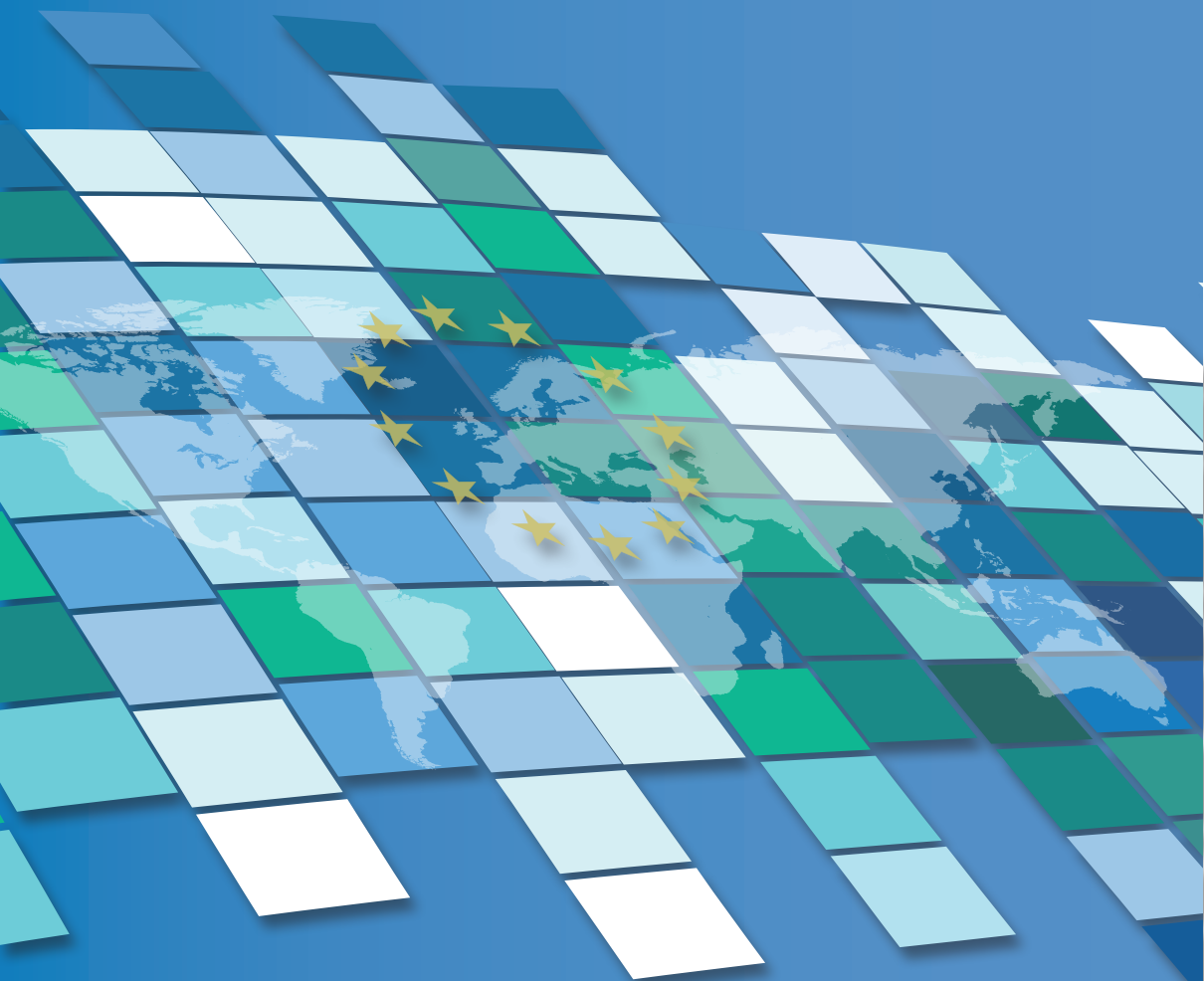


INVESTING IN EUROPE'S GLOBAL ROLE

The must-have guide for the negotiations of the
Multiannual Financial Framework 2021-2027



EDITED BY ANDREW SHERRIFF

ecdpm

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Multiannual Financial Framework
2021-2027

Edited by Andrew Sherriff

2019

Disclaimer

The views expressed are those of individual authors. This publication is based on work produced in 2017, 2018, and early 2019. Additional and new information on themes covered in this book can be found on ECDPM's website, <http://www.ecdpm.org>

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List of acronyms

AAAA	Addis Ababa Action Agenda
ACP	Africa, Caribbean and Pacific countries
AfD	Agence française de développement (French Agency for Development)
AfDB	African Development Bank
AFET	Committee for Foreign Affairs
AfIF	Africa Investment Facility
AIF	Asia Investment Facility
AIP	Africa Investment Platform
AMF	Asylum and Migration Fund
AMIF	Asylum, Migration and Integration Fund
AMIS	African Union Mission in Sudan
AMISOM	African Union Mission to Somalia
APF	African Peace Facility
APSA	African Peace and Security Architecture
AU	African Union
BMGF	Bill and Melinda Gates Foundation
BMVI	Border Management and Visa
CAP	Common Agricultural Policy
CARD	Coordinated Annual Review on Defence
CBSD	Capacity Building for Security and Development
CFSP	Common Foreign and Security Policy
CGD	Center for Global Development
CGEA	Commissioner's Group on External Action
CIF	Caribbean Investment Facility
CIR	Common Implementation Regulation
COAFR	African Working Party
COASI	Asia-Oceania Working Party
COLAC	Latin America and Caribbean Working Party
CONCORD	European NGO Confederation for Relief and Development
COREPER	Committee of Permanent Representatives of the EU member states
CPA	Cotonou Partnership Agreement
CSDP	Common Security and Defence Policy
CSO-LA	Civil Society Organisations-Local Authorities
DAC	Development Assistance Committee
DAC CRS	OECD Development Assistance Committee's Creditors Reporting System
DCI	Development Cooperation Instrument
DEVE	European Parliament's Development Committee

DG	Directorate General of the European Commission
DG CLIMA	DG for Climate Action
DG DEVCO	DG for International Cooperation and Development
DG ECHO	DG for European Civil Protection and Humanitarian Aid Operations
DG ENER	DG for Energy
DG GROW	DG for Internal Market, Industry, Entrepreneurship and SMEs
DG HOME	DG for Migration and Home Affairs
DG NEAR	DG for Neighbourhood and Enlargement Negotiations
DG RESEARCH	DG for Research and Innovation
DG TRADE	DG for Trade
DFI	Development Finance Institutions
DFID	UK's Department for International Development
DIE	Deutsches Institut für Entwicklungspolitik / German Development Institute
EAG	External Action Guarantee
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EDF11	11th European Development Fund
EEAS	European External Action Service
EFI	External Financing Instruments
EFSD+	European Fund for Sustainable Development-plus
EFSI	European Fund for Strategic Investment
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
EIP	External Investment Plan
ELM	External Lending Mandate
ENI	European Neighbourhood Instrument
ENP	European Neighbourhood Policy
EP	European Parliament
EPF	European Peace Facility
ETTG	European Think Tank Group
EU	European Union
EU NAVFOR	European Union Naval Force
EU-AITF	EU-Africa Infrastructure Trust Fund
EUBIP	EU Bank for External Investment and Partnership
EUGS	EU Global Strategy
EUISS	European Union Institute for Security Studies
EUTF	EU Trust Fund for Africa
EUTM	European Union training mission in Mali

FAO	Food and Agriculture Organisation
FPI	Service for Foreign Policy Instruments
GAP	Gender Action Plan
G-TAG	Guarantee Technical Assessment Group
GFEA	Guarantee Fund for External Actions
GNI	Gross National Income
GPGC	Global Public Goods and Challenges programme
HIC	High Income Country
HIPC	Heavily Indebted Poor Countries
HR/VP	High Representative and Vice President
IBMF	Integrated Border Management Fund
IcSP	Instrument contributing to Stability and Peace
IDPs	Internally Displaced People
IF	Investment Facilities
IFC	International Finance Corporation
IFCA	Investment Facility for Central Asia
IFI	International Financial Institution
IFP	Investment Facility for the Pacific
IIA	Inter-Institutional Agreement
INSC	Instrument for Nuclear Safety Cooperation
INTA	Committee for International Trade
IOM	International Organization for Migration
IPA	Instrument for Pre-Accession Assistance
IPCC	International Panel on Climate Change
ISF	Internal Security Fund
JHA	Working Party on Justice and Home Affairs
JVAP	Joint Valletta Action Plan
KfW	German government-owned development bank
LAIF	Latin America Investment Facility
LDC	Least Developed Countries
LIBE	Committee on Civil Liberties, Justice and Home Affairs
LIC	Low Income Country
MADCs	Most Advance Developing Countries
MDB	Multilateral Development Bank
MEPs	Members of the European Parliament
MFF	Multiannual Financial Framework
MICs	Middle Income Countries
MNJTF	Multinational Joint Task Force
MPCC	Military Planning and Conduct Capability
MS	Member State
MSME	Micro, Small and Medium-sized Enterprises

MTR	Mid-Term Review
NATO	North Atlantic Treaty Organization
NDICI	Neighbourhood, Development and International Cooperation Instrument
NGO	Non-Governmental Organization
NIF	Neighbourhood Investment Facility
NIP	Neighbourhood Investment Plan
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PCD	Policy Coherence for Development
PEA	Political Economy Analysis
PESCO	Permanent Structured Cooperation
PI	Partnership Instrument
PIP	Proposed Investment Programme
PSC	Political and Security Committee
PSO	Peace Support Operation
RC	Resident Coordinator
REC	Regional Economic Community
RELEX	Working Party of Foreign Relations Counsellors
SADC	Southern African Development Community
SDG	Sustainable Development Goals
SIDS	Small Islands Developing States
SME	Small, Medium-sized Enterprises
SSA	Sub-Saharan Africa
TF	Trust Fund
TTIP	Transatlantic Trade and Investment Partnership
UK	United Kingdom
UMICs	Upper-Middle-Income Countries
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UNDAF	United Nations Development Assistance Framework
US	United States
WBIF	Western Balkans Investment Framework

Acknowledgements

This publication was produced on our own initiative at the European Centre for Development Policy Management (ECDPM) to draw together in one edited volume a selection of our works published between 2017 and 2019 directly related to the future European Multiannual Financial Framework. The contents of this book are a product of the work of many individuals at ECDPM and researchers of its partner institutes, as well as a crucial contribution by ECDPM's support staff. The authors of the various chapters deserve a special mention, as without their excellent work, often under extreme time pressure on the original briefing notes, discussion papers and background documents, this book would not exist. Most of the chapters first appeared as ECDPM publications with the exception of two that were produced by the European Think Tank Group (ETTG). We are grateful for the support and encouragement of ETTG and the authors from ETTG institutions and other think tanks who were responsible for contributing to these publications for the agreement to reproduce those works in this book. The exact origins and publication date of each chapter are clearly indicated in the first footnote of each chapter. For many of the chapters we also interviewed officials and others with an insight or stake in the process. We are profoundly grateful to those who gave up their time to contribute to our research. Without their involvement it would not have been possible to produce this book.

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Introduction

Andrew Sherriff¹

The European Centre for Development Policy Management (ECDPM) strategy for 2017-2021 defines four transformational priorities that will help make the Global Goals for Sustainable Development (the 2030 Agenda) a reality for all:

1. Effective international cooperation frameworks and tools for tackling global challenges
2. Legitimate and accountable public institutions and engaged societies
3. Peaceful societies based on the rule of law, social cohesion and human dignity
4. Sustainable economic transformation with shared prosperity and decent jobs

It is against this background and with these goals in mind ECDPM chose to focus on the negotiations of the EU's next Multiannual Financial Framework 2021-2027, also known as the EU budget. The negotiations for these resources also give a key indication of the EU's political priorities beyond any spending target. So, it is more than money and financial resources that are at stake. Yet this budget is being negotiated at a radically different moment in European and global affairs than the past budget for 2014-2020.

Indeed, global politics is currently going through the most significant transition since the end of the Cold War. This is clearly evident within and around Europe and has significantly impacted the European Union dynamics in internal and external affairs and placed the European integration process on a fragmented and contested path. This is not business as usual, and it would appear that any attempt to ignore these geopolitical changes and necessity to deliver on the Sustainable Development Goals will come up against harsh new political realities quite quickly. Indeed, the new European Parliament and the new political leadership of the European Commission and the Council of the European Union will want an EU budget that responds to these changes.

It is into this setting that the European Commission has proposed a new budget for the period 2021-2027, including on European external action and development policy. The negotiations for the EU's multiannual financial framework (MFF) will become a key indicator of whether Europe can modernise its engagement with the rest of the world while reconciling its values and interests into a more strategic approach. The negotiations over the EU budget are always subject to the overall political dynamics at play within the European Union, yet these have also become significantly less predictable. However, it is not only important to understand the strategic global trends but also the technical aspects of EU decision making in the often-convoluted negotiations over the next EU budget.

¹ The author is grateful for editorial feedback on this chapter from Mariella Di Commo and Alexei Jones of ECDPM.

On one level the sums involved are daunting – over a trillion euro of proposed spending. On another, they are relatively small compared to the public spending of European Union countries and the proposed EU budget represents just over 1% of the European economy. Proposed external action resources would amount to €123 billion, plus about €15 billion that, while not considered officially part of the budget, would be negotiated at the same time. While this represents an increase of 13% in real terms compared to the current budget, significant decisions on thematic and geographic priorities involving billions of euro still need to be taken. Negotiations often come down to compromises made at the official level being endorsed at the political level. The European Centre for Development Policy Management (ECDPM) has been producing analytical work designed to feed into and complement the discussions on the external dimension of the EU budget. ECDPM has undertaken the majority of this work alone but has also worked and partnered with the European Think Tank Group (ETTG) and its members to develop a better pan-European understanding of the issues.

ECDPM produced this book as a reference point bringing together papers produced between September 2017 and March 2019. In doing so the intention is to develop a comprehensive reference guide for those following and seeking to influence the EU budget negotiations around how the EU will engage with the world on key issues such as the Sustainable Development Goals, climate change, peace and security, gender, migration and many more. While we acknowledge that certain parts of papers written over the last two years have been overtaken by events or new information, we contend that much of the analysis is still valid. Indeed, the negotiations are still in the early stages, with quite a considerable amount ‘still to play for’. For example, the financial size of the overall budget, different headings within it, instruments within headings and even earmarking within headings is not set and will continue to be the focus of heated negotiations at every level. As will the framing and focus of the individual headings, or instruments within them, particularly the newly consolidated proposed Neighbourhood, Development and International Cooperation Instrument (NDICI) under the new Heading VI for the Neighbourhood and the World. Indeed, the very name of the NDICI indicates the compromises that had to be made to show that all existing constituencies are clearly represented within it. Specifically, that it has the terminology of ‘neighbourhood’ - representing the powerful constituency behind the focus on the EU’s immediate neighbours, and also ‘development’, with aid to Africa, but also Asia and Latin America enjoying specific support.

In times of uncertainty there is often the reflex to retreat and ‘save what you have’ rather than to start innovating and promoting change. Promoting change within the way the European Union’s budget is structured is something the European Commission has a long history of. Yet it has been considerably less successful in getting the Council of the European Union representing the member states, and particularly the Heads of Government, to sign off on its proposals. Since the Treaty of Lisbon, the European Parliament has also grown in its powers as one of the two budgetary authorities and has its own particular take on how the budget should be spent.

ECDPM has looked at EU external action funding from the strategic overarching standpoint, the governance dimension, and key decisions that will come further down the line such as through the programming process. Along with our colleagues at the ETTG we have sought to understand the development dimension and the perspectives of various member states' positions. Positions can and do change in the overall negotiations, and even if they don't, the extent to which political capital is actually expended on achieving a stated position varies considerably. In addition to our overarching analysis, ECDPM has focussed on particular thematic issues that are likely to have a significant impact on the negotiations overall or by their very innovation, offer something new. We have undertaken this in relation to migration, one of the hottest and most contested topics in European politics, also in relation to the proposed creation of a new off-budget peace and security fund and development finance.

The book is divided into **four sections looking at strategic framing issues, as well as key thematic issues.**

SECTION I - STRATEGIC FRAMING ISSUES

The first section deals with **strategic overarching issues** in the formulation of the Commission's proposals. The first three chapters were originally published before the European Commission published their proposals in May and June 2018. Yet the issues explored continue to remain relevant in framing the ongoing negotiations.

Chapter 1 looks at ***Strategically financing an effective role for the EU in the world: first reflections on the next EU budget.*** Written by Jean Bossuyt, Andrew Sherriff, Marc de Tollenaere, Meritxell Sayós Monràs, Mariella Di Ciommo and Pauline Veron, this chapter first looks at the broader picture of the global and European context shaping the EU's external action in a context where the EU is confronted with major internal and external challenges of an existential nature. It reflects on the nexus between external and internal EU policies, observing a blurring of the lines between both types of expenditures while then looking at the issue of flexibility and the place of values in regional and thematic expenditure.

Chapter 2 assesses ***The dynamics of EU budget negotiations for external action: towards a 'single' instrument?*** In this chapter, Mariella Di Ciommo, Andrew Sherriff and Jean Bossuyt explore the consolidation of long-cherished but often criticised separate instruments such as the European Neighbourhood Instrument and European Development Fund and the political economy behind this. Any 'single' instrument carries risks as well as undoubted potential benefits for rationalisation and simplification. This chapter highlights different scenarios to assist stakeholders gain an insight into the political economy underpinning positions of EU stakeholders and is designed to assist actors make informed choices on issues surrounding a single instrument.

Chapter 3 focuses on *The European Union's next Multiannual Financial Framework: prospects and challenges for EU development cooperation*. It was written by Clare Castillejo, Mikaela Gavvas, Mariella Di Ciommo, Meritxell Sayós Monràs and Niels Keijzer in the context of the European Think Tank Group initiative (ETTG). Taking a clear development focus it asks 1) How much funding should go towards EU external action, which today falls mainly under the external Heading IV of the MFF? 2) What should this money be spent on? and 3) How should this money be managed – through what type of instruments, with what regulations, and by whom?

SECTION II – CRITICAL ISSUES ARISING FROM THE EUROPEAN COMMISSION PROPOSALS

The next three chapters of Section II were written in response to these proposals produced by the European Commission in 2018. They deal with issues in a cross-cutting fashion most notably related to the Neighbourhood and the World - Heading VI - and also the major innovation and change in the creation of the proposed consolidated Neighbourhood, Development and International Cooperation Instrument (NDICI).

Chapter 4 asks the question whether the ideas put forward by the European Commission are: *Aiming high or falling short? A brief analysis of the proposed future EU budget for external action*. The chapter is written by Alexei Jones, Mariella Di Ciommo, Meritxell Sayós Monràs, Andrew Sherriff and Jean Bossuyt and presents a brief quantitative and qualitative analysis of the main proposed changes to the EU budget and their potential implications. It identifies some of the key strategic choices arising from the proposals and concludes with outstanding questions for the upcoming negotiations including regarding the distribution of resources for specific geographic and thematic priorities. It also includes a detailed discussion of the issues surrounding the creation of the Neighbourhood, Development and International Cooperation Instrument (NDICI).

Chapter 5 looks at critical cross-cutting issues that immediately become apparent in relation to the proposed Neighbourhood, Development and International Cooperation Instrument (NDICI). This chapter focuses on *Governing a new broad instrument for EU external action: the ins and outs of the institutional power struggle*. Written by Alexei Jones, Emmanuel De Groof and Joanna Kahiluoto, it looks at the key players in the negotiations (the Council of the European Union, the European Parliament and the European Commission). It notes that these three institutions have their own interests, which they will seek to advance or maintain through the NDICI regulation.

In Chapter 6 the issue of *Financing EU external action. Understanding member state priorities* is explored. Drawing on in-depth knowledge across Europe and written by a team of researchers from the ETTG and other European think tanks and institutes including Clare Castillejo, Niels Keijzer, Oscar Chmiel, Mariella Di Ciommo, Juha Jokela, Erik Lundsgaarde, Iliana Olivié, Aitor Perez, Sanne Thijssen, Julie Vaille, Zsuzsanna Vegh and Bernardo Venturi. This chapter asks whether the ambitious size of Heading VI or the new single instrument will survive the negotiations. It notes

that financial resources for EU external action will in large be determined by battles over other elements of the budget, notably agriculture and regional policy, as they have in the past. And that the single instrument (NDICI) has yet to gain full support from key member states.

SECTION III - KEY THEMATIC INNOVATIONS IN FINANCE, MIGRATION AND SECURITY

Section III of the book looks at three distinct key issues. Those of leveraging finance, migration and security. These issues have become much more prominent politically and institutionally for the European Union. This is reflected in several changes and innovations in the EU budget proposal within Heading VI for the Neighbourhood and the World but also well beyond it.

Chapter 7 focuses on the issue of ***Leveraging the next EU budget for sustainable development finance: the European Fund for Sustainable Development Plus (EFSD+)***. San Bilal assesses the NDICI proposal for an innovative unified financial architecture to crowd in private sector investment outside the EU, based on three pillars: the European Fund for Sustainable Development-plus (EFSD+), a unified budgetary guarantee – the External Action Guarantee (EAG), and financial assistance. Building on an open and flexible system, the European Commission proposal for the EFSD+ and EAG is an important step in the right direction towards a more effective EU financial architecture. Yet San Bilal also cautions that to realise its potential it needs an effective partnership with multilateral institutions and initiatives, and most of all partner developing countries.

Chapter 8 focusses on ***Migration and the next EU long-term budget: key choices for external action***. Written by Anna Knoll and Pauline Veron this chapter explores the current discussions around the EU Commission MFF proposal concerning the external dimension of the EU's migration policy including in Heading IV ('Migration and border management'), in Heading V ('Security and defence') and in Heading VI ('Neighbourhood and the world'). It explores the various issues that are part of the negotiations and where different points of view exist and where choices will have to be made in relation to migration. These primarily relate to flexibility, delineation and complementarity as well as conditionality.

Chapter 9 focuses on ***The uncharted path towards a European Peace Facility***. Written by Matthias Deneckere it analyses the proposal for the creation of a European Peace Facility (EPF), which aims at enabling the EU to deploy military operations more effectively and to finance peace support operations led by other international actors, as well as build its partners' military capacities. It notes that the EU already has a number of instruments to address peace and security. The main challenges are how to use these in a coherent way and how to ensure the necessary safeguards, monitoring systems and conflict sensitivity to ensure EPF activities contribute to positive and sustainable responses to violent conflict and human insecurity.

SECTION IV – NEXT STEPS: THE STRATEGIC PROGRAMMING OF EU EXTERNAL ACTION 2021-2027

The final section comprises one chapter on the forward-looking issues in programming. While the focus is currently very much on the negotiations of the MFF overall, in order to be ready to start spending on the 1 January 2021 the pre-programming process, including the analytical and strategic assessment phase, has already started.

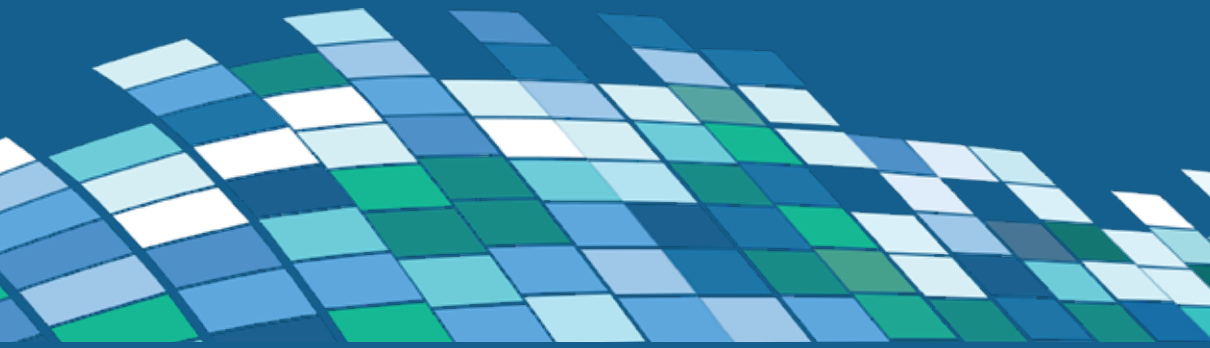
More specifically Chapter 10 *How to spend €89.2 billion: early developments in international cooperation programming* explores the unprecedented political, policy and administrative challenges of spending resources via the NDICI. Written by Alisa Herrero with Andrew Sherriff, Mariella Di Ciommo and Sanne Thijssen, it explains the process and notes that the EU needs to define its strategic priorities and clarify how its official development assistance (ODA) can best safeguard its interests, promote its values and support Lisbon Treaty commitments on poverty eradication and sustainable development, in line with partner countries' plans for implementing Agenda 2030. Ensuring that programming is framed by the EU's strategic interests, is informed by a deep understanding of context specificities, and is compliant with programming guiding principles will require a sophisticated and efficient programming process.

