Ukraine). Moreover, at the global level, a number of relevant multilateral facilities have been set up, with the support of the EU, to respond to the refugee crisis, including the GCFF, the IDA's refugee window and the EBRD's Community Resilience initiative, which are also consistent with the developmental approach to refugee protection. These are all welcome steps.

There is substantial scope, nonetheless, for fine-tuning these facilities and the book made a number of concrete recommendations to that

effect. Regarding the new trust funds and the FRT, while they have been successful in earmarking an important volume of funds toward refugee and migration priorities and have helped react quickly to the refugee crisis and improve coordination, contributions from other donors (notably from EU countries) have been disappointing, as illustrated again by the difficult debate on the renewal of the FRT. Also, their temporary nature casts a shadow over their future. Moreover, some institutions or observers (including the European Parliament and the European Court of Auditors) have expressed concerns about democratic scrutiny or possible conflict of interest. One option to consider is to return back to normality by reincorporating the work of these facilities into the ordinary instruments and procedures in the context of the new MFF. But the risk is that this will harm the mobilisation of funds towards their objectives as well as operational flexibility and coordination. A reasonable alternative is to maintain them as separate facilities while trying to attract more contributions from other donors. Whatever the option chosen, there is scope for making their migration-related interventions less defensive and more developmental. Also, the conditionality of their programmes to commitments by recipient countries to facilitate access of the refugees to their labour markets and public services could be strengthened.

Regarding the EIB's ERI and the EEIP, it is essential that they truly concentrate their investments on the most vulnerable countries rather than on those with most profitable markets and large absorption capacity. Also, financiers from outside the EU should be given more opportunities to act as lead managers in the EEIP so as to bring in their expertise in migration- and refugee-related projects. Furthermore, EU countries should make more substantial financial contributions to the EEIP, as the Commission had initially envisaged. Concerning MFA, the EU should consider enlarging its normal geographical scope, to allow operations in excluded regions that are essential for migration policy, such as SSA.

As for the multilateral facilities, their focus on refugees' self-reliance and host communities is appropriate and they benefit from the experience and comparative advantage of the participating MDBs. But their targeted size remains modest, even taking into account that some of them are

supposed to act by triggering private investment, and actual donor contributions have in some cases not even reached the targeted amount. The EU should consider increasing its contributions to the GCFF and the EBRD's Community Resilience scheme, which are performing well. Indeed, the EU's limited (symbolic in the case of the GCFF) financial contributions to these facilities seem at odds with the priority its attaches to migration and refugee issues. At the same time, the GCFF should enlarge the geographical scope of their activities, which has so far been excessively focused on Jordan and Lebanon despite its new global remit. The EBRD, for its part, should include Lebanon in its refugee package, now that it has become a country of operations, and possibly other countries.

Climate finance and remittances

The book argued that, with climate change expected to increasingly contribute to forced displacement and (in combination with other factors) to economic migration, notably in poor and fragile countries, climate finance to developing countries is becoming of growing relevance for migration policy. It was shown that the EU and other developed countries have been making an impressive effort to increase the share of their climate change-relevant development finance, consistent with the commitments made at the UNFCCC. Indeed, the EU has been leading this effort. But climate finance to developing countries (including that of the EU) has been excessively focused, so far, on mitigation as opposed to adaptation. From a migration management point of view (but also more generally), it would be important to correct this excessive bias since adaptation increases the resilience of poor countries to climate change, thus easing pressures for displacement and economic migration. There is also scope for improving the geographical orientation of climate-related development finance, which has so far been directed disproportionately to Asia. While this is in part understandable, because Asia accounts for a large share of GHC emissions as well as of forced displacements caused by climate-related natural hazards, some reorientation towards the poorest and most vulnerably countries (notably towards SSA) seems warranted. The excessive focus on mitigation and Asia is particularly evident for the climate-related development finance provided by MDBs, espe-

cially by the EIB and the EBRD.

