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EU budget surprise: Member States proposing budgetisation of the EDF

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Out of the blue, and in a reversal of previous positions, a significant number of European Member States have begun advocating for the European Development Fund to be incorporated within the main EU budget – not in 2021, as previously discussed, but as early as 2014, when the new Multi-Annual Financial Framework comes into force. Is this some kind of conversion to rational analysis? A device to reduce spending through Brussels? Or a clever negotiating strategy designed to achieve something else entirely?

The proposal being made is to change current practice, whereby the European Development Fund (EDF) is financed outside the EU budget. The rationale for the current procedure is that the EDF is an instrument of the Cotonou Agreement between the EU and 78 developing country members of the African, Caribbean and Pacific Group, the ACP. The size of the EDF is decided unilaterally by the EU, rather than negotiated with the ACP, but is governed by rules and procedures laid down in the Cotonou Agreement. As a result, and unlike the main EU budget, it is not subject to the approval or scrutiny of the European Parliament (EP). Thus, for example, the EP reviews and approves the Regulation governing the Development Cooperation Instrument (DCI), which is funded through the EU budget, but has no such remit with regard to the EDF Regulation.

The resources involved are not trivial. The EDF accounts for about one third of official aid from the European Commission with a higher percentage of EDF funds destined for low income countries, compared to the EU budget. As Table 1 shows, the Commission proposes to increase the size of the EDF by 13% for the period 2014-20, to a total of €30.3bn in 2011 prices.

No official announcement has been made about the negotiating position of various Member States. However, unofficially, it appears that Germany, the Netherlands, Sweden and the UK, among others, in favour of changing the rules and budgetising the EDF. DFID's junior Minister, Stephen O'Brien, confirmed the UK position at a Select Committee hearing in the House of Commons on 6 March.

From a rational analysis position, it might be argued that bringing extra-budgetary funds into the main Multi-Annual Financial Framework (MFF) clarifies overall resourcing and resource allocation, and improves parliamentary control and scrutiny. The European Parliament has long taken this view. It does not make much sense, after all, to discuss the overall size of the EU budget, and particularly of Heading 4, which deals with external affairs, without taking account of the EDF. Nor can it be easy to discuss the allocation of external affairs funding, when a significant pot of extra money is kept outside the discussion. The EDF is not the only extra-budgetary amount Member States are asked to agree. A total of €58bn has been proposed by the Commission, equivalent to about 5% of the MFF total. Member States can be forgiven the suspicion that, the EDF aside, this is a device to side-step constraints on the size of the budget.

On the other hand, there are reasons why the EDF has been kept separate, and why bringing the EDF into the budget is not without cost. The Cotonou Agreement establishes principles and criteria governing aid, and also dispute resolution mechanisms which have been agreed with the ACP countries. It also provides a role for a joint EU-ACP Council of Ministers and a joint EU-ACP Parliamentary Assembly. In that sense, it exemplifies a model of joint ownership and mutual accountability which does not apply to the EU budget, nor to the aid of other donors. This model could be undermined if the EDF were budgetised: in principle, the rules could be transferred across, but the European Parliament would acquire new rights over the EDF which could complicate traditional relationships and ways of working. That is the reason why some have argued in the past for 'EDF-isation of the budget', to embed the principle and practice of mutual accountability in the heart of the budget.

An alternative to an argument based on budgetary coherence is the possibility that budgetisation is being proposed in order to reduce the amount of money being spent through Brussels. The context would be the desire of some Member States to hold overall EU budget expenditure down at a time of fiscal stringency. In December 2011, David Cameron was reported to have agreed with President Sarkozy and Chancellor Merkel to press for the EU budget to be frozen in real terms at the

Table 1: European Commission Financial Proposals for Heading 4 (External Action), 2014-20