The chapter finishes with a more salutary warning for the European Union. Indeed, the whole EU budget negotiations are very much a European story with European actors vying for influence and control. Yet achieving results in international cooperation can only ever be achieved in partnership.

There is much uncertainty at the time of writing with regards where the negotiations on the EU Multiannual Financial Framework 2021-2027 will actually land given the fact that Brexit is still unclear and most importantly a new European Commission and new European Parliament have yet to take up their posts. Given past experience and the turbulent political times we live in, there is no guarantee that this uncertainty will end any time soon in 2019. Indeed the 'deal' on the EU's future budget may well run until the last few months of 2020. At ECDPM, as a think and do tank committed to providing non-partisan independent analysis, it is our intention that this book provide 'food for thought' that is analytically grounded and well thought through. We would welcome any feedback you have on what is bound to be an ever-evolving story and hope that you find this book a useful resource while encouraging the reader to continue to look out for more updated analysis that will come from ECDPM throughout the coming months and years on this topic.

Section I

Strategic framing issues



Strategically financing an effective role for the EU in the world: first reflections on the next EU budget¹

Jean Bossuyt, Andrew Sherriff, Marc de Tollenaere, Pauline Veron, Meritxell Sayós Monràs and Mariella Di Ciommo

Part 1: A volatile global and European environment: implications for EU external action

Times of uncertainty and existential crisis

The overall capacity of the EU to act as an effective and coherent global player depends on the state of health of the Union itself. Despite positive dynamics in recent months, there is little doubt that the EU, which recently celebrated its 60th birthday, has not entirely come out of its **'existential crisis'² driven by internal and external factors**, and is in danger of jeopardising the continuation of the European project in its current format.

There is still pessimism after the 2007-2008 financial crisis about the EU's long-term economic future. The monetary union, if not coupled with fiscal and economic policy, fosters fiscal dumping and significant inconsistencies amongst member states. Austerity measures taken to address the financial crisis, have left a bitter taste in several structurally weaker economies, particularly for young people confronted with huge levels of unemployment. Europe's social model is increasingly under pressure fuelling rising inequalities between and within countries. The irregular migration and refugee crises have become explosive issues in the European integration process. Brexit has shown that populist movements and parties can exploit the EU's unfulfilled potential or shortcomings to call for 'exits'. The momentum of such movements had slowed down as witnessed in elections in the Netherlands and France. However, populist anti-EU parties, whilst not holding power, still command support from electorates across most EU countries and notably most recently made significant gains in Germany.

1 This chapter originally appeared as: Bossuyt, J., Sherriff, A., de Tollenaere, M., Veron, P., Sayós Monràs, M. and Di Ciommo, M. September 2017. Strategically financing an effective role for the EU in the world: First reflections on the next EU budget. ECDPM MFF paper. Maastricht: ECDPM. <https://ecdpm.org/publications/strategically-financing-effective-role-eu-in-the-world-mff/>

2 Words used by HRVP Federica Mogherini when presenting the new EU Global Strategy on Foreign and Security Policy, June 2016. See European Union (2016a).

At **national level**, European identities remain primarily national and a majority (53%) of citizens feel their identity is threatened by globalisation.³ However, the last Eurobarometer (2017) reveals that more than half of Europeans (56%) are optimistic about the future of the EU⁴ and a majority (64%) of young Europeans born after 1980 see themselves as European citizens,⁵ leaving the door open for a more positive EU perception among new generations. Yet a genuine European public space, public opinion and polity outside of Brussels has not really emerged since the creation of the EU, despite institutional and electoral changes introduced with the Lisbon Treaty.

On the external front, changing geopolitics, global power relations, the Donald Trump presidency and tense relations with close neighbours (e.g. Turkey, Russia) put pressure on the EU's role in the global and multilateral system. War and conflicts are raging in its Neighbourhood while the threats of radicalisation and terrorism are blurring the lines between internal and external security. Europe wants to be a lead actor by promoting values (democracy, human rights, etc.), pushing forward the Agenda 2030 and tackling climate change. Yet, it faces growing limitations in playing such roles due to its reduced economic and political power and leverage in a multipolar world with competing models of development and organisation of the polity.

Impact on EU external action

Clearly the EU is in a difficult period and its overall capacity to act as an effective and coherent global player is affected by structural weakness in the health of the Union and often highly divergent opinions on the best way forward. The consequences are clearly visible in the day-to-day functioning of the institutions. A growing '**risk aversion**' is **observable, leading to inertia** in many key issues of the EU's foreign policy. This can be noted in the role of the EU in its Neighbourhood, the Middle East, the relationship with Turkey, the Africa-EU partnership⁶ or the

3 See European Commission (2017a), p.9.

4 See European Commission (2017b) p.22.

5 See Directorate-General for Communication (2016), p.23.

6 There is broad consensus that the Joint Africa-EU Strategy (JAES) has not delivered on its promises as a continental partnership 'beyond aid'. Valuable dialogues and initiatives have been undertaken (particularly on peace and security issues). Yet the political traction and ability to negotiate / manage common interests or points of conflict has been less than optimal on both sides. It is uncertain whether the planned EU-Africa Summit in December 2017 will be able to change these dynamics.

post-Cotonou debate.⁷ The EU apparently wants to avoid any further undermining of its internal cohesion and unity, as exemplified by the rather conservative approach adopted regarding the future of ACP-EU relations.⁸ It therefore prefers to adopt a low profile attitude and refrain from major reforms while touting new financial mechanisms, such as EU Trust Funds, as a demonstration of response rather than taking bold collective political initiatives.

Increased narrow national interests dominate decision-making. It has been argued that several member states tend to see the EU primarily as an 'ATM machine' rather than a union of nations built on solidarity and joint action. European foreign policies have become more national in many respects. For instance: Europeans deal with Russia through the 'Normandy format', with a contact group of lead countries consisting of France, Germany, Ukraine and Russia rather than the EU. Even smaller member states have been aggressively nationalist in their response to the migration crisis rather than pan-European. Towards Africa, member states seem to be launching their own initiatives rather than seeking to invest political capital in pan-European ones. For instance, in January, Germany launched a 'Marshall Plan with Africa' with the aim to mobilise private investment in the continent.⁹ This **growing 're-nationalisation'** exacerbates the contradictions in the EU's foreign policy and makes it increasingly difficult to reconcile the 'values' and 'interest' agendas (see Part 4).

The **structural limitations of EU foreign policy outreach and delivery capacity** have clearly been displayed in recent years. Enlargement - one of the most effective policies in driving change - was put on hold. The 2017 State of the Union laid out somewhat ambitious steps for Europe and an increase in budgetary resources, but it is unclear how these changes could be realised in the current climate.¹⁰ Despite dedicated efforts, the EU response strategy towards the Neighbourhood has not really contributed to delivering security, stability and shared prosperity. In the Mediterranean, the Arab Spring was followed by repression (Egypt), the hardening of some regimes (Turkey) or open conflict (Libya and Syria). In the Eastern Neighbourhood, the EU could not prevent war in Ukraine and is now trying to preserve some status quo with Russia. The EU trade policy - traditionally favouring multilateralism - is suffering from an increasingly competitive and mercantilist environment. The Transatlantic Trade and Investment Partnership (TTIP) did not materialise and President Trump is opposed to it. Economic Partnership Agreements (EPAs) with Africa have shown little progress.

7 The Cotonou Partnership Agreement (CPA), linking the EU to 79 countries in Africa, the Caribbean and the Pacific (ACP) expires in 2020. The debate on what should come next is gaining momentum. Though all parties agree on the need to modernise this longstanding relationship, the EU is proposing a reform option that largely keeps the ACP construction intact (though complemented with deeper regional partnerships). Several member states are not convinced that this rather conservative approach is a solution for a coherent EU external action and effective partnerships with the countries and regions involved.

8 See Bossuyt et al. (2017b).

9 See BMZ: Federal Ministry for Economic Cooperation and Development (2017).

10 See European Commission (2017c), p.6-21.

The crisis provides for new opportunities

In spite of this sobering picture, there are also new opportunities. We should not forget that, only five years ago, the EU received the Nobel Peace Prize for its unique project and its stabilising role in transforming Europe. Europe has given **proof of strength** each time there was a major crisis. It has learnt lessons from it and managed to make further progress towards deeper integration. Recently President Trump's antics have also strengthened collective EU resolve on diverse issues including making common cause with China on climate change.

Growing **integration is taking place** in several areas - albeit sometimes slowly and often silently. The financial crisis pushed Eurozone member states and the EU to create a European system of governance and supervision. Migration pressures have resulted in the creation of a Border and Coast Guards Agency, and the strengthening of Frontex to manage external borders. Job creation and social inclusion have moved to the forefront of the agenda. The latest economic forecasts predict an increase in EU overall growth rates. European citizens still perceive the EU as a safe haven in a troubled world and 60% of them agree that the European Union project offers a future perspective for Europe's youth.

The crisis in the EU has led to **more realism in the domain of foreign policy**. This was clearly reflected in the review of the European Neighbourhood Policy (2015). The resulting Communication¹¹ defines 'stabilisation' as the core priority. It proposes to "*refocus relations with our partners where necessary on our genuinely shared common interests*". In practice, it means more differentiation in relations with neighbouring countries - particularly those committed to deeper partnerships.

The 2016 EU Global Strategy on Foreign and Security Policy (EUGS) acknowledged that the world has become more connected, contested and complex. It has also become more fragmented. In such a volatile context, Europe has to maintain its role as a global player yet be more explicitly interest-oriented. This implies '**principled pragmatism**' in building functional partnerships, particularly in the Union's unstable proximity (Neighbourhood). It is recognised that a more integrated and effective EU external action depends on intensifying collaboration with member states. A series of implementation roadmaps are rolled out to put this into practice (e.g. on the rather nebulous concept of resilience).

Innovations have also been sought **at an operational level**. To respond to recent crises or major political priorities, EU Trust Funds were created for Africa, Central African Republic, Syria and Colombia. They may represent a new way for the EU and member states to act together, though they also raise major challenges in terms of development effectiveness and concerns over unrealistic political expectations that money can deliver complex political solutions.

¹¹ See European Commission (2015a).

Wider reflections on “**what next for Europe**” are also proliferating. Thus, the March 2017 Juncker paper sets out different scenarios for the future,¹² including: (i) Carrying On; (ii) Nothing but the Single Market; (iii) Those Who Want More Do This; (iv) Doing Less More Efficiently; (v) Doing Much More Together. It is not a fully consistent document but it has the merit to start framing the debate on the possible future directions of the EU both in its internal and external action. In his 2017 State of the Union speech, Juncker envisages a sixth scenario with five future EU priorities: investment and trade, competitiveness, climate change, fight against terrorism and migration. The scenario would entail the strengthening of EU values. It envisages the creation of several new positions to give coherence to the EU project such as an EU Finance Minister or the merging of Commission and Council president. It also calls for an increased EU budget to cope with new ambitions such as the recently established EU Fund on Defence, the creation of a Convergence Instrument, or the expansion of the Eurozone and Schengen area.¹³ A reflection paper by the European Commission’s Directorate-General (DG) Budget concludes that external action should take a higher share of the future EU budget in four of its five scenarios.¹⁴

The Brexit process has paradoxically, also contributed to a strengthening of ties between the 27 member states, as they seek to safeguard the essence of the European construction, including closer cooperation on defence matters. The United Kingdom was expected to leave the EU in March 2019. This will mean losing one of its major policy players including in the external action domain, with well-respected assets in the foreign policy, security and development domains. The EU will also lose a net contributor to the budget (a decrease of 10-15% is expected on the EU budget) and this will significantly shake up the dynamics of negotiation of the overall budget. Prime Minister Theresa May’s much touted speech in Florence in September 2017 offered cooperation with the EU “unprecedented in its breadth, taking in cooperation on diplomacy, defence and security, and development.”¹⁵ Indeed the UK has a desire for a continued EU-UK collaboration on defence and security, foreign policy and development matters “*deeper than any current third country partnership and that reflects our shared interests, values and the importance of a strong and prosperous Europe*”.¹⁶ However, UK politics around Brexit have been characterised by their volatility and options for collaboration on foreign and development policy will not be immune to this.¹⁷ Michel Barnier – the EU chief negotiator – mentioned in August that “the UK does not feel legally obliged to honour these obligations [to contribute to the EDF] after departure”,¹⁸ while the UK published ‘Foreign policy, defence and development: a future partnership paper’ which considers that “continued close working with European partners will

12 See European Commission (2017d).

13 See European Commission (2017c), p.6-21.

14 See European Commission (2017e).

15 See UK Government (2017a).

16 See UK Government (2017b), p.18.

17 See Sherriff and Vanvolsem (2017).

18 See European Commission (2017f).

form an important part of the UK's future international development strategy".¹⁹ This paper has a high degree of ambiguity with mixed messages on the nature and type of collaboration sought, particularly on any future financing through the EU. It is likely though, that an off-budget fund (like the EDF) would provide more avenues and likelihood for the UK to continue to contribute. Yet the focus, substance and governance of this fund would have to be an attractive proposition to both the EU and the UK. The political feasibility of this is impossible to predict and the technicalities are also not straightforward.

New initiatives for defence collaboration are being considered at EU level, in line with the EU Global Strategy (EUGS) Implementation Plan on Security and Defence (2016) and the European Commission Defence Action Plan (2016), with the aim to ensure a 'fully-fledged European Defence Union by 2025'.²⁰ In fact, the Lisbon Treaty (Article 42) allows for the establishment of a European Defence Union.²¹ With the UK leaving the EU, this possibility seems more real than ever – as the country has always favoured EU-NATO collaboration rather than the establishment of an EU defence force. In June 2017, a European Defence Fund was launched to increase EU capabilities on research and development and acquisition of defence equipment and technology. Germany, France, Italy and Spain backed the creation of a joint EU military force. Furthermore, a Permanent Structured Cooperation (PESCO) on defence could be launched by the end of the year.²² All these are developments that only a short time ago would have been thought highly unlikely.

Confusion on the agenda and most effective pathways to change

The role and influence of national politics will be a key factor shaping the evolution of the EU and role as a global player. In the absence of a truly European public opinion (compounded by the lack of support of the media and the private sector thinking and operating from a European perspective), member states and their national governments remain the most powerful drivers of the EU political agenda. These agendas of the member states will clearly be expressed in their influence over the next EU budget. In addition to this, longstanding vested interest groups around specific issues (e.g. agricultural communities, higher education, countries and regions benefiting from structural funds) will mobilise their lobbying capacities to get a 'good deal' in the MFF. **The 'development community' has been much weakened in recent years** and may have to consider a **new narrative** to defend its core priorities and sufficient levels of funding. Yet there is a sizeable section of opinion from beyond the traditional development sphere arguing that a higher percentage of EU budget could be devoted to external affairs, particularly in order to defend Europe's own interest in the world (regarding security, migration, trade, climate etc.)

19 See UK Government (2017b), p.21.

20 See European Commission (2017c), p.17.

21 See European Commission (2017g).

22 See EEAS (2017a).

Member states have diverging interests in the EU project, linked to structural factors (e.g. history, economic interests, geopolitics, location) or **short-term election concerns**. The latter deserves specific attention considering their likely impact on the EU's next life cycle. In 2017 the following trends can be observed in leading member states:

- In **Germany**, the outcome of the federal elections means that Angela Merkel will return as Chancellor albeit with a reduced share for her party. Current talk is of a 'Jamaica' coalition with the Christian Democrats (CDU) and sister party the CSU in Bavaria, with the Green party and the liberal pro-business Free Democrats – the first coalition of this configuration at Federal level. The Social Democrats, who also did very badly, are likely to be the official opposition. While all these parties are broadly pro-European the major story is the advance of the Alternative for Germany (AfD) entering Parliament for the first time as the third largest party. This will significantly change the dynamics. The smaller parties may restrict the margin of manoeuvre or place different emphasis on certain issues, including on collaboration with France to drive the European project forward. Germany is still cautious about taking too prominent a lead role on foreign relations yet dealing with the migration situation internally and externally will remain a top table issue. There is limited popular enthusiasm for Germany footing the bill for a revitalised EU. Those wanting to move fast on EU reform will have to wait until the German government is formed and this might happen as late as December.
- In **France**, President Emmanuel Macron is avowedly pro-European and is committed to an agenda of EU renewal while at the same time asking critical questions of the European project. Yet President Macron's domestic reform agenda is also taking significant political energy to realise. France and Germany have already started to talk about a multi-speed European integration yet how this will now manifest itself in light of the result of German federal elections remains to be seen.
- In **Italy**, the broadly pro-EU Democratic Party, which leads the central government, lost some cities in the last administrative elections to centre-right coalitions. The EU-sceptic Five Stars movement performed poorly, but is still among the two favourite parties ahead of the 2018 national elections. Migration remains a divisive issue between the EU and Italy. Going forward, EU leaders need to avoid further weakening of support to the EU in a traditionally pro-EU country.
- In **Spain**, Mariano Rajoy came back to power establishing a minority government. The nomination of the Spanish Permanent Representative to the EU as Foreign Affairs and Cooperation Minister, Alfonso Dastis, shows a renewed political ambition towards Europe. The country wants to regain a leadership position in the EU, as shown at a meeting in Versailles in August, where Rajoy backed Merkel, Macron and Gentiloni on a multispeed Europe. Despite slow economic recovery, a high unemployment rate, and threats of secession by Catalonia, Spain is still a bastion of support for the integration process: "44% of Spaniards are convinced that the EU should have more competencies and finally become a United States of Europe".

- In the **Netherlands**, pro-European parties are likely to form the next government whatever the configuration, however the process of forming a government is proving difficult. The Eurosceptic Geert Wilders' PVV is still the second party of the country and Europhobic and Eurosceptic forces in the Netherlands will restrict the government's margin of manoeuvre in European affairs as well as a hard line on any increase to the Netherlands' contribution to the EU budget.
- In **Poland**, the current PiS traditionalist government has clashed with the EU on constitutional change and rule of law, issues which many in the EU say are at odds with EU values. The Polish government has received support from the current Hungarian government for their position. The majority of the Polish population remain pro-EU and all governments in Poland are likely to be staunch defenders of Common Agricultural Policy (CAP) and Cohesion policies.
- In the **United Kingdom**, a general election held in June 2017 with the express aim of providing more political stability during the Brexit negotiations has instead created further volatility. There has been no change of political direction in seeking Brexit, only more intense discussion and disagreement on what 'type' of Brexit the UK should attempt to negotiate. The UK Prime Minister and government remain weak and despite efforts to strike a more conciliatory tone in September 2017 and show more cabinet unity, a period of intense volatility in UK politics looks set to continue.

The EU institutions and the Commission in particular, have developed a policy **to address the disconnection between the EU and its citizens**. The approach revolves around several principles: sector-based approaches (following the structure of the European Commission itself), dialogues with citizens (better communication on EU's achievements) as well as engagement with member states' governments when it comes to the future of the EU.

This approach has largely been ineffective to address euroscepticism, europhobia and citizens' aspirations on the future of Europe. This is linked to difficulties of meaningful engagement at various levels:

- *local level* (national communication on EU affairs is left to member states in virtue of the subsidiarity principle);
- *international and global levels* (the representation of EU and European interests worldwide is still very weak and scattered, despite changes introduced by the Lisbon Treaty);
- *cultural and identity level* (culture being a competence of member states, the EC has had limited scope to develop large-scale European cultural initiatives for national audiences within member states).

Part 2: The blurring of the lines between internal and external EU policies and instruments

The trends described above urgently point to the need for a new budget in the post-2020 period that is fit for purpose. A new budget will have to navigate and be able to respond to the changing European political space whilst being bold enough to deliver within Europe and globally. Business as usual will not be an option, not only because of the growing challenges faced by the European Union, but because of the changing world in which globalisation tests the traditional boundaries between external and internal issues. A clear-cut split between internal and external spending instruments and the associated institutional set-up may therefore no longer make as much sense as it once did. The universal Sustainable Development Goals (SDGs) provide a useful starting point and legitimisation of a different way of doing business but by themselves are not sufficient to capture the 'blurring of the lines' that is occurring between internal and external concerns.

The current EU budget is rather strictly delineated into different headings with a split between 'internal' spending and 'external' spending contained in Heading IV, although some smaller budgets for external activities are also available as part of internal policies. In an increasingly globalised world, such delineations seem out of step with reality. The Commission itself, in its own reflection on future financing, acknowledges that "[the experience of recent years [...]] suggests a stronger coordination between external and internal policies is needed, including the implementation of the sustainable development goals of the United Nations' 2030 Agenda and the Paris Agreement on climate action, as well as the implementation of the partnership framework with third countries on migration."²³ Yet, is stronger coordination alone going to give the EU the necessary creativity and weight to respond to the challenges created by the blurring of the lines?

There are currently a number of debates about the EU's external funding showing the difficulties in delineating the boundaries of external and internal issues, related objectives, budgets and spending. One centres on **protecting Official Development Assistance (ODA) from encroachment of other policy objectives**, such as reducing irregular migration, which some see as narrow EU self-interest rather than as primarily supporting sustainable development. A key concern is that rather than working on the nexus between internal and external affairs, ODA resources would be used to achieve internal political priorities emerging from a predominantly security and home affairs perspective, yet losing its development purpose. A related debate takes place within EU member states where large amounts of ODA funds are being spent on first year domestic expenditures for hosting asylum seekers and refugees from developing countries within Europe. These include costs for basic services, such as food and shelter, which can be justified from a humanitarian logic, but also administrative and police costs that relate more to the functioning of internal security systems of EU member states.²⁴

²³ See European Commission (2017e).

²⁴ See Knoll and Sherriff (2017).

Here, clear questions arise whether it is justifiable allocated funds - envisaged for or communicated as 'external' development spending - in fact remain within Europe.

In addition, another debate related to **defence spending** has emerged. There exists increased pressure to meet the NATO spending target of 2% GNI for defence — driven by the US President Donald Trump's controversial declarations about the US role in NATO and finding resonance in parts of an emerging European political culture for which state and citizen security is becoming more of a concern. There have even been suggestions of a new spending target of 3% of GNI, "*that would not only cover military spending but also investments in diplomacy, development, humanitarian aid and conflict prevention.*"²⁵ Proponents argue that this would be more appropriate for addressing the challenges of a rapidly changing world. Yet, such arguments seem to be caught in a logic where challenges and opportunities can still be put in internal and external categories. Indeed, current institutional set ups already show that this is not easily done: most Commission Directorate Generals' (DGs) that have an internal focus also have at least one unit dealing with international issues. Some EU external financing instruments increasingly call upon non-development related DGs (such as DG CLIMA or DG HOME) to help reach stated objectives (e.g. the Global Public Goods and Challenges Programme under the Development Cooperation Instrument – DCI). The EU has ODA and non-ODA financed instruments managed by different DGs (DG GROW and DG DEVCO) but with similar goals, at times working with similar partners, albeit in different geographies. There is a push for synergies and greater external coherence with appropriate safeguards, yet these are not fully exploited.²⁶

Looking forward, the Commission – in its deliberations about the future financial set up – notes that some issues such as diseases (e.g. Ebola), global food chains, and climate change have effects on both third countries and European citizens.²⁷ **An increasing share of EU internal financing instruments are spent on tackling issues at the nexus of internal/external factors** whether it is Horizon 2020 research or the security and citizenship aspect of the EU budget spent on migration. It is difficult to think of an EU policy area that is not part of an increasingly accelerated internal/external nexus, whether it be trade, environment, climate change, security, agriculture, fisheries, employment, migration, research and innovation, information society, transport and energy. The opposite is true and that is why these areas were all identified in the EU's original commitment to policy coherence for development.

