

Billions less for development?

Analysing drivers and consequences of possible 'zero growth' scenarios for the 11th European Development Fund 2014 – 2020

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Background

In times of austerity in Europe, governments have been forced to impose cuts in public spending at home as a result of the economic crisis, with truly noticeable effects for their populations. In light of this, the question has surfaced as to whether taxpayers' money should now be spent on contributing to an increase in the EU budget, and/or to increasing - or even maintaining of - levels of ODA (Official Development Assistance) spending.

The UK, together with Germany, France, the Netherlands and Finland, wrote in a letter to President Barroso that "European public spending cannot be exempt from the considerable efforts made by the Member States to bring their public spending under control" (Cameron et al, 2010). This position was reaffirmed in January 2012 when UK, Germany, Austria, the Netherlands, and Sweden (all net contributors to the EU budget) said that the Commission's Multiannual Financial Framework (EU budget) proposal needs to be cut by €100 billion (Brand, 2012). France, Finland and the Czech Republic, also stated that the Commission's proposal was too high, but did not specify what amount of reduction they were seeking. Others contend that looking at the size of the EU budget in a historical perspective, the proposed EU budget is actually not increasing.² While all these perspectives are part of the usual posturing in a negotiating process, they do offer some indication of trends and positions.

In a response to the changing political and economic environment, the overarching trend is currently a decrease in, or freeze of, development budgets in the European Union³, with some exceptions⁴. In addition

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² They argued that after a period in the nineties, when EU spending did go up, reaching a peak in 1993, expenditure (as a percentage of GNP/GNI) has gone down significantly (Wynn, 2004). In contrast to the 1.18% of GNP spent in 1993 (Wynn, 2004), payments foreseen in 2012 are 0.98% of GNI² (European Commission, 2012).

³ 13 out of the 27 countries, namely Italy, Greece, Spain, Ireland, the Netherlands, Sweden, Latvia, Poland, Romania, Hungary, Lithuania, Slovenia and Malta, decreased their aid levels as a percentage of GNI in 2010 compared to 2009

to this, there is a tendency of wanting to repatriate spending to the national level (The Courier, 2011), particularly by those who are net contributors to the EU budget, and by those with governments that could be characterised as Eurosceptic. The debate on changes in development funding is not only a result of the economic environment, but also a deeper frustration about Europe. There has been a rise in Euroscepticism, and a declining level of trust in the EU (European Commission, 2011c). This scepticism, coupled with the aforementioned question of the best use of tax payers' money, is manifested through an increasing number of bilateral evaluations of EU aid (for example upcoming Dutch review of the EDF, and an upcoming evaluation of EU Aid by the Independent Commission for Aid Impact). However, the added value of EU development aid is highlighted in for example UK's Multilateral Aid Review (DFID, 2011).

There are several countering forces within the EU to those Member States who want to impose austerity on the EU budget. In December 2011, the European Commission's proposed an increase in contributions for the 11th European Development Fund (EDF) (European Commission, 2011b, Kilnes, U. et al. 2012). Also, the President of the European Parliament (EP) Martin Schultz recently stated that the EP will not accept less money for the European budget (European Parliament, 2012). Although the European Commission has proposed an increase in the total amount for the 11th EDF, a number of EU Member States (Austria, Netherlands, Sweden, UK, Germany, France and Finland) (European Parliament, 2012)(Cameron et al, 2010) are advocating for no real growth in any area of EU expenditure, which would presumably include the EDF (Mahony, H. 2012). Yet in May 2011, the EU again strongly reaffirmed its financing for development targets (Council of the European Union, 2011), but EU Member States' efforts to impose 'austerity' on overall EU expenditure may also have a bearing on the financial resources available for EU development spending in the future, both in and outside the budget, unless appropriate safeguards are negotiated. There are those within the EU who are therefore struggling to reconcile their stated values (increasing levels of ODA) with their stated political and economic interests (reducing the size of EU expenditure). This issue is compounded by the fact that those officials who sign up to development financing targets are not necessarily the same ones negotiating the overall budget, since Foreign Ministers (and at times Junior Ministers for Development Cooperation) sign up to the ODA targets while Ministers of Finance lead the negotiating processes for EU budget. Overall, these "double standards" of EU Member States saying one thing while doing another do not go unnoticed in developing countries.

Current drivers for rethinking levels of development financing are not only based on considerations of cutting public spending. In the Busan Partnership for Effective Development Cooperation, the outcome of the Fourth High Level Forum on Aid Effectiveness, it is stated that although leaders in Monterrey a decade ago recognised that increases in volumes of financing for development must be coupled with effective action to generate sustainable and transparent results, the process has been "uneven and neither fast nor far-reaching enough" (Busan Partnership for Effective Development Cooperation, 2011:p.2). Leaders committed to strengthening efforts to achieve concrete and sustainable results and to managing for results, or as EU Development Commissioner Piebalgs puts it; "every euro we spend delivers at least a euro of results on the ground and more opportunities" (Piebalgs, 2011). These political pressures for results in public financing generally are also increasingly applied to the EU budget. UK, together with Germany, France, the Netherlands and Finland wrote in a letter to President Barosso that "The challenge for the European Union in the coming years will not be to spend more, but to spend better" (Cameron et al, 2010). This overarching reality will put pressure on all EU spending, including that for development, to show results. It is hoped that it would lead to an increased focus on the quality and impact, rather the quantity of aid being delivered. However, a clear subtext to this discussion is that if results cannot be delivered and shown, then it is difficult to justify increased spending.

