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EU Development Cooperation Policy in the post-2020 Budget

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Negotiations of the EU's next multiannual financial framework (MFF) present an opportunity to reform European development cooperation policy and define the future role of the Union in the world. The most important issues to be resolved are the total amount of funds for Official Development Assistance (ODA) in the period, the shape of the aid instruments, and an update of the EU's main objectives in this area. Strengthening the Union's global influence requires maintaining high expenditures on ODA, simplifying and reducing the number of assistance programmes and focusing on areas where the EU brings added value.

With the publication of the European Commission's (EC) official proposal in May 2018, negotiations will begin on the EU's next multi-year budget that will begin after the end of the current MFF 2014–2020. Although the focus is on the distribution of funds for internal policies, the negotiations will also take up the future funds for Official Development Assistance (ODA). In the current MFF, expenditures for ODA account for nearly 90% of the €66.3 billion allocated for external relations (category IV—Global Europe), which amounts to 6.1% of the entire EU budget. In addition, about €30.5 billion is spent through the European Development Fund (EDF), an extra-budgetary instrument created from mandatory contributions from Member States and managed by the European Commission. This makes ODA the main EU tool in its external relations.

The bloc's development cooperation policy after 2020 must consider several key changes that have taken place since the last budget negotiations, primarily the adoption by the UN in 2015 of the Sustainable Development Goals (SDG) and the Paris climate agreement, which set a global framework for development cooperation. The Union also announced in 2016 a new Global Strategy for the EU's Foreign and Security Policy (EUGS), which places greater emphasis on the Union's strategic interests and strengthening the resilience of states and societies in its Eastern and Southern neighbourhoods and beyond. In 2017, the New European Consensus on Development was adopted, a development cooperation strategy that, among other things, confirmed that the EU and its Member States should jointly allocate a minimum of 0.7% of Gross National Income (GNI) to ODA. The Union must also adapt its assistance based on the likely changes from Brexit and the deterioration of the security situation in the EU's neighbourhood. Finally, the OECD plans to more broadly extend the definition of ODA to include private financing, preferential loans, costs in donor countries or support for peace and security.

Financing of Assistance. The EU is the largest donor of development and humanitarian aid in the world, responsible in 2016 for over 60% of global ODA. The EC's intention is to maintain ODA at a similar level in the next MFF to effectively respond to contemporary challenges such as mass-migration pressure, implementation of the SDGs and climate targets, and destabilisation of the EU's neighbourhood. An increase in funds for external relations was predicted in four out of five scenarios presented by the Commission in the June 2017 "Reflection paper on the future of EU finances." However, it may be difficult

to increase spending given the continuing savings policy in many countries and the loss of UK input because of Brexit.

The UK is the largest ODA donor in the EU, one of only five members that allocate 0.7% of GNI for this purpose, and the third-largest payer after Germany and France for EU aid (€2.2 billion in 2015). The British exit from the EU may leave a gap of 12-15% in the aid budget. Increasing or even maintaining the current level of financing would require replacement of the UK contribution by other countries or transfers from other budget categories. With objections expected from some Member States, it seems plausible that ODA spending will be reduced in proportion to the UK contribution. An alternative may be the introduction of a new source of budget income for this purpose, such as a tax on financial transactions.

The second important issue is the possible inclusion of the EDF in the general budget of the Union. This would be facilitated by the synchronisation of the MFF and the current, 11th edition of the EDF. In addition, the Cotonou Agreement governing EU relations with African, Caribbean and Pacific (ACP) countries, which gave the legal basis for the functioning of the EDF, expires in 2020. Including the EDF in the EU budget will depend on the negotiations with the ACP countries on a new agreement that will start in September this year. Budgetisation of EDF may not be the preferred option for the countries of Central Europe that joined the Union since 2004 and which, in the negotiations of the previous MFF, stated they feared such a change could lead to a reduction in expenditures on internal policies that benefit them. For example, Poland would lose discounts on payments to the EDF (it pays 2% of GNI to EDF, compared to 3% of GNI to the general budget).

Reform of Instruments and Priorities. The EU has nine main budgetary external financing instruments (EFI), a reserve for humanitarian aid and the extra-budgetary EDF. Also, innovative and more flexible mechanisms are increasingly used: special trust funds (such as for Syria, Turkey, Africa, Colombia) and blending instruments (e.g., Africa Investment Facility, External Investment Plan). The refugee and mass-migration crisis of 2015 showed that the Union needed instruments to respond quickly to unforeseen events. Such broad financial architecture, however, causes fragmentation of aid, duplication of instruments, higher transaction costs, and less transparency. An external evaluation of EFIs, carried out in 2017, positively assessed their overall adaptation to the challenges in 2014 but recommended they be updated in the new MFF. The EUGS also recommends greater flexibility in the financing of aid.

Therefore, the changes will go towards simplifying the current system, including limiting the number of EFIs. One proposal is the creation of a single global instrument for the implementation of the SDGs, which would replace at least two geographical tools: The Development Cooperation Instrument (DCI), mainly addressed to Asian and Latin American countries, and the EDF, intended for the ACP countries. It is also possible to create new tools to respond to current challenges, especially the special migration or peace and security instruments. One can also expect reforms of financial regulation to make the use of funds easier and more flexible. Innovative instruments will get a more prominent role to leverage significant private funding.

The final shape of the instruments and the allocation of funds will reflect the EU's foreign policy priorities. The main objective of development assistance (in line with the Treaty of Lisbon) will remain the elimination of poverty, but ODA will more closely be associated with the Union's political and security objectives. The EU will support the implementation of the SDGs, give more attention to climate protection, and focus on the poorest countries and humanitarian crises. Questions remain about such areas as the further functioning of separate instruments for assistance to neighbourhood countries, pre-accession aid, or support to promote democracy and human rights.

Conclusions. The discussion on the next budget and distribution of funds for individual EFIs will determine the EU's ability to act in the world in the coming years. Therefore, it is important that the budget for ODA should not be reduced because of Brexit. A recent paper from the EC proposes the allocation for external relations in the next MFF at over €100 billion euro, slightly higher than in the current period. That would help address growing challenges in the Union's neighbourhood (migration pressure, security crises). There is a risk, however, that some resources will be shifted from internal policies (cohesion, agricultural) to foreign and security policy. This would be unfavourable to beneficiary countries of structural funds. That is why Poland can support solutions that create additional EU sources of ODA. It should argue that the mere inclusion of EDF in the general budget will result in a loss of the discount and an increase in Poland's spending on EU aid.

Setting the new MFF also provides an opportunity to simplify the system of aid instruments (including setting up one SDG Instrument for the least-developed and fragile states), increasing its flexibility and linking it to the Union's strategic interests. For Poland, active participation in EFI reforms is an opportunity to have a real impact on shaping the EU's foreign policy. It can strive to maintain high support for neighbourhood countries and to address the root causes of migration and instability in Africa and the Middle East. Poland can propose that the Union's activities focus more on the areas where it can create added value, such as in supporting regional cooperation and integration outside Europe or better coordination of aid from Member States.