Existing efforts to financially support actions that have touched on both internal and external interests – e.g. the Partnership Instrument or the Global Public Goods aspect of the Development Cooperation Instrument – are too limited and restricted in resources and scope to fully tackle the internal/external nexus. Responding to the migration challenges significantly stretched both Headings IV (External Action) and III (Security and Citizenship) and the current flexibility.

²⁵ See Ischinger (2017).

²⁶ See Große-Puppenthal, Byiers and Bilal (2016).

²⁷ See European Commission (2017e).

Addressing the challenges born out of the internal/external nexus in future EU budget negotiations will be fraught with difficulties. Some split between internal and external may be inevitable and even desirable. But there is a necessity for it to be addressed holistically rather than in silo thinking during the next budget process.

Part 3: The preparation of a new MFF and related choice of relevant financing instruments

The divergent political positions on the future course of the Union (Part 1) and competing demands arising from internal and external policy priorities (Part 2) will come fully to the fore in the negotiations for the next EU budget. The negotiations are likely to act as a lightning rod and a key battleground on the approach and direction of the EU. Despite its relatively small size compared to overall EU Gross National Income and even overall public spending in Europe deciding how much money the EU gets and where to spend it has always been a major battle. This is particularly true for expenses related to EU external action. Negotiating a new MFF (2021-2027) will not be business as usual.²⁸ It will require a deeper reflection on how much Europe is necessary or desirable and in what form. It implies a reassessment of the evolving status, (financial) weight and leverage of the EU in the present day multi-polar world. It means re-examining the EU's mix of financing instruments (i.e. the rationale, people and portfolios at work) as well as the relevance of underlying policy frameworks for cooperation (e.g. the Neighbourhood Policy, Joint Africa-Europe Strategy, the Cotonou Agreement as well as the new European Consensus on Development). The 2016 EU Global Strategy for Foreign Policy and Security (EUGS) will need to be fully factored in the review of External Financial Instruments (EFIs) as well as the implications of the growing popularity of EU Trust Funds as an alternative mechanism for delivering support.

By the end of 2017, a mid-term review (MTR) of the EU's EFIs has to be presented to the Council and the European Parliament. External evaluations have been conducted for each instrument²⁹ and of the Common Implementation Regulation (CIR). An independent 'Coherence Report' has been produced on behalf of the EU,³⁰ providing a strategic synthesis of these evaluations with a view to addressing the question: "*Were the current instruments fit for purpose at the start (2014) and*

²⁸ What the exact span of the next budgetary period will be – seven or five years – is yet to be decided, yet most commentators feel it is more likely to be seven years from 2021 to 2027.

²⁹ The Multiannual Financial Framework includes the following EFIs: the Development Co-operation Instrument (DCI), the European Instrument for Democracy and Human Rights (EIDHR), the European Neighbourhood Instrument (ENI), the Greenland Decision (GD), the Instrument contributing to Stability and Peace (IcSP), the Instrument for Pre-Accession Assistance (IPA), the Instrument for Nuclear Safety and Co-operation (INSC), and the Partnership Instrument (PI). The European Development Fund (EDF) is another major EFI, but is funded from outside the EU budget.

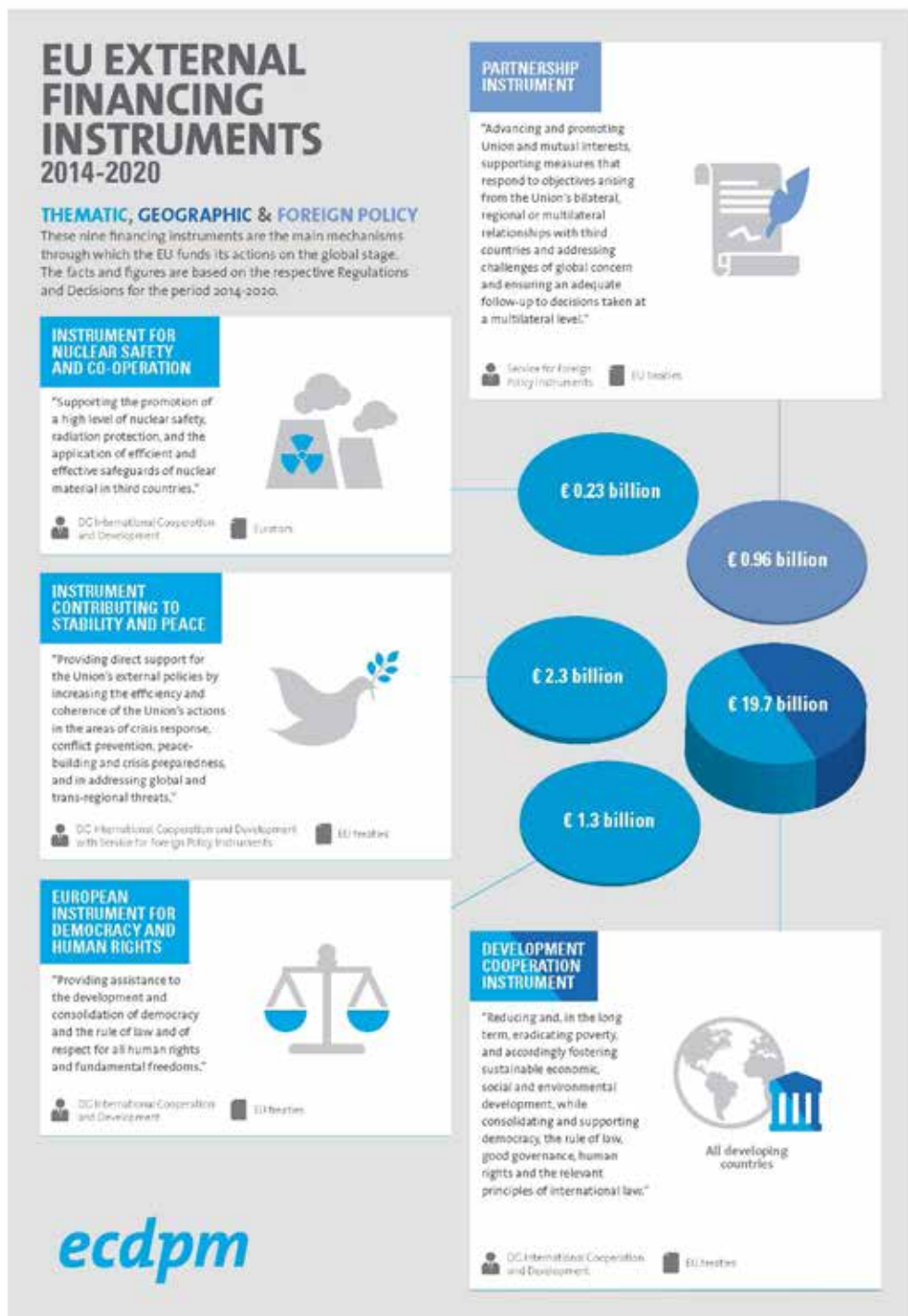
³⁰ See Bossuyt, Caputo and Schwarz (2017).

are they still responsive to the evolving context now (at mid-point), as well as potentially beyond 2020”? The focus was on four aspects, namely relevance and delivery capacity, responsiveness, consistency and added value.

Box 1: Key findings of the Coherence Report related to the adequacy of the current set of External Financial Instruments

- The architecture and related geographic/thematic coverage of the various EFIs of the current MFF was, on the whole, relevant for the EU policy objectives prevailing in 2014 and largely congruent with partner needs. Effective delivery capacity of the instruments was enhanced by a number of triggers (e.g. differentiation, concentration) but was hampered by recurrent implementation weaknesses (e.g. limited political steering, disagreements with partner countries, flexibility and capacity issues). Some instruments acted as incubators for new forms of international co-operation based on mutual interests or in giving more prominence to European interests in external action. However, lack of solid monitoring and evaluation systems hampers assessment of instrument-level outcomes.
- Responsiveness was a major challenge as most instruments had to try to incorporate unforeseen needs and pressing EU internal political priorities. ‘Flexibility’ was reflected in the creation of new implementation modalities (e.g. Trust Funds) to which several EFIs contributed, but also resulted in major trade-offs related to: (1) the nature of development-oriented EFIs; (2) the tension between long-term and short-term needs; (3) the risk of jeopardising EU values as the security agenda becomes prominent.
- In terms of consistency, good practices in strategic combination of instruments coexist with ‘silo’ approaches. Joined-up action with member states shows progress, but limitations persist.
- On the whole, EU actions provided added value, but further delineation of core mandates and areas of intervention may be required in the future.
- As global and EU agendas evolved, gaps in coverage appeared. First, the EU’s capacity to promote and mainstream its ‘values’ agenda (human rights, democracy, rule of law) may be declining. Second, the set of instruments is not fit to implement the global agenda including by establishing mutually-beneficial partnerships with the rising number of Upper Middle-Income Countries (UMICs). Third, the growing weight of stability, security and resilience issues requires more holistic approaches and less fragmented instruments. Fourth, accommodating pressing internal EU political priorities within instruments designed for other purposes entails risks and reduces overall coherence.

Figure 1: EU External Financing Instruments 2014-2020



EUROPEAN DEVELOPMENT FUND

"Contributing to the achievement of the objectives of poverty eradication, sustainable development and the gradual integration into the world economy of Africa-Caribbean-Pacific countries as well as Overseas Countries and Territories."



DC International Cooperation and Development DC External Partnership Agreements

€ 30.5 billion
out of the EU budget

€ 15.4 billion

€ 11.7 billion

€ 0.22 billion

EUROPEAN NEIGHBOURHOOD INSTRUMENT

"Advancing further towards an area of shared prosperity and good neighbourliness involving the Union and its Southern and Eastern neighbourhoods, by developing a special relationship founded on cooperation, peace and security, mutual accountability and a shared commitment to the universal values of democracy, the rule of law and respect for human rights."



DC Neighbourhood and Enlargement Negotiations EU treaties

GREENLAND DECISION

"Defining the framework for policy dialogue on issues of common interest for either partner, providing the basis for broad cooperation and dialogue in areas such as global issues concerning, inter alia, energy, climate change and environment, natural resources, including raw materials, maritime transport, research and innovation, and Arctic issues."



DC International Cooperation and Development EU treaties

INSTRUMENT FOR PRE-ACCESSION ASSISTANCE

"Supporting beneficiaries in adopting and implementing the political, institutional, legal, administrative, social and economic reforms required to comply with the Union's values and to progressively align to the Union's rules, standards, policies and practices, with a view to Union membership, while contributing to stability, security and prosperity."



DC Neighbourhood and Enlargement Negotiations EU treaties

This set of reports will provide initial food for thought to EU institutions and member states to prepare the next MFF and consider which type of financing instruments are required to ensure that the EU can be a more strategic³¹ and result-oriented global player in a volatile world.

In this part, two core questions related to the future MFF are examined in more detail: the need for more flexibility and the critical choices to be made in designing a new architecture of EFI's post-2020.

Why has flexibility become more of an issue?

Debates around the MFF and EFI's (in-)flexibility are not new. Yet the recent migration and security 'crises' in the Neighbourhood have brought a much sharper focus on current limitations, introducing a political imperative to act speedily and provide increased incentives for change. This has created more political space to consider and enable flexibility (at least within MFF budgetary ceilings) than in the past. Indeed, flexibility is an issue that extends beyond any one of the External Financial Instruments. The Coherence Report put together the evidence from the various evaluation reports on the current levels of flexibility, as summarised in Table 1:

Table 1. Key EU regional investment facilities for blending loans and grants

EFI	Positive observations	Potential weaknesses
PI	Flexibility allows responsiveness to changing environment.	Risk of funding too many relatively small actions – with unclear potential for larger impact.
IPA	Special measures have allowed a quick reallocation to floods/refugee issues.	Less flexibility to address non-humanitarian aspects.
IcSP	Primary added value is its speed and flexibility in terms of addressing conflict.	Scope to better ground and time actions to the context in which they are implemented.
EIDHR	Additional flexibility introduced for human rights defenders and Civil Society Organisations.	Reluctance of EU Delegations to effectively use the operational flexibility provided for by EIDHR Regulation.
DCI	The instrument explicitly chooses to support partner country agendas and related development effectiveness principles, including predictability over the seven-year life of MFF. This choice, logically, reduces the scope for flexibility.	DCI has only limited adaptability to new conditions, and is too complex and administratively demanding to integrate new demands. Country level political dialogue and partnership are often weak.

31 The EU has often been criticized for being "instrument-led" rather than "strategy-driven".

ENI	Efforts to streamline its scope and create a balance between focusing on short-term crisis prevention and long-term structural issues (more financial flexibility and agility, special measures).	Flexibility has improved in terms of overall response capacity, but not proportionately to the challenges faced (increasing lack of stability in the Neighbourhood).
EDF	EDF does allow flexibility of funding notably through its substantial reserve (deployed for the EU Trust Fund for Africa). Being outside of the EU budget, it could support activities not allowed under the EU treaty (Africa Peace Facility).	There has been some flexibility in response to the migration crisis, yet this has tended to undermine the EDF's added-value, particularly its long-term, predictable component.

There is now widespread agreement among the European Parliament, Commission, member states as well as the Court of Auditors that there is a need to improve the **efficiency and agility** of the EU budget in mobilising and spending funds to **respond to evolving needs**. Flexibility is often described without much analysis as a **panacea** for the challenges faced by the EU external action and the MFF more widely. On the ground, where the EU is implementing its external action, the difficulty of *'taking the context as your starting point'* and having the flexibility to adapt and evolve programming choices (sectors, partners, methods) is a common critique, including from EU officials themselves.

The MFF 2014-2020 introduced new measures allowing for shifting available margins between headings ('vertical' flexibility) and years ('horizontal' flexibility).³² In 2014 and 2015, the budget shifted headings and mobilised over €12 billion for unexpected needs in an unprecedented manner.³³ Recently, **new developments can be observed in relation to making EFIs more flexible** through:

- Legislative measures (removal of the limitations to the Global Margin for Commitments and the Global Margin for Payments; introduction of 'special measures' in the European Neighbourhood Instrument (ENI) and the Instrument for Pre-Accession (IPA)).
- Operational responses (establishment of EU Trust Funds and the Facility for Refugees in Turkey; new European Union Crisis Reserve; introduction of the 10% 'flexibility cushion' in Development Cooperation Instrument (DCI)/IPA/ENI. New guidelines on Capacity Building for Security and Development related to the Instrument contributing to Stability and Peace).
- Financial means (doubling of the size of the Flexibility Instrument to €1 billion and of the Emergency Aid Reserve to €500 million; increased use of blending).

³² See European Commission (2016a).

³³ See Núñez et al. (2016).

However, it has become evident that these measures may not guarantee the levels of coherence, effectiveness and efficiency required³⁴ (see Annex 4 for a concrete case study related to migration). As the European and global political context continues to change, the sentiment that ‘more flexibility’ in the next EFIs is needed has grown, with calls for a more fundamental review than the Mid-Term Review and next MFF would allow for, increased flexibility will be a driving issue in the next MFF. Yet to what extent and how can increased flexibility make European external action more effective (e.g. in reconciling values and interests or fostering global agendas) while at the same time preserving accountability and transparency?

The concept of flexibility is mostly understood in terms of swift responsiveness to unforeseen events. Yet this is only one dimension of flexibility. Other aspects of flexibility could be:

- Agility to move between budget headings (EFIs, programmes within EFIs, sectors of concentration or new thematic or geographic priorities)
- Potential to leverage additional resources (e.g. through EU Trust Funds or Blending Facilities)
- Ability to reorient funds to certain type of partners (e.g. private sector / security actors / civil society / political actors).

Generic calls for ‘more flexibility’ can be interpreted differently. Most official actors involved in the MFF/EFI negotiations tend to view the ‘benefits’ of flexibility from their institutional perspective. Member states want more say and influence over funding decisions. The Commission wants the flexibility to move quicker, consult less and the ability to have additional resources. Those in EU Delegations want a flexibility that makes it possible to respond to an evolving context (in terms of programming choices, partners, ways of working) whilst avoiding being subjected to rigid ‘HQ’ instructions. The private sector wants the flexibility to access Commission funds more easily, and this applies to security actors and civil society.

A similar analysis can be made regarding the flexibility provided by EU Trust Funds or blending facilities, as illustrated in Table 2.

Trade-offs and consequences of increased flexibility

At first sight, the benefits of flexibility seem to be fairly self-evident in terms of swiftness, political and operational relevance, seizing windows of opportunity or working with the most appropriate partners. Yet the potential negative consequences or ‘trade-offs’ have increasingly come into focus. They include the risk of the reduced oversight from the European Parliament and accountability to EU citizens, especially in the absence of public, timely, detailed, easy to access and independently usable information on EU activities. Other limitations regard

34 In previous MFFs other innovations were brought about in the EFIs where flexibility was a major consideration (such as for example the original creation of the Instrument of Stability in 2006) so significant innovations and even the creation of new instruments is a possibility.

Table 2: Positive and negative aspects of flexibility in EU Trust Funds and Blending

Approach	Positive	Negative
EU Trust Funds	TFs bring flexibility and allow for a rapid disbursement of funds, including faster decision-making.	EU TF projects, by increasing flexibility, may lead to less inclusiveness, a lack of trust building with partners and a potential loss of local ownership for some projects. Aid effectiveness principles of partnership, consultation and alignment tend to be undermined by this short-term thinking.
Blending	Ability to leverage new resources (from the private sector as well).	The quantity of EU blending facilities especially, each catering to specific regions and themes, adds to the complexity around the EU budget. It also limits democratic oversight. A common concern rests on the issues of additionality and the measurement of development impact.

potentially jeopardising some EFIs long-term nature for short term priorities, undermining a key added value of the EU external funding highlighted in recent evaluations. It is not a question of either/or but of finding the right balance.

In this context, the Coherence Report argues that “*rethinking the set of EFIs to ensure they remain fit for purpose beyond 2020 will also require clear and coherent choices regarding the different dimensions of flexibility and possible trade-offs risks and costs*”. It continues identifying a set of core questions to be addressed in the process (see Box 2).

Box 2: Opening the Pandora box of growing flexibility: key questions arising

- How to improve risk analysis and understanding of crises to be better prepared to address unforeseen changes?
- How to find smarter forms of rewarding good performance as a way to flexibly respond to the actual mid-term evolution of the context and partner’s attitude?
- How to further refine the flexibility function within specific EFIs to allow ongoing adjustments and adaptation of the programmes (e.g. by increasing the percentage of unallocated funds)?
- How to make sure that these additional reserves are used in a strategic and global way (i.e. without a geographic focus)?
- How to enlarge the space in which the EU can act fast in its own interests, with suitable procedures and implementation modalities (e.g. regarding comitology and programming)?
- How to simplify the Financial Regulation to facilitate a more flexible use of EFIs?
- How to relax the rules regarding DAC-ability in the light of new global and security agendas?

Critical choices regarding the new EFI architecture beyond 2020

The above analysis has reflected on the evolving international co-operation system, driven by global agendas, crisis and security concerns, mutual interests, multiple actors, and financial flows beyond aid. All this impacted on the current set of EFIs. Hence, the foundations of the present EFI architecture have been weakened and gaps have appeared in terms of coverage and institutional/funding arrangements for new EU policy priorities.

In its concluding chapter, the Coherence Report provides an overview of the type of choices that policy-makers will have to consider in designing a new architecture that is fit for purpose beyond 2020 (see Table 3).

Table 3: Core challenges and policy implications

Core challenges for current set of EFIs	Policy implications
1) Instruments whose core mandate comes under pressure as they are called upon to tackle an increasing number of internal EU priorities and interests (i.e. DCI and EDF).	<ul style="list-style-type: none"> • Recognition that the whole package of EFIs loses coherence if the lines between core mandates and other EU priorities become too blurred. • Recognition that geographic instruments face major limitations in delivering greater flexibility due to their focus on long-term co-operation, ownership, and locked-in funds.
2) Instruments with a mandate to complement other EFIs yet faced with a lack of progress in mainstreaming through geographic programmes (i.e. EIDHR, Civil Society Organisations-Local Authorities programme).	<ul style="list-style-type: none"> • Clarification of what limited progress in mainstreaming means for the future of these complementary instruments in terms of roles, funding capacity and ability to generate sustainable results.
3) Instruments not designed to cater for co-operation with graduated countries (e.g. geographic part of DCI with its primary focus on poverty reduction).	<ul style="list-style-type: none"> • The issue may resurface as to whether the EU should pursue poverty reduction in some MICs. • Need to rethink how the wider SDG agenda and implementation of the Paris Agreement can be pursued with all countries. This implies developing further mutually beneficial forms of partnership, using different implementation approaches and modalities (as pioneered by PI and the GPGC programme).

<p>4) Instruments whose core mandate is to promote mutual interests, and which have become more relevant in the light of the 2030 Agenda and the Paris Agreement on climate change (e.g. the GPGC under the DCI).</p>	<ul style="list-style-type: none"> • Recognition that the GPGC is also confronted with the challenge of limited mainstreaming of the global agenda through other EFIs. • In light of the scope and centrality of the 2030 Agenda, the question arises whether one should consider a much broader ‘SDG instrument’, building on experiences gained by GPGC and also PI.
<p>5) The instrument with a dedicated mandate to promote European interests (i.e. PI).</p>	<ul style="list-style-type: none"> • Exploration of how the assets of PI (i.e. focus on EU interests, global reach, new forms of partnership, flexibility) can be consolidated. • Clarification of the future place, scope, outreach and funding of a dedicated instrument like PI in light of redefined EU foreign policy objectives (EUGS).
<p>6) Instruments dealing with conflict and crises, stability, peace and security.</p>	<ul style="list-style-type: none"> • Recognition that the ICSP is in ‘high demand’ as instability, fragility and conflict situations proliferate. Need to consolidate its assets and clarify its place, scope outreach and funding in future EFI architecture. • Considering the political weight given to stability, security and resilience questions (EUGS), there is an opportunity to adopt more holistic approaches by reducing fragmentation and sorting out a clear division of roles between the instruments.
<p>7) Other instruments under Heading IV and internal financing instruments.</p>	<ul style="list-style-type: none"> • Exploring ways and means to improve coherence between EFIs and other instruments under Heading IV (e.g. CSDP, MFA, humanitarian aid). • Further reflection needed on how internal financing instruments can contribute to achieving EU foreign policy and security concerns as well as global agendas, through the respective line DGs.

Source: Bossuyt, Caputa and Schwarz, 2017.

Part 4: Reconciling values and interests in EU external action towards 2020

Alongside clear interests, values are a core part of the EU's identity, self-image and stated priorities. Yet how do you have a dialogue and finance a programme with a repressive government, address migration issues while at the same time promote human rights and the rule of law? Dealing with values and interests is likely to be another **'hot potato' in the debates on the future of EU external action**. Issues in relation to values will inevitably appear during the review of major policy frameworks (such as the Cotonou Agreement or the Joint Africa-EU Strategy) or in the process of defining a suitable set of external financing instruments for beyond 2020. The discussions may be even more challenging than usual, considering changes in the international and European context. These have led to a growing gap between policies and practices, which appear very clearly at European level. **On paper**, the EU has over the last two decades built an **impressive policy and institutional architecture** to promote an expanding set of 'values' (such as human rights, democracy, the rule of law, gender equality, etc.) in its external action. However, there is abundant evidence that the EU finds it **increasingly difficult to adequately deliver this value agenda on the ground** for a variety of complex reasons (see below).

This is **confirmed by the recently conducted mid-term evaluations of the EFIs**. The various reports converge on the huge challenges encountered by EU Delegations to meaningfully dialogue about³⁵ normative reforms linked to human rights and democracy (particularly through geographic instruments). The same holds true for engaging with local civil society organisations involved in governance in a context of 'closing space' and restrictions on basic political freedoms.³⁶

As a result, the EU's overall approach to promoting values in its external action finds itself at a **critical juncture**. The whole issue of values is probably more relevant than ever - as the Agenda 2030 fully embraces a rights based approach (contrary to its MDG predecessor) and citizens across the world continue to fight for rights and human dignity, including through global protests.³⁷ Yet the EU may have to drastically review how to do this in practice, if it wants to be a credible, effective and result-oriented actor on the values agenda in the context of a multi-polar world and an increasingly divided Europe. The continued use of prevailing (normative) approaches, dialogue practices and tools (including conditionalities and financial incentive schemes) do not seem to suffice anymore.