The EU should also step up its efforts to reduce the cost of transferring international migrant remittances. Remittances have increased markedly over the last few decades and are already four times larger than ODA flows. While the evidence on the impact of remittances on economic development is mixed, remittances tend to play a stabilizing and social safety net role from the point of view of recipient countries, which can help moderate migration flows. And although in the short-term remittances may encourage migration in relatively poor countries by easing credit constraints and through their powerful network effects, they can help potential migrants reach, over time, the income threshold beyond which the propensity to migrate starts to decline. The EU should therefore continue to work with its international partners, notably within the G-7 and G-20, to meet the SDG targets on the reduction of the cost of sending remittances, and the even more ambitious targets it agreed for Africa at the Valletta Summit. This could include measures to increase competition among MTOs and other financial intermediaries, support the use of digital technology such as smartphones and internet transfers among migrants and simplify AML/CFT regulations for small-value transfers. EU countries should also promote the harnessing of migrants savings to finance development in their home countries, for example by facilitating investment in diaspora bonds or the repatriation of capital to finance productive investments. At the same time, they should refrain from taxing remittances.

Towards a new approach for external financial assistance and refugee protection

A main theme of this book is that aid will be more effective as a migration policy tool if it is part of a wider, more comprehensive strategy entailing the cooperation of recipient countries, notably in the context of so-called migration or refugee compacts. In the case of refugee policy, this is exactly the approach advocated by the recent literature and enshrined in the UN's CRRF.

While the EU has enthusiastically and faithfully followed this approach in the context of the EU-Jordan Compact (with only partial success so far), other bilateral cooperation frameworks such as the Partnership Framework, the EU-Turkey

Statement and the cooperation with Libya fall short of what is needed. The book argued that these other initiatives have been overly focused on “defensive policies” such as cooperation on border management, the fight against irregular migration and returns, and not sufficiently on the creation of livelihood opportunities for potential migrants or refugees. Nor have sufficient policy and regulatory commitments been obtained on the part of partner countries in exchange for the EU's increased aid. The EU should do more to target the assistance to these countries on the improvement of local public services, governance and security, which often act as push factors for migration, and to the promotion of the economic self-reliance of refugees and potential migrants. It should also increase the conditionality of this assistance to measures by recipient countries in support of refugees' economic integration. The commitments made by some SSA countries in the context of the UN's new CFRR provide an excellent terrain for putting in practice this new approach, with the Jobs Compact for Ethiopia being a case in point.

Concluding remarks

The EU has gone a long way over the last ten years to make its external assistance more sensitive to migration, including (even if this was not the main intention) by markedly expanding the volume of resources that it devotes to climate change-related projects. And it has strengthened and diversified its toolkit of migration-relevant external financial instruments, including by supporting new facilities managed by multilateral banks. It has also reinforced its cooperation with third countries on migration and refugee matters. This is all going in the right direction. But aid is unlikely to ease migration pressures, and might actually be counterproductive, if it is not properly designed and carefully allocated geographically so that it truly addresses the root causes and origins of migration and elicits the right type of cooperation on the part of beneficiary countries.

Moreover, even if implemented in this way, aid should not be expected to be a panacea for solving the migration and refugee crisis. The underlying forces driving migration are too engrained and complex and there is no silver bullet to deal with them. If part of a comprehensive strategy, however, aid can make a useful contribution to resolving the migration and forced displacement

challenge Europe and the world are experiencing.

This comprehensive EU strategy should also encompass, in the author's view, the opening of new legal pathways for migration to the EU, so as to produce a shift back from irregular to regular forms of entry, measures to facilitate migrant and refugee integration in the EU and the adoption of a new common asylum system, guided by the principles of solidarity and effectiveness. While the common thread of this book is how external financial assistance can be used to ease migration and refugee pressures at their root, its recommendations should not be seen as an attempt to "keep the migrants away" while building a "fortress Europe" for migrants. Nor should they be interpreted as reflecting a negative perception of the implications of immigration for European society. Rather, the proposed approach is aimed at easing migration pressures while providing real livelihood alternatives to migration for both potential migrants and refugees, who often prefer to stay at home or close to home, and supporting the economic development of their countries of origin and first asylum.

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Annexes

Annex 1: Top 20 refugee hosts among low- and medium-income countries (as of end-2016)

Countries	Refugees
1. Turkey	2.869.421
2. Jordan	2.860.688
3. West Bank & Gaza Strip	2.158.274
4. Lebanon	1.476.633
5. Pakistan	1.352.560
6. Iran (Islamic Rep. of)	979.435
7. Uganda	940.835
8. Ethiopia	791.631
9. Syria	562.823
10. Congo (Dem. Rep.)	451.956
11. Kenya	451.099
12. Sudan	421.466
13. Chad	391.251
14. Cameroon	375.415
15. Tanzania (United Rep. of)	281.498
16. Bangladesh	276.207
17. Yemen	269.783
18. South Sudan	262.560
19. Iraq	261.888
20. Egypt	213.530
Total countries above	17.648.953
Share in refugee population of:	
low- and middle-income countries	87,9%
the world	78,3%

Source: UNHCR, Global Trends 2016, 2017.