In light of the aforementioned issues, this briefing note will analyse how efforts to reduce the size of overall EU expenditure 2014 – 2020 could possibly affect the amounts available for the EU's largest development financing instrument, the European Development Fund⁵.

(Concord, 2011). 4 out of 27 countries, namely Cyprus, Czech Republic, Estonia and Slovakia, froze their aid levels as a percentage of GNI in 2010 compared to 2009 (Concord, 2011).

⁴ 10 out of the 27 countries, namely Luxembourg, Denmark, Belgium, France, UK, Finland, Germany, Austria, Portugal, and Bulgaria, increased their aid levels as a percentage of GNI in 2010 compared to 2009 (Concord, 2011).

⁵ The European Development Fund (EDF) covers the countries of the African, Caribbean and Pacific (ACP) group and Overseas Countries and Territories (OCT). The EDF has historically been outside of the EU budget, and is separate from the Development Cooperation Instrument which sits within the EU budget Heading IV and whose geographic elements concentrate mainly on Asia and Latin America.

What could zero growth mean for the 11th EDF?

'Zero growth' is one of the key terms being used by those negotiating the EU budget and associated EU expenditure, including the EDF. When exploring different definitions of what 'zero growth' might mean, several scenarios can be envisaged in which the size of the 11th EDF 2014-2020 would differ substantially from the current proposed total amount of €34.276 billion. It is unlikely that the outcome of the negotiating process would be a strict adoption of 'zero growth' equally across all elements of the budget and associated expenditure like the EDF, but by looking at what could be meant by "zero growth", an understanding of the scale of potential 'cuts' could be gained.

Assuming that those who refer to a 'zero nominal growth' scenario do so in terms of total amount, this would mean that the amount available for the 11th EDF in 2014 prices would be €25.457 billion, as opposed to the €34.276 billion proposed by the Commission in December 2011 (European Commission, 2011b). This figure does not take into account that the 11th EDF covers one additional year than the 10th EDF did. If instead aiming to keep the annual nominal EDF amount constant from the 10th to 11th EDF, the total amount for the 11th EDF in 2014 prices would be €29.7 billion, as opposed to the €34.275 billion proposed by the Commission.

Table 1: Different scenarios for the size of the 11th EDF – no nominal growth

Scenarios	Total amount (in 2014 prices)	Reductions compared to the EC's proposal (in 2014 prices)
Proposed 11th EDF	€ 34,275,600,000	
11th EDF if zero growth in nominal terms Keeping the total amount constant	€22,682,000,000	€ 11,593,600,000
11th EDF if zero growth in nominal terms Keeping the per year amount constant	€26,462,333,333	€ 7,813,266,667

These numbers do however not take into account inflation, which is an important factor to consider since inflation erodes the value of the contributions over time. If we therefore assume that some EU Member States are advocating for keeping the actual purchasing power of the EU budget and EDF funds in a given year constant, this would refer to a scenario of zero *real* growth.

Assuming that EU Member States refer to a 'zero real growth' scenario in terms of total amount, this would mean that the amount available for the 11th EDF in 2014 prices would be €25.457 billion, as opposed to the €34.276 billion proposed by the Commission. Again, this figure does not take into account that the 11th EDF covers one additional year than the 10th EDF. If instead aiming to keep the annual EDF amount constant from the 10th to 11th EDF, the total amount for the 11th EDF in 2014 prices would be €29.7 billion, as opposed to €34.275 billion proposed by the Commission.

Table 2: Different scenarios for the size of the 11th EDF – no real growth

Scenarios	Total amount (in 2014 prices)	Reductions compared to the EC's proposal (in 2014 prices)
Proposed 11th EDF	€ 34,275,600,000	
11th EDF if zero growth in real terms Keeping the total amount constant	€ 25,457,359,740	€ 8,818,240,260
11th EDF if zero growth in real terms Keeping the per year amount constant	€ 29,700,253,031	€ 4,575,346,969

So in sum, 'zero nominal growth' applied to the EDF could in practice mean between €7.8 and €11.6 billion less for ODA to ACP countries, while 'zero real growth' could mean between €4.6 and €8.8 billion less.

However, as previously mentioned, the amounts are not the only factor that will matter in terms of development outcomes with the increased focus on the quality, rather the quantity of aid being delivered. In reality, the definition of 'zero growth' itself as well as the details of individual Headings and instruments of EU expenditure - either inside or outside the budget - may not be so clear cut and are of course subject to negotiation.