The remainder of this Part will seek to provide a **basic framing** to facilitate a forward-looking debate **on the place and weight of values in the EU external action beyond 2020**. Firstly, it

35 See Directorate General for External Policies (2014).

36 See Carothers and Brechenmacher (2014).

37 See Carothers and Youngs (2015).

briefly examines how the EU values agenda has come under growing pressure. It then explains why this happened, using a political economy lens - as a precondition to also determine what alternatives exist for a more effective EU response. Based on this, ways and means are explored to better reconcile values and interests in EU external action beyond 2020.

The growing gap between policy and practice

The 1957 Rome Treaty, which established the European Community, did not include foreign policy objectives, reflecting its origin as a project of economic integration. In 1970, the first framework for cooperation on foreign policy was created, i.e. the European Political Cooperation (EPC). From the outset, human rights issues featured on the agenda of the EPC. However, member states were quite divided on the issue³⁸ and the EC itself was initially quite reluctant to embrace it because it wanted to be seen as a 'neutral' actor providing aid on a non-political basis. The end of the Cold War was in many ways a turning point as it paved the way for a new democratisation wave and a much stronger European profile on values, as reflected in the 1992 Maastricht Treaty. This new approach soon permeated into cooperation agreements with all partner countries/regions. Political dialogue and conditionality linked to 'essential elements' (human rights, democracy, the rule of law) became the standard in EU external action - further embedded in the Lisbon Treaty. The role of the EU as a normative player is also very visible in its enlargement policy.

The **regulations underpinning the various external financing instruments** (EFIs), as defined in 2014, make detailed reference to the need for promoting core values in EU external action. Even the 'Common Implementation Regulation' (CIR), supposedly focused on simplifying and harmonising EU procedures, incorporated a number of substantive human rights issues (under pressure from EU member states). Recent EU Communications continue to emphasise the normative agenda on human rights and democracy. Examples include the new **European Consensus on Development** (which strongly advocates for the mainstreaming of 'rights-based approaches') or the recent **Communication on the future of the Cotonou Partnership**. Although the partnership has been progressively eroded and it is mainly based on aid, the EU proposed an 'umbrella scenario' which promises a degree of continuity avoiding sensitive discussions with existing ACP institutions and mostly to maintain some sort of legal commitment to shared values. This approach is likely to under-deliver whereas emerging propositions for stronger regional partnerships and a lighter multi-regional agreement would be better suited to current realities.³⁹

38 Several member states did not wait for a full-fledged European approach and started to integrate human rights in their aid policies during the 1970s (e.g. the Netherlands), mirroring what Scandinavian countries (not yet members of the EU) were doing.

39 See Bossuyt et al. (2017b).

All these suggest that the EU is eager to maintain a strong focus on values in its future external action. Yet as it continues to walk along this road, **the EU will need to confront and address upfront the gap between stated ambitions and actual practices.** This is nothing new. In the past, the EU always had a dual-track approach in its foreign policy, whereby it combined support for democracy and human rights with the pursuit of broader geopolitical, economic and security interests. The balance often tilted in favour of stability and the 'status quo' - as illustrated in Neighbourhood South before the Arab Spring.

The **2011 Thematic Evaluation of European Commission support to human rights** concluded that the EU's track record was mixed. On the positive side, it noted that human rights have gained greater prominence in the EU's external action, as reflected in a proliferation of human rights dialogues and demarches, a wide range of strategic partnerships and increased funding. The strong profile of the EU on human rights is highly appreciated by activists and civil society organisations across the world. However, the evaluation also identified **systemic constraints hampering the overall impact**, including: the insufficient use of high level EU political leverage (particularly in countries where major interests are at stake leading to inconsistencies and double standards); the lack of clearly spelled out and effectively implemented 'joint' strategies between the EU and member states; limited leadership to push for mainstreaming of human rights, and a wide range of downstream implementation problems.

The timing of the evaluation largely coincided with the Arab Spring. The people-driven revolts in various countries had the effect of a **'wake-up' call** for the EU and prompted a fundamental rethinking of EU policies on human rights. The then EU High Representative, Catherine Ashton stressed the need to integrate human rights as a **'silver thread'** throughout all EU external action, a claim she also made about conflict prevention.

More than six years later, a **sobering picture** emerges. The systemic constraints, identified by the 2011 evaluation, continue to affect consistent EU action regarding its value agenda. In the Neighbourhood South, the EU seems to be going back to the paradigm of 'stability first' following the (violent) interruption of democratisation processes in most countries. The **internal economic and political turmoil affecting Europe compound the problem.** Reference can be made to the treatment of refugees in some member states or to the growing amount of restrictive measures on freedoms resulting from pressing security agendas and the fight against terrorism. The rise of nationalist populism in several European countries displays a deep rift between member states on normative issues. The EU itself has increasingly been at odds with some of its own member states over values issues. Its power of persuasion to adhere to EU values internally is limited and incentives for member states to act more strongly on values within the Union are low: some of them want to avoid setting precedents for a stronger role for EU institutions at domestic national level, and so avoid taking stronger political and legal action towards member states that do not comply with the value agenda.⁴⁰

40 See Grabbe and Lehne (2017).

All this heavily affects EU external action and the values agenda in particular. With the consequences of the Arab Spring and the Libyan conflict in mind, support to democratisation is increasingly perceived as a 'risky business' as it could potentially unleash conflict and instability. The concept of '**principled pragmatism**',⁴¹ propagated by the High Representative for Foreign and Security Policy Federica Mogherini, is increasingly interpreted as a way to silently tolerate and even support undemocratic regimes that, first and foremost, serve Europe's strategic interests. Priorities for external action and cooperation shift from a comprehensive (political) partnership portfolio towards a pragmatic bilateral agenda (dealing with governments).

The political economy behind the pressures on the EU values agenda

It is important to analyse why the EU finds it increasingly difficult to defend and promote core values in its external action. A political economy lens can help here, since it enables us to look behind the façade of formal policies and focus on **deeper trends, shifting power relations and actual interests and incentives**. Some basic pointers are put forward to explain the growing tension between interests and values in EU external action.

A first factor to be taken into account is of a structural nature. After decades (post WWII) of gradual progress, making human rights nothing short of the "*dominant language of the public good around the globe*" (Michael Ignatieff), unchecked globalisation and liberal internationalism are giving way to a **post-human rights world**.⁴² A trend towards more adherence to human rights, however imperfect, is being reversed. The decade-long progress that gave the global human rights project an air of historical inevitability seems to be reaching an end.

A second factor relates to the **growing assertiveness of partner countries**. It is a reality that can be observed across the board and particularly in Africa. As aid dependency levels fall quite drastically, governments are less willing to accept conditions imposed by donors or perceived double standards (e.g. in relation to the ICC accused of focusing mainly on African leaders). They also have the possibility to diversify partnerships with new powers - many of which do not seek to push through political agendas. The rise of 'developmental states' (e.g. Rwanda, Ethiopia) further compounds the problem as they tend to be portrayed as successful models – despite the poor track record in terms of freedoms and democracy.

A less openly recognised factor (particularly among policymakers) is the **reduced attraction, clout and leverage of Europe** in a globalised, multi-polar world. While the EU social and economic model

41 Principled pragmatism" to indicate a balanced, middle ground foreign policy direction is not a European invention. The idea that a results-oriented, interest-driven pragmatism, can be aligned or combined with a more principled approach on a selection of issues has long been a liberal mantra of the US, for example in the Obama administration's position towards Russia and China. See Smith (2009).

42 See Strangio (2017).

is still a source of inspiration, Western approaches to democracy and human rights are no longer universally regarded as the 'path to follow'. Competing societal models have emerged challenging normative approaches in foreign policy. Europe also increasingly lacks the power and (financial) resources to exercise effective leverage. Alternative sources of funding (from China, the Gulf States, etc.) are available for regimes that want to go their own way.

Other forces are at work in the EU sphere. It could be argued that **three tensions determine the pursuit of values in external action**. They are strongly present in EU external action and can be used to understand and discuss political, policy and practical options on how the EU can or will promote the values it proudly stands for:

- *The relation between the Union and the member states.* According to Martha Nussbaum⁴³ the latter are better fit to pursue values than the supranational EU, because they are directly accountable to citizens. The EU would need a fully-fledged constitution and have more democratic institutions. The current situation leaves member states more accountable and credible to pursue values because they have a set of values that is broadly endorsed by citizens. In Nussbaum's logic, democratic nations must lead the value agenda; one cannot expect the EU and its institutions to lead, let alone that nations can "delegate" the pursuit of values to a supranational body. The Lisbon Treaty is a step forward but falls short of the degree of commitment inherent in a Constitution. The trend to negate or minimise certain values in some member states makes the Union less credible and less forceful in the promotion of values.
- *A political or a developmental approach.* Carothers⁴⁴ makes such distinction talking about democracy promotion, but it can be upheld for the wider value agenda. The political approach proceeds from a relatively narrow conception of values, focused on political liberties and human rights as modelled by liberal democracies. The more advanced democracies see it as a political goal to convince less democratic countries of the "superiority" of their values. Simplified: the political approach considers values as an end in themselves. The developmental approach sees progress on human rights and democracy as a gradual, incremental process of change involving an interrelated set of political and economic developments.
- *A 'logic of consequence' or a 'logic of appropriateness' in decision-making.* This distinction comes from James March's theory on decision-making.⁴⁵ Decision-makers can follow "what is the right thing to do" (decisions based on values and norms) or "what yields the best results". Concrete application: is cutting aid to Ethiopia the right thing to do given the values the EU stands for or will values improve as a result of EU support to a government that is relatively effective in socio-economic development?

43 See Nussbaum (2011).

44 See Carothers (2009).

45 See March (1994).

Last but not least, EU value agendas cannot merely be considered from an inward looking perspective. How do third nations and citizens of nations reached by EU external action perceive the value agenda? In restrictive environments, civil society organisations, human rights activists and citizens more broadly, tend to expect a stronger support from Europe as a longstanding ally and as a promoter of freedom and democracy.

How can the EU be a more credible and effective player on values

Geopolitical, security and economic interests seem to take the upper hand over the values in EU foreign policy. The former reflects a clear internal agenda, closely linked to expectations of European citizens. The EU has a clear interest in working towards political stability, security and the management of refugee flows. Yet questions can be raised, whether pursuing one's own strategic interests and upholding certain values are really mutually exclusive. Maybe the focus should not only lie on the possible trade-offs between the two but on what the EU can do on different levels, at different speeds and with different tools. A less explicit normative profile globally does not exclude that a stronger position is taken in certain contexts, or on certain issues (e.g. sexual and reproductive health rights). In fact, in some cases, not having to maintain a too normative discourse or the ambition to be "value driven in all that the EU does", may even allow stronger action in certain contexts.

Box 3: Key questions arising

- The EU Global Strategy represents a fundamental shift. It is the first major external action policy document that does not primarily aim to promote European values elsewhere. The central tenet is protecting European values back at home. This points to a shift from a logic of appropriateness (at least at policy level) to a logic of consequence. This does not eliminate the pursuit of values, but it does make it **more instrumental**: values will be promoted where they can help to achieve the objectives set out in the Global Strategy. Is this a paper shift or a real shift, turning EU external action more consequential?
- The EU never made a clear **choice between a political and a developmental approach** to values. This has the advantage of flexibility, but can also generate perceptions and accusations of hypocrisy and double standards. Is there a need to provide greater clarity and sense of direction in this area?
- Is it possible to develop a more subtle approach to the promotion of European values, for example by **increased sensitivity to non-Western perceptions of democracy and justice**? The old approach based on the premise that our value system is more advanced than others may have lost traction in the new world (dis)order? In a similar vein, the 2011 evaluation on EC support to human rights recommended the development of comprehensive strategies to

'localise' the human rights agenda.⁴⁶ This means taking local realities as the starting point for elaborating a context-sensitive, realistic, inclusive reform and prioritised agenda. This includes strategic partnerships and alliances with continental and regional institutions and initiatives.

- **How to manage risk aversion?** There is a major challenge to be firm in high-level political dialogue with authoritarian regimes, while not patronising or imposing unrealistic conditionalities that have hardly worked in the past.
- **How to minimise the cost of disjointed action?** EU and MS often fail to come up with a clear line, or even openly contradict one another. Current mechanisms for aligning diplomatic action do not work when the stakes are high. EUDs have a coordinating mandate, which they can only fulfil when empowered and supported from Brussels. If a multi-speed Europe is the future, this could also apply to normative action in subgroups and different arrangements
- How to put in place a **more sophisticated and differentiated toolbox** for effective action on values, including in terms of approaches to political dialogue and mainstreaming, actors⁴⁷ involved, institutional channels used or time perspective?

⁴⁶ This could also contribute to elaborate more targeted and feasible EU human rights strategies at country level.

⁴⁷ Mainstreaming of democratic and human rights values in sectors (e.g. health, water and sanitation) can be a valuable alternative entry point in closed environments.

Annex 1: The future MFF in perspective

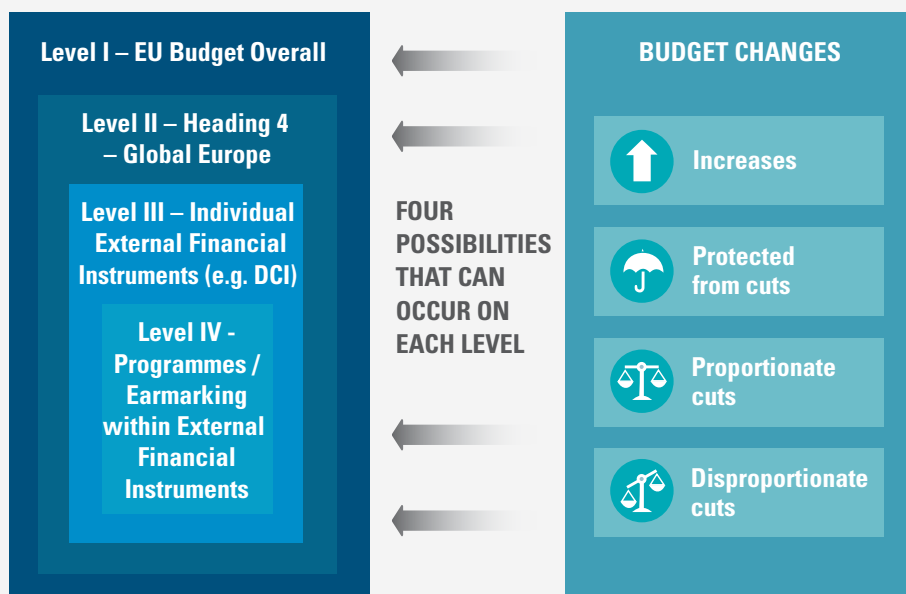
Is there sufficient or too much existing policy direction to frame IFIs and EFIs in order to make them strategic? The Global Strategy, the European Consensus and post-Cotonou discussions are wide-ranging and multifaceted. Do they provide enough guidance to frame the external instruments? Does the Global Strategy have enough ownership within the European Commission (as opposed to the EEAS) to be taken seriously as a 'jumping off point' for Heading IV?

How will the budget negotiations go in the face of Brexit? Potentially a loss of 10-17% of income will require some lowering of ambition in terms of the amount to spend, but where will the cuts come in?

Where are we going to increase, protect from cuts, have proportional cuts (related to the 'loss' of UK income) or disproportionate cuts (e.g. larger than the 'loss' of UK income)? How beyond finance, will the loss of the UK be 'felt' in the next MFF in terms of thematic or geographic priorities?

FOUR LEVELS OF POTENTIAL CUTS/ INCREASES AND CHANGES ON FUTURE EU BUDGET 2021-2027

ecdpm



Annex 2: Basic facts on MFF 2014-2020 (as originally agreed to in 2013)⁴⁸

Commitment appropriations	Total 2014-2020 (EUR million 2011 prices)	Percentage of the budget
1 Smart and inclusive growth	450 763	47%
1a Competitiveness for growth and jobs	125 614	13.1%
1b Economic, social and territorial cohesion	325 149	33.9%
2 Sustainable growth: natural resources of which: market related expenditure and direct payments	373 179 277 851	38.9%
3 Security and citizenship	15 686	1.6%
4 Global Europe	58 704	6.1%
Administration of which: administrative expenditure of the institutions	61 629 49 798	6.4%
Compensations	27	0.0%
Total commitment appropriations	959 988	
As a percentage of GNI	1.00%	
Total payment appropriations	908 400	
As a percentage of GNI	0.95%	
Margin available	0.28%	
Own Resources Ceiling as a percentage of GNI	1.23%	

⁴⁸ See Directorate-General for Budget (2013).

Annex 3: Special instruments outside the Multiannual Financial Framework 2014-2020

Maximum appropriations	Total 2014-2020 (EUR million 2011 prices)
Emergency Aid Reserve	1 960
European Globalisation Adjustment Fund	1 050
European Union Solidarity Fund	3 500
Flexibility Instrument	3 297
European Development Fund ⁴⁹	26 984

Annex 4: Linking internal and external responses flexibly

Box 4: The challenge and dilemmas of responding to the refugee and migration situation

An increasing number of intricate policy issues are blurring the lines between the EU's internal and external action –thus illustrating the trade-offs noted in Part 2. Migration is a good example of a complex issue for which a response that integrates both internal and external instruments is required. Yet there are many issues beyond migration and associated with the Sustainable Development Goals or the EU Global Strategy that will also require such an integrated approach.

The migration and refugee crisis however has put Heading IV ('Global Europe') under great pressure, thus alternative instruments at the disposal of the EU have been used in a flexible manner, while respecting the MFF ceilings. Indeed, in the face of the migration and refugee crisis, the Flexibility Instrument and the Emergency Aid Reserve have allowed for the substantial top-up of the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF), with the aim to "ensure the territorial continuity of financing, starting in the EU and continuing in non-EU countries".⁵⁰ These funds are good examples of internal instruments that have an external dimension (but still quite small compared

⁴⁹ The EDF is not funded by the EU budget.

⁵⁰ See European Commission (2015a).

to their overall budget) to ensure that the EU has the means to pursue its Home Affairs policy priorities and uphold its interests in relations with non-EU countries.⁵¹ This shows the interlinkages between the EU's internal interests and the values associated with its external engagement. Internal instruments have thus been also used to provide a rapid response in cases of emergency. As underlined by Den Hertog,⁵² there has been “a reorganisation or re-labelling of existing EU funds or a shift within the EU budget whereby amounts are “redeployed” among budget headings and from “flexibility instruments”. €55.7 million of appropriations were redeployed from other EU budget lines outside Heading IV (from the EU Solidarity Fund, various budget lines in Headings II and III) for the delivery of rapid, effective humanitarian aid for Syrian refugees.⁵³ Besides, the AMIF and the ISF have been used as a funding source for the EU Trust Fund for Africa or for the Emergency Relocation Mechanism (partly diverted to the resettlement of Syrians from Turkey). DG HOME's website underlines the fact that “the external component of the Funds [AMIF and ISF] allows the EU to **fund actions related to non-EU countries which have a direct impact in the EU and on its citizens.**”⁵⁴ In this context, it is important to make sure that the interests associated directly to EU citizens (i.e. security interests) do not outweigh developmental interests, which are also of interest EU citizens (a 2016 Eurobarometer found that 89% of Europeans think it is important to help people in developing countries and 68% agree tackling poverty in developing countries should be one of the main priorities of the EU).⁵⁵

Another relevant trade-off in the case of the ‘migration and refugee crisis’ concerns the increasing tension between short-term, crisis responses and more structural, long-term considerations, as revealed in the redirection of EU funds from development objectives to ‘migration management’ objectives. For instance, Den Hertog notes that the North Africa window of the Africa Trust Fund mostly focuses on such management, due to the presence of “transit countries” in the region.⁵⁶ The fact that in the EU narrative funding is increasingly linked to cooperation of third countries on return, readmission and migration governance raises the same concerns. Finally, the fact that the 2017 budget includes almost €6 billion in commitments to “address the migration pressure and make the life of European citizens more secure”, through the resettlement of refugees, border protection, integration of persons who have the right to stay and return of those who do not, shows that internal and external action have been mixed in order to reach the overarching goal of reducing migrant flows.⁵⁷

51 See European Commission (2016b).

52 See Den Hertog (2016).

53 See Knoll and Sherriff (2017).

54 See Directorate-General Migration and Home Affairs (2019).

55 See European Commission (2017h).

56 See Den Hertog (2016).

57 See Council of the European Union (2017a).

The trade-offs outlined in Part 3 can be applied to the issue of migration, especially when we consider the trust funds (the EU Trust Fund for Africa in particular). Their rapidity and flexibility has been extremely useful to provide an immediate response to the crisis, however, over the long-term, their contribution to development in line with the aid effectiveness principles (inclusive partnerships, quality programming, local ownership) will need to be closely scrutinised (especially considering the fact that these instruments lack oversight from the European Parliament). The fact that the Commission, in its September 2016 proposal for the mid-term review of the MFF, foresees the establishment of EU Trust Funds also for emergency, post-emergency or thematic actions within the EU (and not only for third countries), is another illustration of the blurring of boundaries between external and internal policies.⁵⁸

As underlined by Den Hertog, “the refugee crisis has thus enabled this partial reconfiguration of the EU funding landscape, both internally and externally”, questioning the justification for a clear delineation of internal and external instruments, in a context where the budget is stretched, and the crisis is not expected to fade in the near future. The situation has been interpreted as an emergency, which has led to a mode of working quickly and short-term-oriented, but some areas like resilience or capacity-building require longer-term engagement strategies. As migration, security and development in EU policies are increasingly interconnected and considering that even more complex issues may arise in the next seven-year framework, the EU’s financial instruments must be reviewed in a comprehensive manner. This needs to be done while ensuring that making the budget able to cope with the modern challenges does not undermine the quality of development cooperation or EU values. The irregular migration and refugee situation has revealed that the EU budget may need increased levels and types of flexibility to adequately respond. Yet almost all the trade-offs articulated in Part 3 with regards to flexibility are clearly apparent in the case of a better response to migration. It is likely that other internal/external issues will continue to challenge both the MFF but also the EU’s institutional architecture to respond in a coherent and integrated manner.

⁵⁸ The Commission states that “as the boundaries between external and internal policies are increasingly blurred, this would also provide a tool for replying to challenges crossing the borders.” See European Commission (2016c).

The dynamics of EU budget negotiations for external action: towards a ‘single’ instrument?¹

Mariella Di Ciommo, Andrew Sherriff and Jean Bossuyt

1. Context of future budget negotiations and its challenges²

The global context and the consequences for EU external action

In May 2018, the European Commission is scheduled to present its proposal for the EU post-2020 budget and potentially the detailed proposals on the External Financial Instruments (EFIs). Overall budget cuts might result from Brexit, but external financing under Heading IV (Global Europe) may be proportionally larger than today, according to the budgetary implications of President Juncker’s scenarios for the future of Europe.³ The quest for a more flexible and simpler budget is behind demands for fewer instruments or, more radically, for merging of existing instruments into a single one. The College of Commissioners is likely to meet in January 2018 to discuss first ideas and instruct their Services and Directorate-Generals (DG) of the parameters for the proposals with broad discussions with member states in February. This chapter focuses on the context and dynamics of budget negotiations exploring the option of a single instrument for EU external action. It explores the possible narratives, focus and design of such an instrument, acknowledging that this is one among many options.

The new EU budget for the period after 2020 will need to take into account the challenging and volatile times faced by the European Union. Its ambition to be a global player is currently sailing through rough seas. Brexit exposed the issues surrounding EU legitimacy and the urgency to articulate the EU added value to citizens. Slow economic recovery proved so far insufficient to tackle rising inequality, create decent jobs and reduce unemployment in the Union. A sense of insecurity and populism fuelled a backlash against migrants and refugees. Soaring national and sub-national identities have been testing the limits of European democracies and the EU project.