Note: Refugees and people in refugee-like situations as estimated by UNHCR. Includes 5.3 mn of Palestinian refugees under UNRWA's mandate. Excludes China, which hosts, according to UNHCR data, 317,255 refugees, most of which are well-integrated Vietnamese citizens receiving protection from the Chinese government.

Annex 2: Top 20 sources of displacement among low- and medium-income countries (as of end-2016)

	Refugees ¹	IDPs ²	Total displaced
1. Syrian Arab Rep.	5.524.377	6.326.000	11.850.377
2. Colombia	311.062	7.246.000	7.557.062
3. Palestine	5.397.796	193.000	5.590.796
4. Aghanistan	2.501.445	1.553.000	4.054.445
5. Iraq	316.030	3.035.000	3.351.030
6. Sudan	650.640	3.300.000	3.950.640
7. South Sudan	1.436.719	1.854.000	3.290.719
8. Congo (Dem. Rep.)	537.473	2.230.000	2.767.473
9. Somalia	1.012.323	1.107.000	2.119.323
10. Nigeria	229.311	1.955.000	2.184.311
11. Yemen	18.452	1.974.000	1.992.452
12. Ukraine	239.075	1.653.000	1.892.075
13. Turkey	57.925	1.108.000	1.165.925
14. Myanmar	490.289	644.000	1.134.289
15. Central African Rep.	490.892	412.000	902.892
16. India	7.291	796.000	803.291
17. Azerbaijan	10.112	582.000	592.112
18. Pakistan	105.428	464.000	569.428
19. Burundi	408.085	59.000	467.085
20. Eritrea	459.430	n.a.	459.430
Total countries above	20.204.155	36.491.000	56.695.155
Share in displacement originating in:			
low and middle-income countries	89,7%	91,2%	90,7%
the world	89,7%	90,5%	90,2%

Sources: For refugee data, UNHCR, Global Trends 2016, 2017. For IDP data, IDMC (2017a).

(1) Refugees and people in refugee-like situations as estimated by UNHCR. Includes 5.3 mn of Palestinian refugees under UNRWA's mandate.

(2) Includes only people internally displaced due to political conflict and generalised violence.

**Annex 3: External action heading: 2014-2020 MFF and 2021-2027 MFF compared
(Commitment appropriations - EUR million in current prices)**

2014-2020 MFF		Proposed 2021-2027 MFF	
		NDICI	89,200
Main geographic instruments:	50,589	Geographic pillar:	68,000
Development Cooperation Instrument	19,966	Sub-Saharan Africa	32,000
European Neighbourhood Instrument	16,864	Neighbourhood	22,000
Instrument for Pre-accession assistance	12,799	Asia and the Pacific	10,000
Partnership Instrument	960	Americas and the Caribbean	4,000
Main thematic instruments of political nature	5,721	Thematic pillar:	7,000
European Instrum. for Democracy and Human Rights	1,302	Human rights and Democracy	1,500
Instrument Contributing to Stability and Peace	2,353	Stability and Peace	1,000
Common Foreign and Security Policy	2,066	Civil Society Organisations	1,500
		Global challenges	3,000
Humanitarian aid	9,078	Rapid response pillar	4,000
Loan/grant/blend-based instruments	1,657	Emerging challenges and priorities pillar	10,200
Guarantee Fund for external actions	1,101		
European Fund for Sustainable Development	350	Instrument for Pre-Accession	14,500
Macro-Financial Assistance grants	206	Humanitarian aid	11,000
Other	1,256	Common Foreign and Security Policy	3,000
Margin	-1,987	Overseas Countries and Territ. (incl. Greenland)	500
Total Heading 4 ("Global Europe")	66,314	Other	1,519
		Margin	3,283
		Total Heading 6 ("Neighbourhood and the World")	123,002
<i>Memorandum items:</i>			
European Development Fund (EDF)	28,207		
Heading 4 + EDF	94,521		

Source: European Commission



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