	2007 - 2013 MFF	**2014 - 2020 MFF**	**Growth 2014-2020 vs 2007-2013 (2011 prices)**
Name	**Fin programming Dec 2011 (2011 prices)**	**2011 prices**	
Common foreign and security policy	2,065,631,000	2,510,000,000	22%
Civil Protection Financial Instrument	37,314,000	210,000,000	463%
Development Cooperation Instrument	17,254,379,504	20,596,900,000	19%
European Instrument for Democracy and Human Rights	1,156,993,400	1,400,000,000	21%
European Neighbourhood and Partnership Instrument/European Neighbourhood Instrument	13,066,801,703	16,096,900,000	23%
Facility for rapid response to soaring food prices in developing countries	996,520,000		
Cooperation with Greenland	195,383,140	193,000,000	-1%
Humanitarian Aid	6,143,310,500	6,405,000,000	4%
Cooperation with industrialised and other high-income countries and territories / Partnership Instrument	302,619,000	1,000,000,000	230%
Instrument for Stability	1,766,895,000	2,510,000,000	42%
Instrument for Nuclear Safety Cooperation	519,007,882	560,000,000	8%
Instrument for Pre-Accession Assistance	11,551,803,450	12,519,500,000	8%
Guarantee Fund for external actions	863,320,000	1,256,700,000	46%
Macro Financial Assistance	482,515,476	593,200,000	23%
European Voluntary Humanitarian Aid Corps	7,000,000	210,000,000	2900%
Agencies		137,000,000	
Margin		995,000,000	
Other		3,000,000,000	
	56,409,494,055	70,000,200,000	24%
European Development Fund - OFF BUDGET	26,930,000,000	30,319,000,000	13%

Source: European Commission

“In the ‘worst case’, spending on the EDF might be merged into the budget at the same time as spending on Heading 4 is frozen and spending on non-development instruments is protected. In this case, there could be a sharp fall in development spending, by up to the total value of the EDF - a potential decrease of 30%”

at the 2013 level. The limit might not apply to individual Headings or budget lines: for example, spending on the Common Agricultural Policy (CAP) might be reduced in order to increase external spending; or spending within Heading 4 might be re-allocated from the Instrument for Pre-Accession Assistance (IPA) to the DCI. In the ‘worst case’, however, spending on the EDF might be merged into the budget at the same time as spending on Heading 4 is frozen and spending on non-development instruments is protected. In this case, there could be a sharp fall in development spending, by up to the total value of the EDF - a potential decrease of 30%. If the geographical allocations of the DCI and other ODA instruments like the Neighbourhood Instrument remained unchanged, there could be a significant loss to the poorer countries.

An outcome of this kind would matter a lot to the Commission, which could point out, correctly, that the EDF scores better on aid quality indices than the budget, for example in the UK’s Multilateral Aid Review. In principle, a smaller flow of money could be offset by changes in spending by national aid programmes, which are mostly fixed in size independently of the EU budget. But is there any guarantee that that would be the case? And would there also be costs if the share of the EU institutions in total EU aid spending, currently about 20%, were to fall? For example, would EU Delegations be able to play a significant role in policy dialogue and donor coordination at country level if their financial weight were diminished?

These considerations suggest some conditions that might be applied if the EDF were to be budgetised. For example, that:

- The mutual accountability provisions of the EDF are preserved;
- The poverty focus of EC aid spending is maintained or improved;
- The seven-year perspective and long-term planning framework of the EDF is maintained, independently of annual EU budget negotiations; and
- Overall aid spending by the EU institutions remains constant as a share of total EU spending.

These are demanding conditions, and Member States know this. Perhaps, then, there is another strategy at work, that Member States have proposed budgetisation of the EDF, knowing that the above conditions are unlikely to be met, and with the idea that they will drop the proposal in return for a concession on another part of the MFF chessboard. There might be a number of candidates for concessions, including spending on the CAP.
This is not a risk-free strategy, however, especially taking into account the fact that external spending is a relatively small and unimportant part of the overall budget, often settled late in the day (or, more usually, night) in Council negotiations. It is all too easy to imagine a scenario in which exhausted leaders just agree to budgetisation of the EDF without conditions and with no quid pro quo. Would that be a desirable outcome? Probably not.

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