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 - 2 Feedback can be given to: as@ecdpm.org. This chapter builds on earlier work by ECDPM and we are grateful for feedback we have received on past presentations and analysis ECDPM has produced related to the MFF. Authors are grateful for feedback received from ECDPM colleagues Alexei Jones, Virginia Mucchi, Alfonso Medinilla and Valeria Pintus on a draft and layout work by Annette Powell and Yaseena van’t Hoff.
 - 3 See European Commission (2017e).

Terrorist and radical networks span countries in and beyond the continent. Violent conflict is now closer to Europe and is destabilising neighbouring countries.

Europe's global leverage is declining. The EU struggles to live up to its own values and standards and the existence of alternative socioeconomic and political configurations diminishes the appeal of the European model. Developing countries are seeking their own paths to development and international cooperation and can choose among more partners.⁴ Space for civil society is closing up in many places. Climate change, sustainable development, security and cyber security threats require collective action just as multilateral governance is weakened. China seeks more boldly global leadership at a moment when the US and Europe relations stand at their lowest in decades.

Consequences for EU external action are the most significant since the end of the Cold War. It is ironic that political expectations on EU external policy rise as the EU institutions retreat in rather conservative approaches. This occurs in EU-African, Caribbean and Pacific (ACP) and EU-Africa relations as much as in the adoption of ad hoc solutions to face migration and security perceived crises. As they deliver to the EU some tough requests, member states often promote national initiatives at the expense of progress on joint EU approaches. In such an unstable and competitive environment, the EU capacity to deliver on both its interests and values is suffering, as the failure to stabilise the EU neighbourhood shows.

Available opportunities and global agendas

Leveraging opportunities to make the EU a stronger and constructive global actor will require collective leadership by the EU and its member states. Brexit negotiations see EU member states aligned on common positions. The US Presidency's position on climate change prompted the EU to release strong declarations in support of the Paris Agreement and towards collaboration with China. The EU recent progress on defence cooperation was unthinkable just some years ago. The EU Global Strategy (EUGS) of 2016 and the European Consensus on Development of 2017 widen the scope for EU foreign and development policy to encompass development, global public goods, EU foreign interests and values.

Agenda 2030, the Paris Agreement and the Addis Ababa Action Agenda (AAAA) positively challenge the EU to enquire what its contribution will be. They promote an ambitious and complex vision for the future with implications at the subnational, national, regional and global levels. In the context of a more interest-driven EU that still wants to be a responsible global player, synergies and inconsistencies need to be identified and either exploited or managed. This regards external as much as internal goals and policies, and the financial instruments that underpin them.

4 See Greenhill, Prizzon and Rogerson (2013).

Key issues in budget negotiations for external action

The EU negotiations for the next Multiannual Financial Framework (MFF) offer space to distil a common vision into concrete plans. Summarising the evaluation findings of nine of the existing European External Financial Instruments (EFIs), the EU Coherence Report calls for a deep reorganisation of the external financing architecture and of its division of labour (see Box 1).⁵ Flexibility and simplification can be politically attractive and bureaucracies might find it easier to manage funds, but they also carry risks and potentially too high expectations on the gains of instrument design.⁶

Box 1: What does the Coherence Report tell us about the current EFIs?

The Coherence report summarised the main findings of the various mid-term evaluations and collected ideas on the future set-up:

- Instrument design is not necessarily the main impediment to more effective EU external action. Most challenges occur at the strategy, programming and implementation level and where EU interests and the priorities of multiple counterparts in partner countries diverge. Limited autonomy and weight of EU delegations and the ad-hoc exploration of synergies among different instruments are also problematic.
- Gaps and inconsistencies in EFIs coverage require attention. Instruments are no longer fit to respond to the global aspects of the Agenda 2030 and the Paris Agreement in terms of scale and type of funding and the required partnerships with the private sector, civil society, non-state actors and more advanced countries.⁷ Overlaps and inconsistencies exist, for example, between the Development Cooperation Instrument (DCI) and the European Development Fund (EDF).
- Some instruments are paving the way for more updated forms of cooperation. Their strengths include the ability to match EU and partner countries' interests under the Partnership Instrument (PI); to work with several DGs across the European Commission beyond the usual suspects of the development circles under the Global Public Goods and Challenges programme (GPGC); the speed and flexibility to adapt to changing and challenging contexts and to different partners under the Instrument contributing to Stability and Peace (IcSP).

⁵ See European Commission (2017j).

⁶ See Bossuyt et al. (2017a).

⁷ See Di Ciommo (2017).

The current external financing architecture is viewed as cumbersome to manage and in urgent need of simplification. Some consider this a necessary step to increase efficiency, effectiveness and political appeal. But some of its key shortcomings depend on the implementation of the EFIs and the more granular functioning of EU institutions. For example, the identification of synergies among different EFIs is left to the goodwill of individuals, without systemic incentives and direction. Joint work between EU institutions and member states stumbled against low political backing as well as technical barriers. While a more rational external financing architecture could benefit EU external action, it's unrealistic to think that a more rational design of financial instruments alone could solve issues that arise at multiple levels and involve different stakeholders.

The EU needs to avoid investing in policies and allocating resources to initiatives that will not bring the expected results, for example on curbing irregular migration through development cooperation.⁸ More generally, the EU and member states must be under no illusion that financial resources, in particular of the scale available in the EU public coffers, can make up for the absence of well thought through political strategies and engagement with external partners.

Amongst the key strategic issues in the budget negotiations is the question of the future of the EDF. The 11th EDF (€30.5 billion for 2014-2020) is the largest of EU EFIs. It resides outside of the EU budget, although it is negotiated at the same time as the other on-budget EFIs. Any change to the EDF will have a major cascade effect on the EU external financing architecture. The longstanding issue of whether to bring the EDF inside the EU budget (EDF budgetisation) will require all negotiating parties to take position and will be a major pressure point in the MFF negotiation. However, how much political capital will be invested in obtaining a particular outcome will be more important than official positions or proposals (see Box 3).

2. A political economy lens on the next EU budget - what drives positions

Based on analysis of past and current budget negotiations, it is possible to identify five different approaches that inform how proposals are developed and how negotiating positions are taken, advanced and defended.⁹ Various institutions, ministries, DGs, parliamentary committees and

8 Expectations that development can curb irregular migration tend to be misplaced as evidence shows that the migration-development nexus is much more complex and development can lead to more, rather than less, migration. See De Haas (2007) and (2010).

9 It is important to note that these approaches at this stage are not made up of a detailed and comprehensive analysis of 'positions' of the actors but more impressions from a limited number of interactions and past positions held in previous MFFs.

individual departments within them can hold or push for different approaches.¹⁰ Yet at a certain time in the negotiations some approaches will become more dominant in agenda setting and will frame the final agreement on the resultant EFIs. While these approaches are more nuanced and complex in reality, we present them more starkly for analytical and brevity purposes.

These five approaches are:

- *Managerial approach* - The narrative here emphasises rationalisation, simplification, and flexibility. This approach seeks to make the management of resources more flexible, simplify and cut bureaucracy and rationalise different instruments. It prioritises efficiency and adaptation to an evolving context whereby policy shifts and new initiatives can be managed over the life cycle of the MFF with limited interference and minimal negotiation. For example, under this approach merging most EFIs and bringing the EDF inside the budget is a way to promote rationalisation and gain more flexibility through a larger financial reserve under one instrument only rather than dispersed under many instruments. Yet supporters of this approach can be concerned that budgetisation of the EDF may limit the flexibility that this instrument allows by it being currently off-budget and reduce the total amount of resources available. Proponents of this approach potentially can be found in parts of EC Directorate-General for International Cooperation and Development (DG DEVCO) and the European Commission more widely.
- *Political control-oriented approach* - This approach also subscribes to the need for flexibility and rationalisation, but its logic is more about control and direction of resources rather than efficiency, effectiveness or simpler management. The dominant narrative is that the world has changed and today the EU has to defend its interests in an increasingly challenging and competitive environment. The idea is that better political targeting of the EU's external budget would lead to better foreign policy results. Past spending of EU aid is seen as sub-optimal because it has not been sufficiently politically targeted or aligned to the EU's interests. Given the unpredictable nature of foreign affairs, this approach views flexibility as essential to cope with unforeseen events. A single instrument with limited regulation would thus be a useful tool to enact political initiatives quickly. While the majority of the resources should be inside the budget, an 'off-budget instrument' is also welcomed as it could allow the pursuit of foreign policy goals (security / defence) that are perceived to be more difficult to realise within the EU budget due to possible legal issues. Proponents of this approach can potentially be found within the foreign policy community, including the European External Action Service (EEAS), and certain Foreign Affairs Ministries.

¹⁰ There are more narrow approaches that seek to defend and advance primarily only one current instrument (e.g. EDF, ENI, EIDHR etc.) because of its thematic (e.g. Human Rights, Humanitarian) or regional (e.g. Neighbourhood or ACP) focus. The approaches noted in this chapter have to be more encompassing than one issue or instrument to be featured.

- *Traditional development led approach* - The main narrative here is about ring-fencing traditional poverty focused development and humanitarian aid, and preventing a drop or cut in Official Development Assistance (ODA). There is also the concern to protect the development and humanitarian agenda from encroachment or dilution through the pursuit of other foreign policy interests, such as addressing irregular migration and promoting short-term European security interests, or the achievement of EU economic objectives. An additional consideration is that human rights and civilian led peacebuilding approaches will increasingly lose out if not explicitly protected. This approach is rather sceptical about the need for more flexibility and budgetary innovation including through a single instrument because these could mean less resources for poverty eradication, humanitarian aid and developing countries with less relevance in the current geopolitical context. Proponents of this approach can potentially be found in development ministries in certain member states, some units in DEVCO, the European Parliament's Development Committee (DEVE) committee and development NGOs and civil society networks.
- *A financial focus led approach* - This approach is based on two considerations against which all budget headings and EFIs are judged by how much a member state will contribute to the EU budget and whether EU resources will go towards the geographic and thematic interests of the given member state. This approach comes from actors beyond the foreign and development policy community and is applied to the whole budget, yet Heading IV / EDF and future EFIs will be significantly impacted by this macro dynamic. The dominant concern for member states is to limit the financial contributions of their respective ministries of finance to the EU budget, and that the latter focuses on issues of interest for them. Binary distinctions are made on whether budgetising the EDF would result in more or less payments when compared with the current situation without a full appreciation that this can be part of the overall negotiation on the entire budget not just Heading IV.¹¹ Nuance is often lost and a 'zero-sum game' logic dominates thinking, e.g. if more resources are put towards one area, there has to be cuts somewhere else. Flexibility and a possible single instrument is viewed in a transactional way, e.g. judged on whether it could bring more resources to priority areas of a specific member state or less. Proponents of this approach can potentially be found in member states' ministries of finance and heads of government offices. A converse interpretation can be found in the European Commission and Parliament whose concern is to build a credible case for the largest possible budget (e.g. 1.23% or 1.4% of the European gross national income) where all areas, including Heading IV, could be better accommodated without significant cuts (including EDF budgetisation).

¹¹ There is also the idea that an off-budget instrument could offer more possibilities for the UK to continue to pay in post-Brexit. Yet it is unclear whether this option would be pursued by either the UK or the EU. An unchanged EDF as currently constituted would appear to be a rather unattractive option to many EU stakeholders.

- *Strategy-driven approaches* - The narrative is that Heading IV and the EFIs should be guided by the global and EU commitments and strategies. They believe that Agenda 2030, the new EU Consensus on Development and the EU Global Strategy provide clear inspiration to design the future Heading IV, although with different emphasis on specific policy documents or priorities. Proponents advocate in favour of putting EU instruments at the service of these strategies. Flexibility is a concern as much as control over resources and better management, but these actors want essentially to ensure that the EU ends up in 2021 with a more limited set of EFIs that are primarily guided by shared strategic frameworks. In addition, their assessment is that existing barriers for more integrated and comprehensive work could be broken down by the merging of instruments. This would also allow dealing with the multiple nexuses between security, peacebuilding, environment, humanitarian, development, and migration issues that are so intertwined in today's international landscape. This approach acknowledges both the need for the EU to be more interest-led yet also respectful of the EU's development, peace and human rights goals and values. Proponents of this approach can potentially be found in the EEAS and some member states' foreign affairs ministries and are likely to be favourable to significant rationalising and merging of instruments.

3. Exploring the content and form of a 'single' instrument

Some ideas on how the above scenarios and assessments will be translated into future instruments are circulating. Whether all or none of these ideas may end up in the European Commission's official proposal is too early to say, let alone where the final negotiations also involving the Council and the European Parliament will end up. Yet the option of merging or rationalising existing instruments into one larger instrument seems to be gaining significant momentum. This idea, however, needs to be measured against its political feasibility and technical implications to make informed policy decisions about its potential design and functioning.

To assess the desirability and feasibility of this option, three practical questions need to be considered:

- How solid is the narrative that would justify a single instrument?
- What are the core instruments design choices that need to be made?
- What are the various scenarios for operationalising a single instrument?

There is no indication of an encompassing narrative in favour of a single instrument that easily flows from the existing policy statements agreed by the European Union institutions and the member states. The narrative for such an instrument would seem to be led more from a management and political approach than by an existing EU policy or strategy. From this perspective, the main advantages of a single instrument would be more flexibility to

allocate and spend resources and potentially easier regulations and more simple procedures for accessing funds. A past example would be the establishment of Horizon 2020, the existing EU programme for research and innovation funding following the reform of a more complicated pre-existing framework.¹²

There has been a longstanding criticism that EU external action and development cooperation are too often ‘instrument-driven’ rather than ‘strategy driven’. The 2016 EU Global Strategy represents a major step forward in determining the role and added value of the EU as a global player, although it cannot be considered a shared, comprehensive and broadly owned foundation for the future EU external financing architecture. The new European Consensus on Development has been negotiated by the same three parties that are negotiating the budget in the European Council, Commission and Parliament, yet it focuses only on development rather than wider EU external action. In addition, it offers a broad overview but little strategic direction on where the EU should focus its development cooperation. The European Neighbourhood Policy, the Joint Africa-EU Strategy and the EU’s so-called Strategic Partnerships with third countries have all been heavily criticised in recent years and are constrained by their limited geographic focus.¹³ Some have advocated that the Agenda 2030 could function as the overarching narrative, yet the jury is still out as to whether this can be the case (see Box 2).

Box 2: Does the Sustainable Development Goals provide a narrative for a single instrument?

One option for an overarching narrative for a single instrument for external action could come from the Sustainable Development Goals (SDGs) to create a so-called SDG Instrument. Arguments in favour of such a framing include:

- Agenda 2030 is a global agenda approved by 193 UN member countries and is in line with the longstanding interest of several EU actors to ensure a global approach to EU development cooperation rather than a tapestry of regional approaches based on history and geographical proximity.
- The European Consensus on Development has fully integrated this agenda.
- The focus on global goals and the principle of leaving none behind would allow the EU to collaborate with upper-middle-income countries (UMICs) beyond the options currently available.¹⁴
- The universal nature of Agenda 2030 would allow the EU to strategically link internal and external policies as recommended by the June 2017 Council conclusions on the implications

12 Horizon 2020 brought together the pre-existing EU funding streams for research and innovation under a common framework within the current MFF Heading I (Smart and Inclusive Growth). For a detailed assessment of this simplification see Fresco et al. (2015).

13 See Blockmans (2017), Renard (2010) and Bossuyt (2017).

14 The Mid-Term Review evaluations and related Coherence Report have shown that graduation has created a gap in terms of engaging with UMICs under the DCI. Other programmes focus on global goals such as the GPGC programme under the DCI or EU and mutual interests under the PI.

of Agenda 2030.¹⁵ This could also help the construction of a more effective narrative to call for an increase in Heading IV funding.

- If properly operationalised, an SDG instrument could address the concerns of the several stakeholders as it could entail managerial simplification, more flexibility, a more strategy-driven approach as well as cater for the needs of the development community.
- A single instrument could help maximise synergies among the different means of implementation under Agenda 2030 (SDG 17 on Partnership) and the AAAA, financial and non-financial, domestic and international, private and public.¹⁶
- Alternative narratives and strategic frameworks appear to be less solid than the universal Agenda 2030. Other existing frameworks are limited to specific strategic partners, the neighbourhood or are regional in nature.¹⁷

A number of challenges remain with an SDG instrument. Some could contend that it does not incorporate the EU's own interests, or more generally that the SDGs should be the organising principle for the entire EU budget 2021-2027 covering all headings both internal and external and not confined to any one external instrument, however encompassing.

Core design choices to be made on the content and form of a 'single' instrument

While the momentum to move towards a single instrument or to merge (most of) existing instruments may be strong, the devil will be in the details of design and operationalisation. Hence, clear political choices will be required on the following dimensions:

1. *Scope and ambition* - Is the aim to conceive a single instrument encompassing all dimensions of the EUGS, European Consensus on Development, European Neighbourhood Policy and Agenda 2030 (i.e. development, global public goods, peace and security, human rights, etc.) at all levels (global, regional, national, local)? What message does it send, both internally

15 See Council of the European Union (2017b).

16 Goal 17 includes financing, technology, capacity building, policy and institutional coherence, multi-stakeholder partnerships, data monitoring and accountability. The AAAA includes domestic and international, public and private resources; international development cooperation and trade; debt; systemic issues; science, technology, innovation and capacity building; data, monitoring and follow up.

17 The oldest of all is the ACP-EU partnership due to expire in 2020. While the Commission and EEAS want to retain the 'acquis' of the Cotonou Agreement as the foundation for the future EU-ACP partnership, it is hard to see how this cooperation framework, restricted to former colonies of EU member states and based on traditional donor-recipient relations, can be made fit for purpose to deal with the global nature of the Agenda 2030. The European Commission has been careful to separate the financing instrument of the EDF from its own pronouncements on the future of the ACP-EU relationship.

to EU citizens and to partners outside the EU? What will be the ‘weight’ of different policy documents (EUGS / ECoD) in the single instrument’s scope? How to incorporate the framing given in existing instrument regulations (DCI, ENI, IcSP, etc.) and EDF?

2. *Geographic focus* - Is this new instrument considered to be the successor of the Millennium Development Goals paradigm and hence primarily seen as serving the needs of the poorer and fragile developing countries? Or is it about the EU external relations more generally throughout the world? Are EU actors genuinely prepared to see the instrument driven by a universal agenda requiring differentiated geographic partnerships with the various regions (Africa, the Caribbean and Latin America, the Pacific, Asia, and the Eastern Neighbourhood, Central Asia etc.) and providing different policy responses including beyond aid? Could such an instrument help to overcome long identified problematic issues with the diversity and overlap of instruments (ENI, EDF and Pan-African Programme of DCI) dealing with Africa?
3. *Quid thematic instruments?* - Most of the EU external action resources are allocated geographically rather than thematically. Yet the current external financing architecture also has a number of dedicated thematic instruments and programmes each responding to specific objectives and requiring specialised skills, approaches, working methods, funding modalities and partnership models. How wise and feasible is it to integrate all this into a single instrument?
4. *Dealing with an expanding EU external action agenda* - As a result of core evolutions within the EU and globally, the field of external action has continued to expand far beyond development cooperation, ODA, or even concerns in the Neighbourhood. There are now global challenges as well as pressing own interests linked to EU foreign, economic and security policy requiring attention. How are these interests to be catered for post-2020 and what does a single instrument imply for the future of the PI, the current instrument geared at promoting EU interests? What could or should be left out of the single instrument, or even outside the budget entirely (e.g. a ‘harder’ defence/security issues instrument such as the recently floated “European Peace Facility”)?¹⁸
5. *Political control* - Strategy-driven approaches to design a new EU external financing architecture are welcomed, but choices are also required on who will control and manage the resources allocated to the proposed single instrument. The global and universal nature of Agenda 2030 and the ambitions of the EUGS and the Consensus imply a diversification of actors involved in the management of the instrument (beyond the usual suspects of DEVCO, DG NEAR, the Service for Foreign Policy Instruments and the EEAS). How much space is there for a truly integrated EU foreign policy approach that also incorporates the

¹⁸ The creation of a “European Peace Facility” was mentioned in a speech by Federica Mogherini on 13 December 2017. A separate chapter on the EPF is noted in this volume. See EEAS (2017b).

internal dimensions and involves other European Commission Directorates (e.g. DG Clima, DG HOME...)?

6. *Safeguards, earmarking and accountability* - What safeguards can be put in place at the Heading IV or at the instrument level that would be acceptable to all parties to ensure that particular issues, regions or values receive appropriate resources? What are those issues for which safeguards and earmarking are necessary (e.g. Least Developed Countries, the Neighbourhood, ODA, social sector spending, climate change, gender...) and do they all make sense? What old or new accountability mechanisms are credible and enforceable but also improve the flexibility and coherence of the EU budget?
7. *Impact of the AAAA* - Implementing Agenda 2030 implies a diversification of means and a variety of actors, including much stronger domestic resource mobilisation, involvement of the private sector, non-state actors and civil society. They go well beyond financial support to encompass a wider range of tools and address systemic issues. How will this be reflected in the design of a possible single instrument?

Box 3: EDF Budgetisation – a critical issue for the single instrument

The financial arrangement of the European Development Fund either “in” or “outside” of the EU budget has been a recurring issue for over 30 years. The main argumentation for bringing it into the official EU budget is related to coherence, efficiency, and democratic oversight of the European Parliament. The European arguments against that have been advanced are that it enhances the unique features of the specific ACP-EU relationship and the fact that it is perceived to be easier to fund special items like the Africa Peace Facility through the off-budget EDF. Another argument used in the negotiations of the 2014-2020 MFF was that an EDF outside the budget increases the total amount of EU Overseas Development Assistance (ODA). This was because of strong political opposition from some net contributors EU countries of ‘growing’ the overall EU budget beyond 1% of GNI – hence, if the EDF would have been placed in the ‘budget’, the slice of the pie for both ODA and European External Action would not have grown consummately. Yet in 2017 as the ACP-EU relationship will evolve, other options (of ODA and/or Africa) on ring fencing could be offered inside a ‘growing’ budget, this could be less of an issue.

Past budgetisation discussions never reached a critical stage in the negotiations, partly due to the path dependency of the ACP-EU/EDF setup, which proved difficult to overcome in the past. The desire to maintain a privileged relation with the ACP and ensure a substantial amount of development cooperation money easily trumped the arguments of coherence, efficiency and democratic oversight. Between now and 2020 however the ACP-EU partnership will be substantially reviewed. This will also be in parallel with the EU budgetary negotiations, which increases the scope for change both politically and financially. The UK leaving the EU also changes the dynamics. At the same time, the EU’s foreign relations are evolving, and the EU

is looking at new types of partnerships and a stronger external security agenda. Many of the political variables that have long prevented budgetisation in the past therefore are changing.

Besides this principle based argumentation, there is a strong financial element to the discussions in terms of whether European countries think they will pay “more or less” depending on whether budgetisation occurs or not. This is because the ‘contribution key’, the manner in which the amount that EU member states contribute is slightly different from the EU budget to reflect variable EU member state interest in cooperation with the ACP, even if in past EDFs, steps have been taken towards increasing alignment. More importantly, with the UK leaving the EU, there is new room for political manoeuvre on the 1% ceiling of GNI for the EU budget, which would allow for EDF budgetisation without disproportionate cuts. Yet the UK leaving will obviously have a significant impact overall. A new floated ‘off budget’ European Peace Facility, if properly financed, would also get around issues associated with perceived necessity for the African Peace Facility to be off-budget. Indeed, the narrative and political trade-offs needed for the creation of a ‘single’ or merged instrument is in a large degree dependent on whether the EDF would be budgetised. It is still far from certain whether EDF budgetisation would occur even if proposed by the Commission. The perspectives and active pursuit (or at least not active opposition) of this by the two largest contributors to the EDF, in Germany, and particularly France, will be a crucial determinant.

Different scenarios for a ‘single’ instrument – with varying levels of ambition

The idea of a single instrument is a relative concept. In practice, it seems rather improbable for all external instruments to be replaced by one. In fact, the European Commission made proposals for significant reorganisation in 2004, but the European Parliament and the Council did not approve it.¹⁹ That said, it is still useful to ask what a more encompassing instrument could look like.²⁰ The first key question is ‘what would go into the box’ of a ‘single’ instrument and what would remain outside? Any single instrument or rationalisation carries potential benefits but also significant risks. Different scenarios can be envisaged, as spelled out in table 1.