What could happen to the proposed 11th EDF?

The EU commitment of spending 0.7% of GNI on ODA remains and the development need in the ACP will be no less pressing in the coming years, yet whether this will be enough to 'protect' the EC's EDF proposal in light of the wider dynamics remains to be seen. If those proposing to increase or keep the EU spending at the proposed level prevail, then there would be less pressure to reduce the EDF and this is one scenario.

While the size of the EDF may be affected by overall discussions on the EU expenditure, it is also important to note that despite the declining interest among EU Member States in ACP-EU cooperation, the EC deemed it opportune to propose to keep the EDF outside the EU budget until 2020 and prepare for more radical changes after 2020.⁶ The European Commission's statement in the Communication 'A budget for Europe 2020' (European Commission, 2011a) that 'it was not appropriate at present time to propose the EDF to be integrated into the EU budget' has been interpreted by some as a move to avoid a reduction in the total amount of EU development cooperation⁷. Continuing to keep the EDF outside the EU budget could give some hope that it would be relatively protected from pressure by certain Member States to reduce EU spending overall, yet it is no guarantee.

If the EDF was budgetised, the challenge would also be to keep the proposed size, either in relation to other components of Heading 4 (Global Europe), in relation to other headings, or to the budget altogether. Assuming that the total amount for the EDF would remain at the original proposed level of €34.276 billion if the EDF was integrated into the overall budget would seem like a highly unlikely scenario. While it is technically still possible to budgetise the EDF and maintain, or increase, the EDF resources inside an EU budget with zero growth overall, this would mean that other items (either inside or outside Heading 4) would have to be reduced, implying significantly harder negotiations on the details of the EU budget in which those negotiating would have to put development issues and resultant spending ahead of other areas of expenditure which would have to be cut. This would require strong political champions for the ACP and development issues more generally among those at the negotiating table, with plenty of ammunition to counter the wider trends.

⁶ The legally binding Cotonou Partnership Agreement comes to an end in 2020. ECDPM has a forthcoming briefing note on this issue; Geert Laporte. 2012. What future for the ACP and the Cotonou Agreement? Preparing for the next steps in the debate. ECDPM Briefing Note 34. Maastricht: ECDPM.

⁷ For more analysis on this, see Mackie, J., Goertz, S. and Q. de Roquefeuil. 2011. Questioning Old Certainties: Challenges for Africa-EU relations in 2012 (Policy and Management Insights 3). Maastricht: ECDPM.

Conclusion

Ultimately, what will happen to the total amount of the Commission's 11th EDF proposal remains to be seen. Ideally, the negotiations on the size of the EDF could contribute to informed discussions on the merits and challenges of getting the best out of EU development spending and the ACP-EU partnership. Unfortunately, it seems more likely that a discussion on the 11th EDF will mostly be in relation to who contributes what share of the overall EU expenditure (either inside or outside the budget). That is to say that many Member State officials consider the total amount to be paid towards both the EU budget and EDF when making strategic calculations on their negotiation positions. While every Euro is likely to be a point of negotiation in the overall scheme of things, EU spending on development only represents a very small part of total EU expenditure, and development spending does not traditionally constitute an area of spending which has been at the forefront of negotiations⁸.

As these negotiations are led by Finance Ministries, appropriate sensitisation and political prioritisation of development, ACP issues and the stakes at hand will need to be undertaken. Any significant reduction in ODA from the Commission's proposed budget 2014-2020 and 11th EDF could not only impair the ability to achieve the goals that the EU has set out for itself, but also undermine its standing as a leading development advocate and a reliable development partner with the ACP and beyond. As we move towards the 2015 Millennium Development Goal (MDG) deadline and a post-MDG debate, Europe would lose some credibility in this area if it were to reduce its financial commitments. Yet it is Europe and its development partners together who are responsible for impact and results. If the EU is able to spend better, rather than simply more, and Commissioner Piebalgs's statement that "every euro we spend delivers at least a euro of results on the ground and more opportunities" (Piebalgs, 2011) holds true, a decrease in spending on development cooperation might not necessarily lead to a decrease in development results.

The process of budget negotiations with the EU Member States, the Commission, and the European Parliament should be concluded in 2013. Key stakeholders in ACP-EU development cooperation, such as EU Member States, DG DEVCO, the EEAS, the European Parliament, ACP governments and key non-state actors, will stand to benefit from closely following the debates on both the overall size and distribution of the EU's budget as well as the EDF.

Further financial analysis of the proposed 11th EDF is available in ECDPM's Briefing Note no 29, where the proposed 11th EDF contributions are analysed by accounting for factors such as inflation, population size, size of the economy, and numbers of years covered by the 11th EDF. This analysis provides a more accurate value of the proposed contributions and allows for different ways of comparing contribution shares of Member States.

⁸ Larger budget areas such as the Common Agricultural Policy and the Cohesion Funds as well as various Member States' reductions and rebates have usually been at the forefront of negotiations.

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