19 The European Commission proposed an encompassing Development Cooperation and Economic Cooperation Instrument that included development cooperation, industrialised country cooperation, human rights and nuclear cooperation.

20 European Commission’s communications are available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3A1340047>, Summaries of EU legislation.

Scenarios	What does it entail?	Core issues and risks
'All-in' scenario	A single instrument covering all dimensions of the EUGS, Consensus, EU Neighbourhood and Agenda 2030 with global geographic outreach and diversified funding mechanisms	<ul style="list-style-type: none"> • Political feasibility? • Which legal basis or bases? • How much earmarking • Scope for a larger flexible reserve? • Scope for accommodating different working methods depending on area covered? • Areas to be excluded? (e.g. humanitarian aid, enlargement, 'harder' defence/security issues, neighbourhood) • How to manage it in a multi-actor way (DEVCO, NEAR, FPI, EEAS, other relevant DGs)? • What oversight role for the EP-from which committees? • Is ring-fencing a % for ODA important or useful in managing risks? • What comitology?
'All-in-but' scenario	Most EFIs are replaced by a single instrument but a limited number of specific EFIs are maintained outside	<ul style="list-style-type: none"> • What would be the rationale and argumentation for this? • Which instruments would be left outside and why (e.g. IPA and Humanitarian Aid or more)? • Who would manage what instruments and how to ensure synergies? • How much earmarking and for what (e.g. ODA and/or regions?)
Geographic instrument	An instrument focused on the bilateral relations that the EU has with the Neighbourhood, Africa, Asia and Latin America, at country and regional level	<ul style="list-style-type: none"> • How to adapt cooperation to different regions and countries? • How much earmarking? • How to work with different modalities? • How to work at different levels (global, regional, national and sub-national)? • How to ensure such an instrument co-exists with thematic instruments (for issues the EU wants to promote without formal government support?) • Who would manage it? • If this does not include the Neighbourhood and/or ACP/EDF countries how solid is this proposal?

Development instrument	An instrument focused on poorer and fragile countries still requiring substantial aid funding, yet now covering all relevant aspects of the Agenda 2030 (implying an amalgamation of EDF and DCI)	<ul style="list-style-type: none"> • What other EFIs are required to deal with the remaining aspects of Agenda 2030? • How to deal with engagement with middle-income countries on their national agendas and global public goods? • What about fragile countries that are also middle-income? • Is this a continuation of the split between development cooperation, on the one hand, and, on the other, mutual interests (=global agenda) and the EU's own interests? • What are the pros and cons of this? • Is there a risk to sustain the narrative that the Agenda 2030 is primarily for the development sector? • Is there a risk that other instruments would be less bound by ODA criteria-and is this important?
Big-bang scenario	A 'super' instrument for an integrated EU external action that also incorporates the internal dimensions (i.e. the EU's own interests) and a possible merging of Headings III and IV	<ul style="list-style-type: none"> • Political and institutional feasibility? • Which legal basis or bases? • How would this be managed and by whom? • Could defence and security interests be legitimately integrated-or would that have to be an off-budget instrument? • How would external concerns be protected from internal interests? • What comitology?

What does all this mean for the upcoming debates on the future EFI architecture? Three concluding remarks seem appropriate.

First, a possible single instrument can reflect different reform ambitions and have various forms. This time around there might be more space for a 'single' external action instrument although a 'big bang scenario' is unlikely, considering the conservative approaches that tend to dominate the debates on the EU external financing architecture, and the challenge of reconciling in the end quite different objectives and ways of working. The notion of having a 'single' instrument needs to be put in perspective as differentiation according to geographic pillars (e.g. Africa, Neighbourhood), categories of countries (e.g. LDCs, fragile countries, UMICs, etc.) and scales of

action will remain essential. Integrating thematic lines will also require respect for their specific objectives, partnership modalities, methods of work, procedural requirements, etc. If a 'single' instrument has too many 'drawers' to accommodate current EFIs, earmarking and ring fencing the break with the past may be relative and challenges of ensuring complementarity and synergies may re-emerge quickly.

Second, the outcome of the negotiations of the next EU budget for external action will inevitably be a compromise, as the five different approaches that inform positions noted in section 2 are reconciled.

No single approach will get all that it wants. A single instrument becomes more politically feasible if it can balance: 1) being simpler to manage with more flexibility 2) allow for a greater degree of political direction, 3) protects ODA and development cooperation at appropriate levels 4) allow different regions to be appropriately noted 5) draws greater strategic inspiration from the EU Global Strategy, Consensus and 2030 Agenda 6) integrate all the geographic instruments than just some (including the EDF and ENI) 7) does not lead to a disproportionate shrinking of the overall resources for EU external action vis-à-vis other budget headings 8) has appropriate safeguards and a degree of earmarking, while 9) protect the special features of thematic instruments. Yet this is a delicate balance to achieve.

Third, while the negotiations for the EU budget is a European led process, there is also the need to factor in what messages such choices will send to the EU's partners at the global, regional and national levels. Ultimately the success of the next EU MFF in achieving outcomes in external action will largely rely on the ability of the EU to forge and enable effective partnerships in a much more competitive and challenging international environment.

The European Union's next Multiannual Financial Framework: prospects and challenges for EU development cooperation¹

Clare Castillejo, Mikaela Gavas, Mariella Di Ciommo,
Meritxell Sayós Monràs and Niels Keijzer²

Negotiations are under way on the European Union's next Multiannual Financial Framework (MFF), that is, its seven-year budget that will come into force in 2021. The MFF will set the strategy, architecture, finances and instruments from 2021 onwards. It will shape the future of the EU's external engagement, in particular the relevance, credibility and impact of the EU as a major player in international development.

The procedure process for setting the next MFF raises two important issues: the comparative advantage of a Europe-wide approach to external action; and Europe's role in the future global development finance architecture. This time around, the budget negotiations will need to reconcile the interests and visions of both, reform-oriented and status quo-minded stakeholders, against a backdrop of intensifying talks over the UK's departure from the EU, as well as a much more unstable and competitive global environment. Nevertheless, the next MFF could offer an opportunity for a significant shake-up of EU external action, including in the area of international development.

- Heading IV should prioritise support for global public goods, fragile states and least developed countries (LDCs), as areas where the EU adds value and that are important for achieving core EU goals. The 2030 Agenda for Sustainable Development and the Paris Agreement are key points of orientation and legitimation in this regard. As part of an overall expression of the commitment to taking the European Project further, member states should as a minimum commit to preserving the current overall level of external financing resources.

¹ This chapter originally appeared as: Castillejo, C., Gavas, M., Di Ciommo, M., Sayós Monràs, M., and Keijzer, N. March 2018. The European Union's next Multiannual Financial Framework: Prospects and Challenges for EU Development Cooperation. ETTG publication. https://ettg.eu/wp-content/uploads/2018/03/ETTg-policy-brief-the-EUs-MFF_prospects_and_challenges_for_Development_cooperation.pdf

² The authors gratefully acknowledge comments on a draft version of this chapter from Svea Koch (DIE), Bernardo Venturi (IAI), Tancrede Voituriez (IDDRI), James Mackie and Andrew Sherriff (ECDPM) and Simon Maxwell (ETTg Chair). The views expressed in this chapter are those of the authors.

- Funds under Heading IV should be managed through three pillars. One that focuses on national level development problems faced by all developing countries (e.g. education, health, governance), organised around geographic cooperation. One that addresses global development problems that require cross-border action (e.g. taxation, climate change, migration), organised around thematic cooperation. These grant-based instruments, which include non-financial cooperation (e.g. in-kind, technical assistance, etc.), should be complemented by the third pillar, the European Fund for Sustainable Development, offering blended finance.
- Steps should be taken to reinforce accountability relations within EU development policy, with a key focus on strengthening the role of the European Parliament, the requirements for blending and for delegated cooperation via member state organisations.
- Instruments under Heading IV should be made more responsive, combining predictability with the possibility of fast-tracked decision-making where required. Including flexibility reserves in all instruments would facilitate this.
- The EU's adaptability to changing contexts and to differences across countries and regions should be increased. A revised Heading IV must provide a stronger programming and implementation role for EU Delegations, so as to preserve a key element of the EU's complementary role in development cooperation relative to those of the member states.
- Off-budget initiatives should be closely harmonised with the MFF, aided by a reinforced Common Implementing Regulation and a reformed Financial Regulation. This contributes to ensuring that EU development policy remains an area for promoting European integration, as opposed to a 'delivery channel' for member states.

1. Context for the new MFF

Changing context and new challenges

Since the current MFF (2014-2020) was first developed, the world has changed significantly. The EU is facing a range of new challenges – a world that has become multipolar, increased instability in the EU Neighbourhood, slow economic recovery and greater inequality within Europe itself. This evolving landscape, coupled with the political pressures linked to the Syrian refugee situation and ongoing irregular migration into the EU, have shown how ill-prepared the current MFF is to respond to shocks.

It is critical that the external action budget of the next MFF is designed to respond effectively to these challenges and to future changes or shocks. A key challenge will be balancing the need for predictability and accountability with the need for flexibility and timely action – something that has proved difficult for the current MFF. Designing a budget that works for Europe requires looking carefully at global and European trends. And, on this basis, identifying external action priorities for the post-2020 period that are important for achieving the EU's goals and where the EU can add value. This will be even more challenging given that Brexit – the UK's exit from

the EU – is likely to produce a 10% to 13% loss to the overall EU budget. Other estimates consider that the net impact of Brexit will be smaller given that savings will arise from cancelling the UK rebate, and assuming that the UK will need to contribute to specific EU programmes if it wants to retain access to them.³

External trends

The global economic outlook for the period covered by the next MFF is mixed, with some troubling elements. Global growth reached a stronger-than-expected 3% in 2017 and is expected to edge upwards. However, an abrupt tightening of global financing conditions could derail this. Escalating trade restrictions and rising geopolitical tensions could dampen confidence and activity. Particularly worrying are longer-term challenges associated with subdued productivity and potential growth.⁴

Rising inequality and reduced labour income could undermine progress in human development and the accumulation of human capital; and generate instability. While positive trends in poverty reduction seem likely to continue in Asia, expectations are that sub-Saharan Africa will increasingly be left behind. The global neglect of environmental effects of dominant development models will become more visible and deeply felt in the years to come.

Certain challenges are likely to be particularly prominent in the coming decade. Fragility, conflict and instability remain deeply entrenched in some regions, blighting prospects for development. In an increasingly interconnected world, meanwhile, new forms of violence and insecurity are spreading rapidly. Climate change appears to continue unabated. Environmental and demographic stresses⁵ combined with rapidly rising urbanisation are creating a range of risks, including a bulge of disaffected people, multidimensional poverty, and huge slum populations. In addition, humanitarian needs are rising, driven primarily by conflict in the Middle East and Africa. The combination of increasing global interconnectedness and the multiple pressures listed above will continue to drive high levels of irregular and unsafe migration.

Against this backdrop, the boundaries between external and internal challenges have been eroded and can no longer be politically sustained. All EU policies have a bearing on global sustainable development – whether internally or externally focused – and should therefore be considered for their contribution to the 2030 Agenda of which the EU is a principal proponent. The EU's Global Strategy of 2016 and new Consensus on Development of 2017 recognise these increasingly blurred boundaries. However, the EU's institutional and financial structures are currently not well equipped to respond to these overlapping issues and addressing this shortfall will be a key challenge for the new MFF.

3 See Núñez Ferrer and Rinaldi (2016).

4 See World Bank (2018a).

5 The world population is projected to increase by more than 1 billion people within the next 15 years.

Internal context

Recent years have been bruising for the EU and it is facing significant internal challenges that constrain its ability for effective external action. Populism within some EU member states is on the rise, often thriving on misrepresentation of and antagonism towards the EU and its policies. The EU continues to be mired in arguments on refugee redistribution quotas and associated political debates on what solidarity means in Europe. There have been, however, some recent signs of optimism and a renewed sense of direction within the EU, as seen in the unified approach to Brexit negotiations and progress on defence collaboration. Yet, a disconnect is growing between aspirations and expectations on the one hand, and action and delivery on the other.

Economic recovery in the EU is picking up but remains uneven. The structurally weaker economies are still suffering from the aftermath of austerity measures and are experiencing high unemployment and reduced public services. The tightening linked to the Growth and Stability Pact and the economic crisis alienated support for the EU in traditionally pro- EU member states. Moreover, inequalities between and within countries are rising as Europe's social model comes under increasing pressure. This mix of factors has resulted in a sense of pessimism and disenfranchisement among many European citizens.

Increased terrorist attacks within Europe, in some cases connected to conflicts and instability in the European Neighbourhood, have created a sense of insecurity and blurred the lines between external and internal security. While the EU has been very focused on its own troubled neighbourhood and proximate regions (with some arguing that this has led to conflicts elsewhere being overlooked),⁶ it has not been effective in promoting security and stability in its neighbourhood.⁷

Irregular migration and the refugee crisis have become explosive issues. Europe's political leaders have been under intense pressure to curb migration, while nationalist movements have exploited anti- migrant sentiment and the mounting dissatisfaction among Europeans whose living standards have been declining in the context of increasingly unequal societies. The Brexit vote epitomised this and called into question the value of the EU. The EU's response to migration pressures has involved short-term measures such as trust funds, which are in part based on a flawed logic that aid stems migration, despite a mountain of evidence that this is not the case.⁸

While populism is fuelled by Europe's internal problems, it is important to recognise that it is also part of and supported by a wider global populist agenda that puts the national interest first and has an anti-globalisation political stance. These political developments could threaten the balance of power among Europe's political groups, and by extension create new challenges for

6 See Bøås (2017), pp. 149-154.

7 The European neighbourhood policy (ENP) governs the EU's relations with 16 partner countries to Europe's south and east. The ENP focuses on political, economic and security cooperation.

8 See Cummings et al. (2015); Angenendt, Martin-Shields and Schraven (2017).

concluding the next MFF. If the majority in the current ‘grand coalition’ between the Socialists and Democrats and the European People’s Party in the European Parliament were to come to an end in March 2019, political power would have to be shared across multiple political groups and would also influence the composition of the European Commission.

Challenges and opportunities for the next MFF

Growing inconsistencies between the EU’s principles and practices have undermined the credibility of its values both at home and abroad. Some member states have flouted European standards on democracy and the rule of law, while the growing use of aid money in pursuit of European migration and security goals has raised criticisms that the EU is abandoning core development and human rights principles – for example, in its engagement on migration with countries such as Sudan.⁹ While the EU Global Strategy states that ‘interests and values go hand in hand’,¹⁰ in reality the EU and its member states are wrestling with the difficulty of balancing values and interests in its external action. As ECDPM points out, it is critical that within discussions over the next MFF ‘synergies and tensions between EU values and interests need to be discussed frankly and then addressed... in the context of a broader debate on a shared vision for EU foreign and development policy as a whole’.¹¹

The EU policy context for external action is promising but requires further honing. While the Global Strategy and European Consensus on Development provide important framing for EU international cooperation, these are very broad and fail to provide a clear sense of priority and direction. The MFF offers an opportunity to further specify what the EU should concentrate on and to create the basis for a compelling political narrative for the added value of EU international cooperation in today’s world.

Across Europe there is growing pressure to justify development spending in terms of national interests, raising questions of how to prevent national interest objectives from compromising other objectives and principles. National interest objectives have always played a role but are now more explicitly framed in development policy as ‘mutual benefit’ strategies with the risk of widening the scope of what is legitimate in the name of nationally driven agendas.¹²

While the combined aid of the EU and member states has seen a stable increase over the last five years, many European governments are making little progress on commitments to spend 0.7% of gross national income (GNI) on aid. Moreover, more than half of aid increases from member states in the last two years are the result of spending on areas that do not contribute to development

9 Several cases are discussed in Castillejo (2017).

10 See European Union (2016a).

11 See Bossuyt et al. (2017a).

12 See Keijzer and Lundsgaarde (2017).

outcomes in partner countries (e.g. in-donor country refugee costs, debt relief).¹³

It is clear that the EU's external action budget will shrink as a result of Brexit, along with the loss of British diplomatic, security and development assets; and the likelihood of increased aid fragmentation generally. This fact, combined with member states' shift towards national interest-based aid spending, makes it even more important that the EU focuses its aid budget on a few key priorities that will deliver significant development benefits.

Priority areas and EU added value

Clearly there are numerous development challenges to be tackled within the coming budget period. However, it is important that the EU does not spread itself too widely. Instead the EU should focus on what is most important for achieving core priorities such as those outlined in the EU Global Strategy;¹⁴ in areas where it can add most value, especially in relation to member states; and how it fits within the new development landscape. It should also ensure that plans under the new MFF 'correspond to the political ambition that the European Union sets itself for the future' as a responsible global actor.¹⁵

Recent research on trends in global development suggests that the international community's growing priorities will be tackling the challenges of and the equitable provision of global public goods; reducing fragility; and supporting countries most in need, namely LDCs.¹⁶ In all these areas the EU has strong policy commitments, interests and comparative advantage. Moreover, both fragility and global problems such as climate change have significant implications for some of the immediate problems that the EU faces today – such as migration, or terrorism and extremism. These could be core priorities for EU external action in the next MFF.¹⁷

Global public goods

Effective multilateral action is required to deliver global public goods, one of today's greatest development challenges. Central among these is tackling climate change; others include resource scarcity, large-scale migration and population movement, public health crises, transnational crime, tax avoidance, and sources of global insecurity and violence. These are all represented in the 2030 Agenda and the Sustainable Development Goals (SDGs), an agenda that – at the EU's insistence – is universal in nature and thus an anchor of EU internal and external policy and spending. Heading IV directly supports developing country efforts in contributing to the provision of these global public goods. In comparison to the period during which the

¹³ See CONCORD (2017).

¹⁴ The EU Global Strategy identifies the following priorities: The Security of our Union; State and Societal Resilience to our East and South; An Integrated Approach to Conflicts; Cooperative Regional Orders; Global Governance for the 21st Century.

¹⁵ See European Commission (2017e).

¹⁶ See Kharas and Rogerson (2012); Gavvas, Gulrajani and Hart (2015).

¹⁷ See IPCC (2014) and Lindborg (2017).

EU was a strong driver of the 2030 Agenda; cooperation between the EU development, social and environment communities has recently seen a relative decline, in part as a consequence of the political attention to migration. Looking forward, these communities should join forces to strengthen and promote a development policy narrative around the EU's contribution to a long-term change process towards global sustainable development.¹⁸

The EU is committed to promoting effective global governance and global public goods (e.g. in the Global Strategy, and the Development Consensus). These priorities need to be maintained and reflected in the next MFF in ways that take account of the increasingly challenging context for collective action. The combined political and economic weight of the EU 27 member states acting together across multiple global policy arenas, and within different multilateral spaces and structures, gives the EU a unique role in promoting global-level action to address global challenges. An example of this can be seen in the successful way that the EU worked with developing country partners at the 2015 Paris climate talks, or how it has collaborated with China on climate issues in the face of US disengagement. Such cooperation on the sustainable and equitable provision of global public goods will become a more important aspect of the EU's contribution to global development.

Fragile states

As strong progress is made in reducing extreme poverty in many regions, it is predicted that by 2030 the vast majority of the world's extreme poor will be concentrated in fragile states, mainly in sub-Saharan Africa (SSA).¹⁹ This is in part due to the inclusive way that fragile states are defined, but also the increasing cross-border nature of conflicts and the more strongly pronounced influence of environmental degradation on fragility. Africa is also home to most LDCs and will continue to be so in the future; countries on this continent will either be categorised as an LDC or fragile state, or be neighbouring one.²⁰ Given that the ultimate goal of EU development assistance is the reduction and eradication of poverty,²¹ the EU should more decisively focus on addressing fragility and allocate resources to fragile contexts, countries in conflict and most in need, in line with its own commitments. This is also in the EU's own security interests, particularly concerning all of Africa.

Addressing the challenge of fragility should be a priority for the next MFF, however, the question is how best the EU can add value on this issue. The EU is seeking to answer this as it develops an integrated approach to conflict, under the Global Strategy. The EU is unique as a donor in having

¹⁸ See Klingebiel (2017).

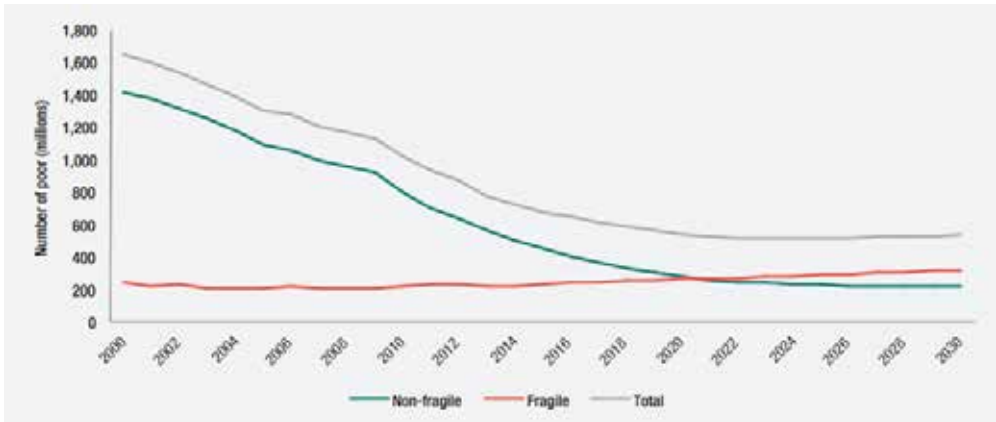
¹⁹ See Kharas and Rogerson (2012).

²⁰ See OECD (2017).

²¹ Article 208 of the Treaty on the Functioning of the European Union (2007). See Eurllex (2007).

delegations present in all fragile states. It can offer economies of scale, predictable and long-term financing that could be useful in addressing the long-term structural drivers of fragility, and reduced transaction costs and risk mitigation through pooling. Moreover, EU financing can provide a core around which member states can coalesce to increase critical mass and impact in fragile settings; and to improve working together. The EU can also bring diplomatic and military/policing resources to fragile contexts. Its strong institutional-level engagement with Africa makes it well placed for political engagement on issues related to fragility, although its record on this has been patchy. In addition, the comparative size and capacity of the EU's humanitarian finances and structures mean that it can play a critical role in meeting the humanitarian needs of those in fragile states.

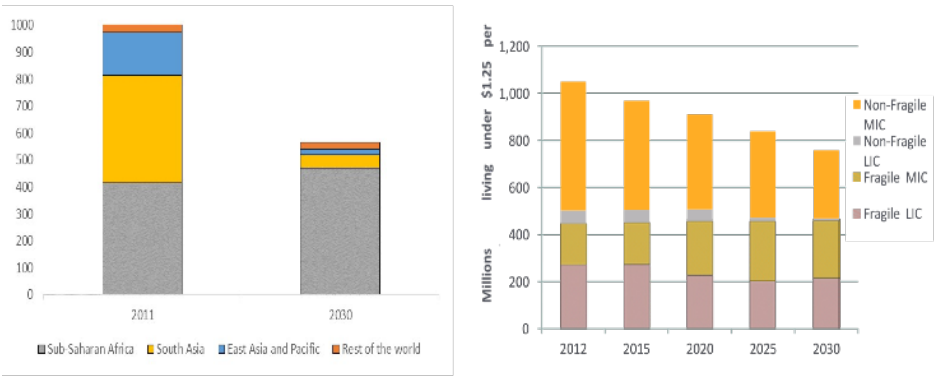
Graph 1: Rising poverty in fragile states is likely to end the global poverty reduction trend



Source: World Data Lab, 2017.

Graphs 2 & 3: By 2030, more than 80% of the world's poor will live in SSA and over 60% of extreme poverty will be in fragile countries, mostly in SSA

Number of people living in extreme poverty, millions, by region, fragile and non-fragile



Sources: European Union, 2017; DFID staff projections, 2014.

2. Analysis of the current MFF

This section examines the current MFF and highlights issues that will need to be taken into account for an effective future financial framework for European external action.

Financing EU external action

Most of the EU's external action spending is under Heading IV. In the current MFF, this amounts to €66.3 billion for the 2014-2020 period, plus €30.5 billion under the off-budget 11th European Development Fund (EDF), the biggest external financial instrument (EFI). The envelope for external action represents 6.1% of the total EU MFF, the second smallest envelope after that of Heading III (Security and Citizenship). Smaller resources for initiatives outside the EU are also available under other policy areas, such as agriculture, trade, regional and urban policy, education and culture.

In 2016, the EU institutions were the fourth biggest bilateral aid donor after the US, Germany and the UK.²² EU institutions aid amounted to €15.7 billion in 2016, increasing by 27% on 2015

22 Organisation for Economic Cooperation and Development Development Assistance Committee's (OECD DAC) International Development Statistics. This includes only EU institutions, with the exclusion of member states.

volumes and by 68% over the last 10 years. Most of EU external financing is eligible as official development assistance (ODA): in 2015 the share of ODA- eligible external funds amounted to 96%.²³ Going forward, specifying a percentage for the budget that fulfils ODA criteria established by the OECD Development Assistance Committee (DAC) could improve accountability on development spending and signal EU commitment to the quantity and quality of ODA, including as a contribution for its member states to reach their 0.7% of GNI commitment.

The UK's exit from the EU will leave a considerable funding gap in the EU's development budget.²⁴ The UK has been a contributor to the EU aid budget as well as to the off-budget EDF and humanitarian assistance through the European Civil Protection and Humanitarian Aid Operations (ECHO). Additionally, the UK's Department for International Development (DFID) provided limited bilateral funds through the EU trust funds to respond to the migration crisis. Brexit's financial impact will depend on the broader negotiations and on the international roles that the UK and the EU carve out for themselves going forward.²⁵ Discussions on Brexit and the future of the UK–EU relationship cannot be divorced from the discussions on the next MFF, as the outcome will determine the amount of money available for a post-2020 budget.

There have been huge rises in external finance flows to developing countries in recent decades. Large amounts of development finance now come from non-traditional sources, including commercial flows, Southern and non-DAC providers, climate finance funds, social impact investors, philanthropists and global funds as well as other less concessional flows. Yet international public finance is less than 1.5% of total resources for developing countries. Domestic public resources are by far the largest resource available to developing countries, although domestic capacity to mobilise resources varies significantly among countries. In the poorest countries, international resources still represent a large share of the resources available.

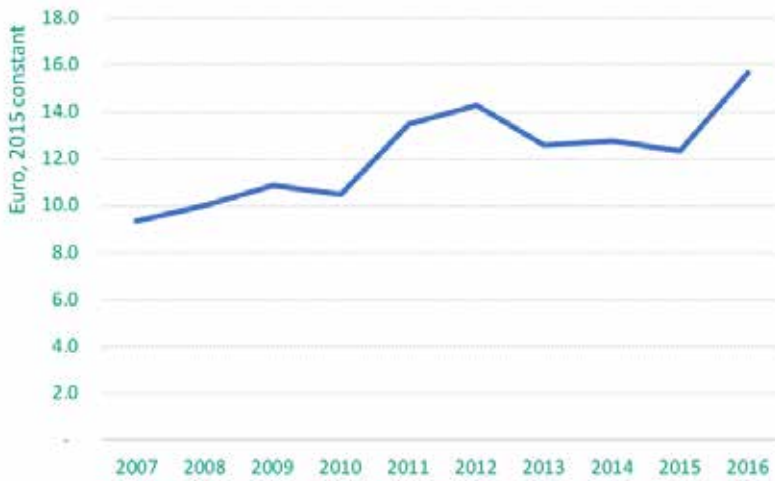
Recent years have seen a rise in the number of other providers of development resources beyond Western donors. As a consequence, the EU's market share and influence as a donor is decreasing, forcing the EU to think more carefully about how to focus its funds and how to better leverage them. As other providers, such as China and progressively India, become more visible in the developing world, the EU will need to strategise and cooperate better in order to respond to the challenges this poses – whether in terms of competition for influence, cooperation for impact or to avoid a 'race to the bottom' in development standards. Aside from these large countries, a number of others have become providers, including as a prerequisite for EU membership. Better leveraging their resources, networks and influences could add value to EU action in development.

23 See European Commission (2016d).

24 When the current MFF was agreed in 2013, the UK's contribution represented around 15%. Growth patterns within the EU (as well as Croatia's accession) have led to current estimations of the UK's contribution to the budget to be within the 12% to 13% range.

25 See Directorate-General for External Policies (2017a).

Graph 4: EU's aid increased by 68% over the last decade



Source: net disbursements; authors' calculations based on OECD DAC data.

Despite the availability of new sources of finance, aid is still a fundamental source of scarce non-profit public funding, particularly in humanitarian settings, fragile states, countries with very limited domestic resources and in targeting the extremely poor. However, what constitutes aid is changing. In 2014, the OECD DAC agreed changes to reporting standards on concessional loans that will be implemented from 2018 with potential implications for allocations. In 2016 the OECD DAC changed the ODA reporting directives to include a broader range of peace and security expenditure and a greater share of support for private sector actors working in developing countries. It also committed to reviewing the rules on in-donor refugee costs, which have recently taken up an increasing share of many EU member states' aid budgets.

The 2017 OECD-DAC High Level Meeting agreed some principles for blended finance and made progress in some of the above areas that needed clarification. There has been concern that the ODA reporting reforms increase donors' ability to spend aid on activities that do not have a development impact in partner countries, as required by the ODA definition, and might unfairly represent donors' efforts in global development.²⁶ In parallel, discussions on a measure for Total Official Support for Sustainable Development are ongoing within an international task force.²⁷

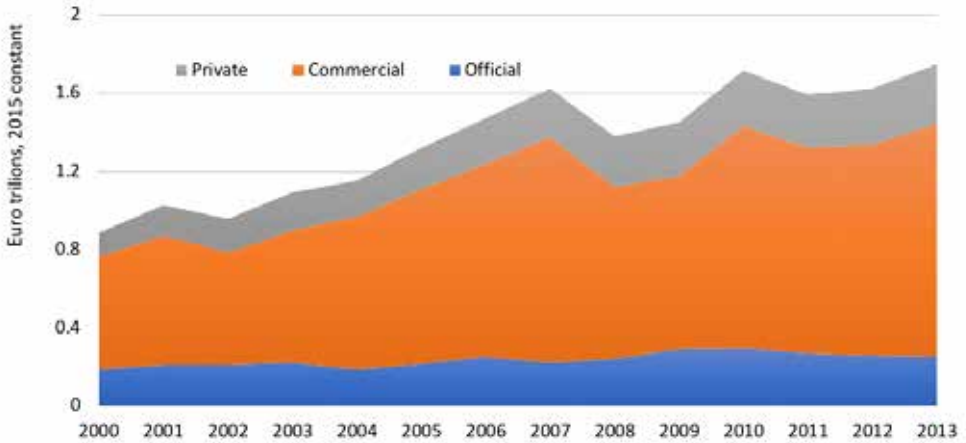
It seems likely that there will continue to be a strong demand for humanitarian financing during the period of the next MFF. The United Nations Office for the Coordination of Humanitarian

²⁶ Eurodad on private sector instruments see Eurodad (2018). For TOSSD see submissions to the open consultation in 2016: <http://www.oecd.org/dac/financing-sustainable-development/tossd-public-consultation.htm>

²⁷ See OECD website. International TOSSD Task Force.

Affairs (OCHA) predicts that US\$22.5 billion will be required to meet humanitarian needs around the world this year, a dramatic rise from just US\$7.9 billion in 2011.²⁸

Graph 5: The development finance landscape is changing



Source: based on Development Initiatives, 2015, ‘Investments to End Poverty’ (several sources).

Financing has not kept pace with this rising need and the gap between the humanitarian finances required and those provided has grown rapidly in the last decade; according to OCHA in 2017 only half the finance required for world humanitarian needs was provided. The EU, together with its member states, is currently the world’s leading humanitarian aid donor. ECHO was allocated €7.1 billion for the seven years of the last MFF (there is also an EU Emergency Aid Reserve to respond to unforeseen events and major crises). It is important that the EU continues to make humanitarian financing a significant priority and that the current regulation through which this finance is provided is maintained in the next MFF.

EU values and interests

A major tension that will be reflected in the future MFF negotiations is the balance between EU values and interests in external action, especially with a broader and more complex development agenda that extends beyond aid to encompass a range of global challenges including climate change, trade, global food security, financial crises and regional security. The primary objective of EU development cooperation as spelled out in the Lisbon Treaty – reducing and, in the long term, eradicating poverty²⁹ – coexists with other drivers that span from curbing irregular migration

²⁸ See OCHA (2018).

²⁹ As set out in Article 208 of the Lisbon Treaty.

to promoting peace, from tackling climate change to dismantling terrorist networks. This is reflected in the framing of Heading IV and its instruments, including their legal basis.

In budgetary terms, this has translated into stretching limited resources to achieve short-term aims on domestic migration and security. While both themes are relevant for development, their current framing and the subsequent use of funds earmarked for development for other purposes could potentially erode development effectiveness principles and jeopardise the Lisbon Treaty's original objectives. Curbing irregular migration and ensuring the security of EU citizens are legitimate EU interests but the extent to which development and humanitarian assistance should be used for these purposes and whether they can succeed remains debatable. Beyond catering to development and EU interests, EFIs are tasked with promoting EU values such as democracy, human rights, the rule of law, civilian peace-building and gender equality abroad. Nevertheless, the recent mid-term reviews of the EFIs show that these values are increasingly difficult to promote on the ground. For instance, the external evaluations of the Development Cooperation Instrument (DCI) and the EDF noted that the EU is facing difficulties addressing fundamental issues of democracy and human rights in its policy dialogues with third countries.³⁰ The DCI evaluation adds that Delegations find it challenging to address controversial human rights-related issues in a meaningful way.³¹ The European Neighbourhood Instrument (ENI) evaluation confirms the difficulties involved in advancing the EU agenda, stating that there has been limited progress in promoting fundamental EU values in the Neighbourhood.³²

The difficulties with delivering the EU human rights agenda arise from a number of internal and external factors. These span from the EU's own poor record on upholding these values internally to Europe's diminishing influence in an international environment where governments have become more reluctant to engage.³³ The EU has become more pragmatic in promoting its values, acting primarily when its own interests are not at risk.³⁴ At the same time, the 2030 Agenda, the new European Consensus on Development and the Communication on a renewed partnership

30 See European Commission (2017k) and European Commission (2017l).

31 See European Commission (2017k), p8.

32 See European Commission (2017m), p10.

33 See Carothers and Brechenmacher (2014).

34 See Directorate-General for External Policies (2017b), p19. f

with African, Caribbean and Pacific countries seek to mainstream human rights approaches.³⁵ The budget implications of mainstreaming human rights in geographical programming are significant, given that existing instruments such as the European Instrument for Development and Human Rights (EIDHR) have come under pressure in the current framework.

As the gap between EU ambitions and its actual practice grows, the discussions on the next MFF could provide an opportunity to clarify the weight and place of EU values in external action.³⁶ If the EU is to fulfil its aspirations to become a global responsible player, Heading IV needs to be resourced accordingly. Along with this, better forms of engagement on the EU values agenda need to be found that include but go well beyond financial incentives. This agenda becomes all the more important if the US under a Trump Presidency continues to downplay values in its international cooperation. This leaves a clear opportunity for global leadership from the EU.

Increasing flexibility in EU international cooperation

The 2017 report on the mid-term review of the EFIs argues that, while they were fit for the EU objectives prevailing in 2014 and congruent with partner countries' needs, their ability to address unforeseen events and emerging priorities was limited.³⁷ Different forms of flexibility have been created to improve responsiveness, for example, through the establishment of ad-hoc trust funds for Syria, Africa, Colombia and the Facility for Refugees in Turkey to address the root causes of migration. Other measures included a change in financial regulations that allows shifts in unused funds between headings and years.³⁸

The EU Global Strategy called for reforming EU development policy, by making it more responsive to the EU's own interests and to increase its flexibility. Flexibility is generally understood as the ability to respond swiftly to unforeseen events, but different actors conceive it in different

35 Para. 18 of the Agenda 2030 '[...] we reaffirm our commitment to international law and emphasize that the Agenda is to be implemented in a manner that is consistent with the rights and obligations of States under international law.' Para. 16 of the New Consensus 16: 'The EU and its Member States will implement a rights-based approach to development cooperation, encompassing all human rights.[...]'; and Part 3 of the Communication Joint Communication to the European Parliament and The Council, A renewed partnership with the countries of Africa, the Caribbean and the Pacific: 'The future partnership should be based on a shared strong commitment to promote and respect democratic principles, the rule of law, universal human rights and fundamental freedoms for all; respect for human dignity and the principles of equality and solidarity; and good governance'.

36 See Bossuyt et al. (2017a).

37 See Bossuyt, Caputo and Schwarz (2017).

38 See European Commission (2016a).

ways.³⁹ The discussions on the next MFF propose flexibility as the cornerstone of a seven-year framework that can respond to ever-changing demands. However, flexibility should not be seen as a panacea for all current deficiencies in the EU budget as flexibility also involves trade-offs, including on:

- the long- and short-term needs of partner countries;
- development objectives and other aims;
- the promotion of EU values versus domestic interests;
- ease of management and accountability.

In a context of limited resources, choices will necessarily be made, as the use of flexibility under Heading IV seems to have reached its limits. The current MFF saw a greater reliance on the use of dedicated trust funds, which the EU was mandated to set up and manage as part of the institutional reforms under the Lisbon Treaty. The most prominent initiative has concerned the Emergency Trust Fund for Africa that was launched at the Valletta Summit of November 2015. Since that Trust Fund drew on reserves of the EDF as well as other EFIs, its creation was legitimised by the ability to crowd in additional resources, which in this case were provided by EU member states and two non-member countries (Norway and Switzerland). Although the use of trust funds in EU external action is a recent phenomenon, earlier budget periods also included the use of reserves to set up dedicated facilities in order to use the resources more flexibly over established periods. The limited crowding-in effects of the trust funds, the absence of standardised procedures for managing them, and the limited democratic control of the European Parliament, have made several stakeholders reluctant to use them further at the current scale.

Both the European Commission and the European External Action Service (EEAS) have an interest in more flexibility as a means to simplify management, rationalise instruments and reduce negotiation margins for other EU institutions. Those who seek more political control over resources champion flexibility as a means of shifting funds towards emerging priorities and EU interests as the need arises.⁴⁰ In practice, flexibility can be achieved through different means, for example, fewer instruments, larger financial envelopes within instruments and looser regulations.

39 For example: the agility to move resources between budget headings, the potential to leverage additional resources, and the ability to (re)orient funds to certain types of partners. See Bossuyt et al. (2017a).

40 See Di Ciommo, Sherriff and Bossuyt (2017).

The Heading IV architecture

The latest mid-term review of the EFIs by the European Commission and the EEAS took stock of a number of innovations introduced in Heading IV under the current MFF. These include a dedicated envelope for cooperation with the African Union under the DCI, revisions to the instrument contributing to Stability and Peace (IcSP) and a stronger focus on more advanced developing countries under the Partnership Instrument.⁴¹ The report and the accompanying independent evaluations considered the existing EFIs to be fit for purpose to address the objectives defined when they were created in 2014, and broadly in line with partner countries' needs. The evaluations were conducted at a time when programmes were still under way, thus it was too early to assess outcomes and impact. As a result the mid-term review could not go further than detecting positive general trends in relation to the instruments' objectives.

With three more years to go under the current MFF and with limited available resources, options for leveraging flexibility are largely exhausted. Implementation weaknesses need to be addressed so as to better exploit synergies across instruments, reduce emerging gaps for cooperation with non-state actors and middle-income countries, and improve responsiveness to unforeseen events, to which the EU has largely reacted through 'innovative and ad-hoc mechanisms'.⁴² The European Commission's mid-term review acknowledged the role of the EU Delegations in relation to donor coordination, thus implicitly highlighting their limited role in the newly created mechanisms, even though the Delegations are a key facet of the EU's development cooperation system.

To differing degrees, all staff working documents and independent evaluations that fed into the mid-term review converge on the fact that some reforms are needed and that choices will need to be made in the next MFF regarding the overall package of instruments, flexibility, simplification and working with different actors and means of implementation. The current discussion of a single instrument for Heading IV aims to address concerns especially around flexibility and simplification. Its scope and design could improve Heading IV performance, but other actions at the programming and implementation level will be essential to make other necessary steps in that direction.⁴³

A key innovation of the current MFF concerned a Common Implementing Regulation (CIR), which set out common criteria for how all EFIs are programmed, implemented and evaluated. Key process management aspects of the CIR were also incorporated into the implementing regulation for the 11th EDF, as another step towards harmonising the rules and procedures between the latter and other EFIs. Aspects covered by the regulation range from result-oriented

41 See European Commission (2017i) and European Commission (2017j).

42 See European Commission (2017i), p.5.

43 See Di Ciommo, Sherriff and Bossuyt (2017).

planning and reporting, standardised procedures, consultation of civil society organisations, as well as international aid effectiveness commitments such as the untying of aid. The mid-term review noted that the CIR had been key to the simplification agenda by having prevented divergences as well as facilitating the interpretation of the various EFIs. The report however noted that the CIR's effect on simplification had been limited since the real simplification agenda pursued since 2014 by the European Commission was at the level of the Financial Regulation and its contractual templates.⁴⁴ In other words, ensuring common guidelines for implementing EU development cooperation goes some way, but the real gains are to be made in reforming the rules for how the financing of interventions are agreed and carried through. All in all, in the run-up to negotiating the next generation of EFIs and Heading IV, there needs to be a discussion on how the overall architecture – including the new mechanisms – can be guided by common norms, standards and financial rules.

EU aid to LDCs and fragile states

The Agenda for Change adopted in 2011 introduced the principle of differentiation in EU development policy. It stated that EU bilateral cooperation should focus on countries most in need, including LDCs and fragile states.⁴⁵ The new European Consensus on Development restates the principle and approaches differentiation as the tailoring of development cooperation modalities and tools to third countries' specificities in capacities, needs and performance.⁴⁶ It also reiterates the EU commitment to allocating 0.2% of its ODA as a proportion of its gross national income to LDCs.

There appears to be little room to expand resources to middle-income countries that are neither fragile nor LDCs without moving away from this longstanding commitment to LDCs, also reiterated in the 2030 Agenda.⁴⁷ Even with the differentiation principle in place, LDCs and fragile

44 See European Commission (2017o).

45 'Differentiation will also imply new forms of strategic cooperation based on mutual interests and allow for joint initiatives to address global challenges with more advanced partners, to whom bilateral development grant aid is being accordingly phased out.' See Council of the European Union (2012).

46 Directorate-General for International Cooperation and Development (2018b), para.79, p.40.

47 Countries that are classified as middle-income but are, at the same time, considered LDCs, fragile or extremely fragile are: Angola, Bangladesh, Bhutan, Cambodia, Djibouti, Guatemala, Honduras, Iraq, Kiribati, Laos, Lesotho, Mauritania, Myanmar, Pakistan, Palestine, Papua New Guinea, Sao Tome and Principe, Solomon Islands, Sudan, Swaziland, Syria, Tajikistan, Timor-Leste, Tuvalu, Vanuatu, Venezuela, Yemen and Zambia. Categorisation based on the UN list of LDCs and on the OECD DAC States of Fragility 2016 report's framework. The latter defines fragility as 'the combination of exposure to risk and insufficient coping capacity of the state, system and/or communities to manage, absorb or mitigate those risks. Fragility can lead to negative outcomes including violence, the breakdown of institutions, displacement, humanitarian crises or other emergencies'. See: <http://www.oecd.org/dac/conflict-fragility-resilience/listofstateoffragilityreports.htm>

states received lower shares of EU institutions' ODA than other country groups, in particular as a result of high allocations to the neighbourhood. LDCs received between 23% and 25% of EU institutions' ODA bilateral disbursements over the period 2011 to 2016.⁴⁸ Fragile and extremely fragile countries, of which some are also LDCs, scored better as they received between 30% and 34% of EU bilateral aid.⁴⁹

EU institutions' bilateral ODA is highly concentrated: in 2016, Turkey was by far the largest recipient with 21% of the total for bilateral assistance (€3 billion). The top 10 recipients together received 47% of bilateral EU aid. In the last three years, the only LDCs among the top 10 recipients were Afghanistan, Mali, Niger and Ethiopia. Other recurrent top recipients include Morocco, Tunisia, Ukraine, Serbia and Palestine.

An analysis of the data available from the Directorate for International Cooperation and Development (DEVCO)⁵⁰ shows that from 2012 to 2015, on average the EDF targeted most of its resources (75%) to LDCs and 53% to fragile contexts.⁵¹ The EIDHR allocated an average of 35% of its resources to LDCs and 30% to fragile countries. Humanitarian assistance (ECHO) focused 56% of funding to LDCs and 17% to fragile contexts.

Other instruments privileged allocations to middle-income countries, in particular to the Neighbourhood. This is the case for both the ENI and the Instrument for Pre-Accession (IPA), both instruments where differentiation does not apply and which focus on these regions.⁵² Other EFIs such as the DCI and the IcSP have more balanced allocations.⁵³

48 The OECD DAC defines bilateral aid as aid earmarked to countries, regions or specific programmes by donors. Multilateral aid consists of unearmarked funding for multilateral organisations that these organisations can use for autonomously defined purposes, in the limit of their mandate. Both types of aid can be disbursed through multiple channels. EU institutions' bilateral aid is by far the largest component of its contributions.

49 Country classification based on the OECD DAC States of Fragility 2016 report's framework. See OECD (2016).

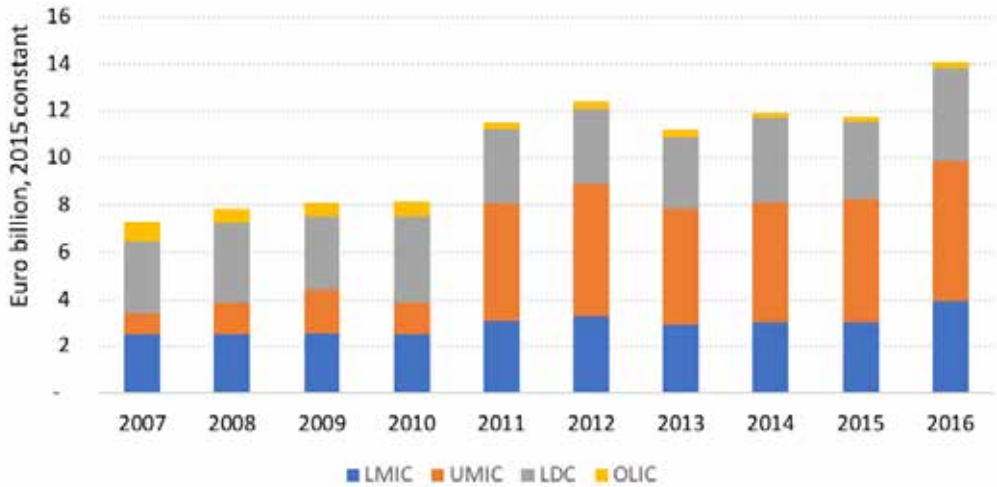
50 OECD DAC data do not provide information by instrument. Analysis is based on European Union data from DEVCO (2012, 2013, 2014, 2015, 2016) Annual Report on the European Union's development and external assistance policies and their implementation in 2011, 2012, 2013, 2014, 2015. See: https://ec.europa.eu/europeaid/annual-reports_en

51 The total share is above 100% because the two categories overlap.

52 Income country categories and other categorisations overlap so that a middle-income country can also be fragile or an LDC.

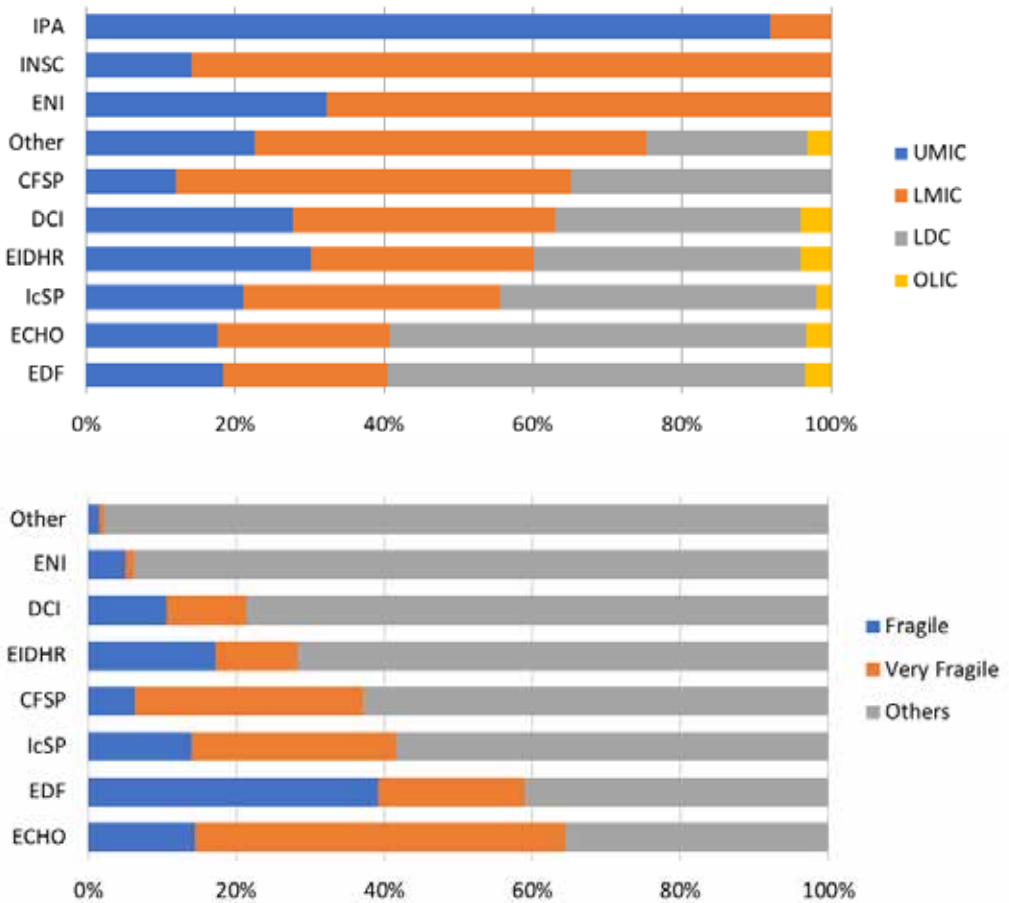
53 Under these instruments LDCs receive on average respectively 27% (DCI), 35% (IcSP) and 36% (EIDHR) of the total instrument envelope.

Graph 6: EU aid to LDCs is small in comparison to other income categories



Source: gross disbursements; country categories are those applied by the DAC; authors' calculations based on OECD DAC data. DAC country categories: LDC = least-developed countries; LMIC = lower middle-income countries; UMIC = upper middle-income countries; OLIC = other low-income countries.

Graph 7 and 8: EU's allocation to LDCs and fragile countries vary by instrument



Source: authors' calculation based on DEVCO Annual Reports (2011 to 2016). Others include the INSC, Food Facility and non-specified instruments. DAC country categories: LDC = least-developed countries; LMIC = low middle-income countries; UMIC = upper middle-income countries; OLIC = other low-income countries.

EU aid to global public goods

Global challenges such as climate change, the environment, health or peace and security have both internal and external dimensions. Yet currently, apart from limited exceptions, instruments and programmes either target domestic action (i.e. within the EU's borders) or international

action. An ongoing discussion aims to better structure the MFF along the SDGs, but it is early to outline potential outcomes for the future budget.

Climate action is one of the European Commission's priorities, with a benchmark of 20% of current MFF expenditure for climate-related initiatives.⁵⁴ This cuts across several EU policy areas from internal cohesion policy to research and innovation and including external action. The EU is broadly on track to achieve this target for the overall budget.⁵⁵ Data show that ODA climate-relevant allocations are increasing, but they perform below the average of the overall EU budget in relative terms. The share of climate-relevant EU institutions' ODA rose from 9.5% to 25.4% between 2014 and 2016, whereas overall budget shares increased from 13.6% to 20.9% over the same period.

In absolute terms, EU institutions' ODA earmarked as climate-relevant for mitigation, adaptation or for both objectives increased from €1.9 billion to €5.4 billion between 2012 and 2016. The share of resources earmarked for adaptation increased both in volumes and relative terms: from 20% up to 39% (€2.1 billion) in 2016. Additional resources go to adaptation through initiatives that are earmarked as relevant for both mitigation and adaptation.

Political commitment to climate change has been high. As the US presidency announced the withdrawal from the Paris Agreement, European members joined forces to restate their commitment to the United Nations Framework Convention on Climate Change (UNFCCC) process. It will be important to ensure that this commitment remains strong among both EU institutions and member states on mitigation and adaptation financing, the latter being historically lower than mitigation.

Graph 9: EU's aid to climate change is on the rise

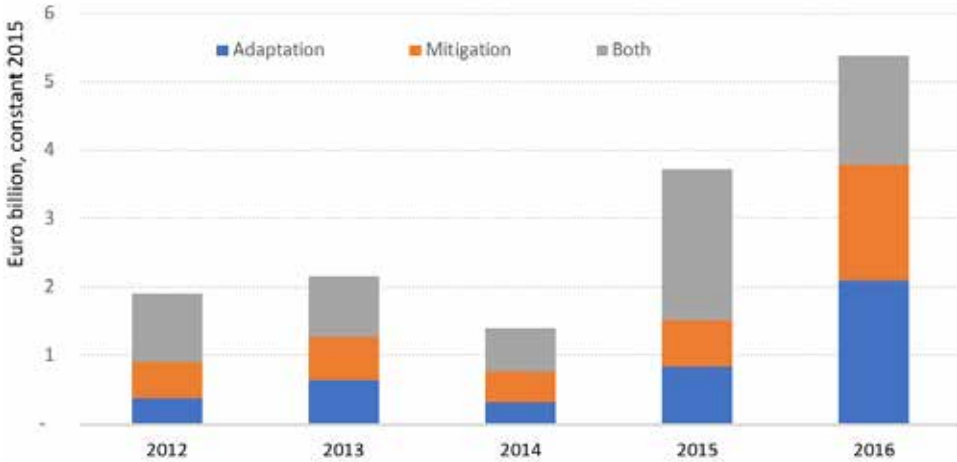


Source: ODA commitments, authors' calculations based on OECD DAC Creditor Reporting System data.

⁵⁴ See European Council (2013), para.10, p.6

⁵⁵ See European Commission (2016a).

Graph 10: EU’s aid commitments to climate-related initiatives increased after the 20% climate benchmark



Source: ODA commitments, authors’ calculations based on OECD DAC CRS data.

The EU Court of Auditors highlights that the European Commission manages its climate funds rather well in comparison with member states.⁵⁶ However, European countries need to coordinate better given that 95% of climate finance occurs at national level. Although there is a high level of coordination within the EU27 on common positions for international climate negotiations, coordination on climate finance is still weak. In the case of the negotiations for the next MFF, the EU and its member states have the opportunity to lead by example and strengthen their commitments to tackling climate change.

Building on the strengths of the EU as a global actor

European policy commitments captured in the EU Global Strategy and the new Consensus on Development, and in international engagements such as the Paris Agreement and the 2030 Agenda pave the way for a more ambitious EU external action and development policy. If the EU is to meet its ambitions and fulfil its expectations to become a stronger global player, negotiations for the next MFF are a starting point to address current shortcomings and build on its strengths.

The EFIs mid-term review and the Coherence report mention several of these. The perception of the EU as a more neutral global actor in comparison to member states, the scale and long-term

56 See European Court of Auditors (2013).

perspective of its financing all make the EU a desirable partner. Notwithstanding the challenges, the EU remains a key reference and a vital source of funding on democracy and human rights – for example, for many activists and civil society organisations in the Neighbourhood. The DCI Global Public Goods and Challenges (GPGC) programme and the Partnership Instrument articulate well external and internal policy objectives and try to work across the institutional boundaries of the different EU Directorate Generals. The IcSP has been able to adapt with speed and flexibility to unstable contexts and to different partners.

3. Conclusions and recommendations

There is broad recognition that today's development challenges have evolved dramatically since the period when the current MFF was negotiated, from 2011 to 2013. But the ensuing call for change needs to be reconciled with the strong path dependence in the MFF negotiation process that militates against the emergence of radical new ideas on the nature and structure of the framework.⁵⁷

Some degree of realism should not be an excuse for accepting the status quo, but rather should prompt proposals for reforming Heading IV that work 'with the grain' of the MFF process itself. The legitimacy and overarching narrative of Heading IV needs to guide the availability of adequate financial resources, thus reversing the approach seen in the last negotiation round when the main drive was to preserve available resources. This time a stronger narrative based on the 2030 Agenda and the Paris Agreement should reposition Heading IV as a key element of European integration as well as representing Europe's own sustainable development trajectory. The EU's development, social and environment communities should join forces in this aim. This new drive towards stronger concerted action should go beyond recent steps forward on EU defence and on Brexit negotiations. It should instead be guided by the growing realisation that the EU needs to define a strong role for itself in the global arena if it is to defend its citizens' interests in the face of globalisation, and its political and socioeconomic model in a more competitive multipolar world. Opportunities should be explored for a stronger common path on international development and for wider external action that go beyond a short-term approach to security and migration.

In view of the challenges ahead, and as part of their overall commitment to taking the European project further, member states should, as a minimum, commit to preserving the present level of external financing resources under the next MFF (close to €100 billion). In addition, a concerted

⁵⁷ A recent European Parliament-commissioned study provides a recent and well-grounded analysis of the nature of the MFF and its negotiation process: See European Parliament, Policy Department for Budgetary Affairs (2017).

effort needs to be made to deliver greater accountability, responsiveness and effectiveness. The amount is in line with the recent European Commission Communication on the next MFF, which also proposes to significantly simplify and streamline instruments.⁵⁸

Recommendations on the architecture for development policy in Heading IV

As previously discussed, the current MFF includes instruments that pursue both values and interests. They are hybrid constellations of ‘geographic cooperation’ – with a stronger role for Delegations in pursuit of developing countries’ own priorities – and of ‘thematic cooperation’ on EU predetermined priorities, with a stronger managerial role for the EU’s headquarters in Brussels. The fact that instruments such as the DCI and EDF are faced with having to reconcile both equally relevant rationales complicates their identity and communication as defining features of EU development policy.

The following categorisation would address this fundamental issue.⁵⁹

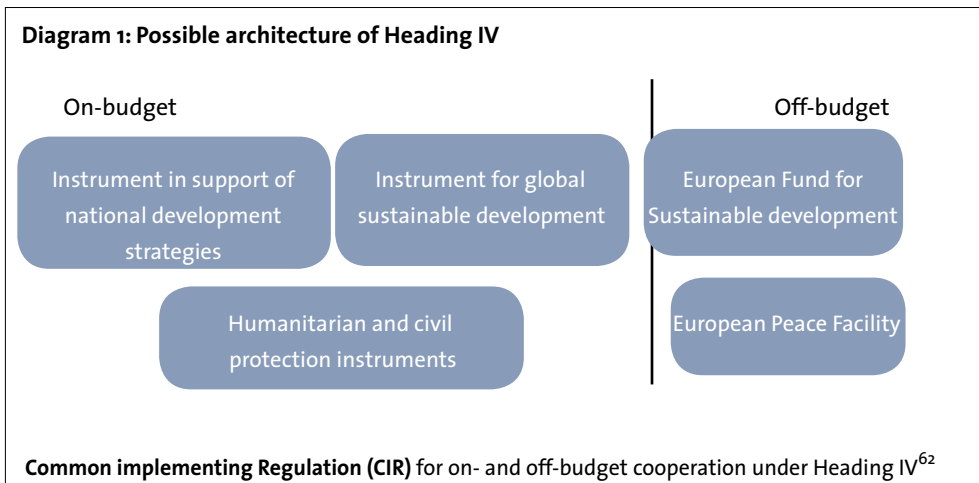
National development problems: issues that all countries – rich and poor – individually face (education, health, good governance)	Global development problems: issues that affect everyone and require collective action (taxation, climate change, migration)
Rationale: cooperation emphasising poverty reduction in line with country priorities, ownership and alignment	Rationale: promotion of mutual benefits for global sustainable development to the EU and third countries
Dominant EU approach: geographic cooperation	Dominant EU approach: thematic cooperation
Current EU instruments: EDF, DCI, ENI	Current EU instruments: DCI thematic, Partnership Instrument, EIDHR, IcSP

⁵⁸ A recent European Parliament-commissioned study provides a recent and well-grounded analysis of the nature of the MFF and its negotiation process: See European Parliament, Policy Department for Budgetary Affairs (2017).

⁵⁹ This typology was first presented by the then IDS Director Lawrence Haddad. See Haddad (2013).

As per the above rationale, the following overall architecture could facilitate further discussion on rearranging the architecture of Heading IV in line with the ongoing policy discussion on creating a single instrument.⁶⁰ In addition, current humanitarian financing mechanisms must be maintained and adequately resourced during the next budget period, given that the current high levels of humanitarian need look set to continue.

Diagram 1 illustrates a possible outcome that is at one end of the spectrum of possibilities. The new ‘Instrument in support of national development’ and the new ‘Instrument for global sustainable development’ would respectively cater to national and global development problems and be largely based on the use of grants and other forms of cooperation (e.g.: in-kind, technical cooperation, twinning, scholarships etc.) whereas the European Fund for Sustainable Development would deploy blended finance.⁶¹



However, there are other aspects that need to be addressed, including the preference by some member states to retain a distinct legal instrument for the Neighbourhood; the fact that scrutiny of EFIs is divided between two European Parliament committees; the future of EU Trust Funds; the Council’s intention to consider budgetising the EDF; as well as the financing

⁶⁰ This representation excludes the Humanitarian Aid Instrument, which would remain an independent instrument under the next MFF.

⁶¹ Blended finance entails a combination of: (1) investment grant and interest rate subsidy; (2) technical assistance; (3) risk capital; and (4) guarantees. See European Commission (2015b).

⁶² In a strict legal sense, an EU Regulation cannot govern off-budget instruments operating under inter-governmental structures. However, given that largely the same actors are involved, and in view of the longstanding debate on European Parliament scrutiny over off-budget instruments, the CIR could include language through which the actors involved commit to apply the same implementing rules to off-budget initiatives. These include the ones shown in the diagram, but for instance also trust funds.

of cooperation with Overseas Countries and Territories.⁶³ Given this, it is unlikely that a single instrument will be created. Rather than the current mix of development narratives and geographic ring-fencing, a future architecture should best relate distinct instruments to distinct development narratives. This would go a long way towards the significant simplification and streamlining that the EU envisages.

Regardless of the option chosen, the new instruments should continue to specify the percentage of the total budget for which actions should be designed to fulfil ODA criteria established by the OECD DAC. This would reflect the EU's continuing collective commitment to improve both the quantity and quality of global ODA, as committed to in the Addis Ababa Action Agenda as well as in the 2017 New Consensus on Development.

Four propositions for reforming EU development cooperation

In addition to the above recommendations on the architecture, four propositions are presented to reform the ways in which Heading IV is used and governed. They aim to provide the means towards making more concrete and operational the high-level vision on the future of EU development policy as set out in the new EU Consensus on Development.

1. Strengthening accountability in EU development cooperation: parliamentary scrutiny as a key element of accountability needs to be reinforced under the next MFF, as well as adjusted to new forms and approaches that move away from direct grants.

At the start of the current MFF, roughly one third of total EU ODA was located outside the MFF in the 11th EDF. In addition, while the off-budget EDF was outside the European Parliament's scrutiny role from the outset, the current MFF period saw a more general worsening of democratic control and scrutiny of development spending. This was a consequence of the choice to draw heavily on the EDF's long-term reserve to finance migration-related investments in Africa and due to the marginal involvement of the European Parliament in setting up the Emergency Trust Fund for Africa and the EU's External Investment Plan. To strengthen accountability, we would propose that the European Parliament concentrate scrutiny of the EFIs in a single committee.

2. Responsive instruments: the EFIs should be made more responsive, combining predictability with the possibility of fast-tracked decision-making when required.

Current policy debates on the need for making the instruments more flexible have produced various competing interpretations of what flexibility may mean in practice. Key in these considerations should be the EU Treaty's requirement for the member states and the EU to complement each other's actions in the field of development policy. Discussions on flexibility should focus on how

63 Beyond these more institutional aspects, it should be noted that some of the EU's priorities that are promoted through thematic cooperation do not address global cooperation problems per se, as identified under the 2030 Agenda, but rather directly cater to EU interests as advanced under other policy areas such as migration management and external border management.

to ensure a more responsive Heading IV, building on the EU's added value and based on proposals presented in the recent EFIs mid-term reviews. This should be with predictable and structured approaches to programming funds, but also with the possibility to engage in 'fast-tracked decision-making' when required and supported by all EU institutions. In order to prepare for the use of such fast-tracked approaches, the new EFIs need to have inbuilt reserves that, like the humanitarian aid reserves, are exempt from the European Parliament's 'annuality' requirement, can accumulate and need to be spent within the entire MFF period.

3. Countering centralisation tendencies: the key comparative advantage provided by the EU's dense network of well-resourced EU Delegations needs to be strengthened under the next MFF.

A key comparative advantage of the EU in the field of development cooperation concerns its global presence, backed up by an extensive network of Delegations. Recent changes in EU development policy, namely the Lisbon Treaty's requirement for the EEAS and DEVCO to jointly determine programming decisions, have had the unintended effect of centralising decision-making on EU development cooperation. This affected established programming practices under the geographic EFIs. The role of the Delegations declined further as a result of the establishment of new initiatives including the Trust Fund for Africa and the External Investment Plan, for which decisions are taken in Brussels-based management boards. These trends have eroded the vital role of Delegations in mediating the EU's interests and those of its partner countries and regional organisations. For these reasons, the next MFF needs to be accompanied by a dedicated review and subsequent further devolution of development cooperation management to the Delegations. This reform is long overdue, given that the last reform was introduced more than 15 years ago, and in view of the possibilities created under the new Treaty.⁶⁴

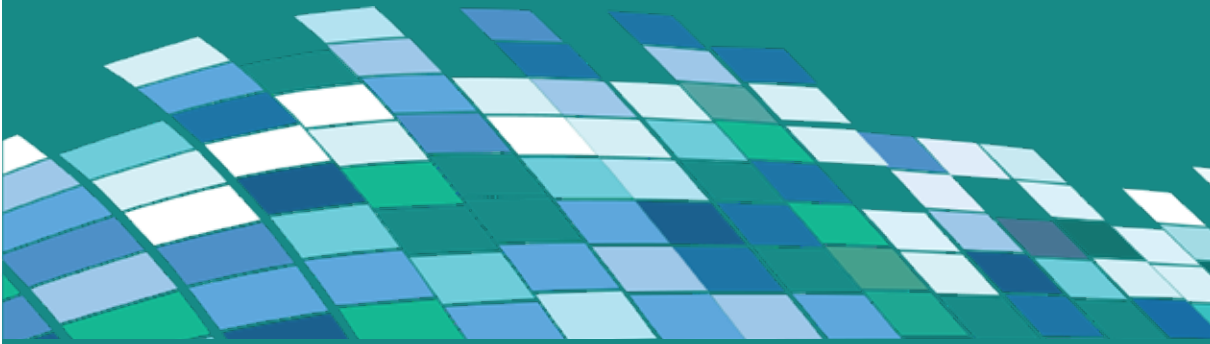
4. Common financing and implementation rules: the rulebook for EU development policy needs to be updated so as to enable efficient implementation and value for money.

Any discussion on the next MFF should start from a priority to build a budget that is both straightforward to communicate and politically legitimate. Creating large funds outside the MFF mainly for the purpose of maximising resources flies in the face of this, and in fact, is not common practice in any of the other MFF headings. This does not mean that there is no case for accommodating certain funds and initiatives outside the budget – for example, the Africa Peace Facility supports activities that cannot be financed from the budget for legal reasons. Trust funds that attract contributions from third countries and that have a clear transparent intervention logic have a legitimate role and place outside the MFF. Such off-budget initiatives should however, as much as possible, be integrated in the MFF, and be subject to the Common Implementing Regulation. These common rules, which currently only apply to the instruments within the budget, need to apply equally to on- and off-budget instruments and initiatives.

⁶⁴ The EU Court of Auditors encouraged the European Commission to take further measures in this area in a special report published in 2011. See European Court of Auditors (2011).

Section II

Critical issues arising from the European Commission proposals



Aiming high or falling short?

A brief analysis of the proposed future EU budget for external action¹

Alexei Jones, Mariella Di Ciommo, Meritxell Sayós Monràs,
Andrew Sherriff and Jean Bossuyt

Chapter

4

Introduction

The Multiannual Financial Framework (MFF) for the 2021-2027 period comes at a crossroads for the future of the European Union (EU), as the Union seeks to respond to unprecedented opportunities and challenges, both internal and external.

To launch the negotiations of the EU's new budget, the Commission has come forward with bold proposals with potential for a more strategic EU engagement with the rest of the world. Beyond presenting a rationale and plea for a quite substantial increase in the budget for external action, the Commission has proposed a budgetary architecture and instruments under a new 'Heading VI' that portend fundamental changes to the EU financing structure. These are set out in the Commission's 2 May communication, 'A Modern Budget for a Union that Protects, Empowers and Defends' (COM(2018) 321 final), and in legislative proposals for the new Heading VI related to EU external action (COM(2018) 460 final).

This chapter² analyses the main changes proposed by the Commission and their potential implications for EU external action, in particular for development cooperation. It further identifies some of the key strategic choices arising from the proposals and concludes with outstanding questions for the upcoming negotiations.

The Multiannual Financial Framework (MFF) for the 2021-2027 period comes at a crossroads for the future of the European Union (EU), as the Union seeks to respond to unprecedented opportunities and challenges, both internal and external.

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- 1 This chapter originally appeared as: Jones, A. Di Ciommo, M., Sayós Monràs, M., Sherriff, A., and Bossuyt, J. September 2018. Aiming high or falling short? A brief analysis of the proposed future EU budget for external action. ECDPM Briefing Note 104. Maastricht: ECDPM. <http://www.ecdpm.org/bn104>
 - 2 This chapter represents a quick analysis by ECDPM. It builds on an earlier internal paper for the Belgium Ministry of Foreign Affairs. For more general background analysis and ongoing ECDPM work on the MFF, see <http://ecdpm.org/dossiers/multiannual-financial-framework-mff/>

To launch the negotiations of the EU's new budget, the Commission has come forward with bold proposals with potential for a more strategic EU engagement with the rest of the world. Beyond presenting a rationale and plea for a quite substantial increase in the budget for external action, the Commission has proposed a budgetary architecture and instruments under a new 'Heading VI' that portend fundamental changes to the EU financing structure. These are set out in the Commission's 2 May communication, 'A Modern Budget for a Union that Protects, Empowers and Defends' (COM(2018) 321 final), and in legislative proposals for the new Heading VI related to EU external action (COM(2018) 460 final).

Key features of the overall structure and funding for EU external action

A focus on new political priorities

Preparations and negotiations for the MFF 2021-2027 are taking place in a context of unprecedented challenges for the EU, both internal and external. The global situation has evolved rapidly since 2014, when the current MFF went into effect. Attacks on multilateralism from unexpected corners, including the United States, as well as the Brexit process, have triggered a fundamental debate on the EU's future. New dynamics, such as technological innovations, demographic shifts, climate change, geopolitical instability, security threats and migratory pressures, are putting the EU's response and adjustment capability to test after test. Against this backdrop, the Commission has aligned its proposals for the MFF 2021-2027 with the Union's post-2020 political priorities and put a clear emphasis on European added value.³

The Commission has proposed increasing the MFF from the current €1.087 billion for 2014-2020 to €1.279 billion for 2021-2027 in current prices (€1.134 billion in real terms). This increase is significant, though the context in which the current MFF is being negotiated is quite different from the last. The previous negotiations were held against the backdrop of an economic downturn and resulted in the first EU budget ever to have less resources than the previous programming period (2007-2013). The economic crisis has now faded in most member states, and the Union's economy is growing again, albeit modestly and unevenly. Nonetheless, populist and anti-EU forces have continued to strengthen their foothold in several EU countries, and their discourse is hardly compatible with an expanded EU budget. Hence, the EU will need a solid narrative to justify greater spending, particularly on external action.

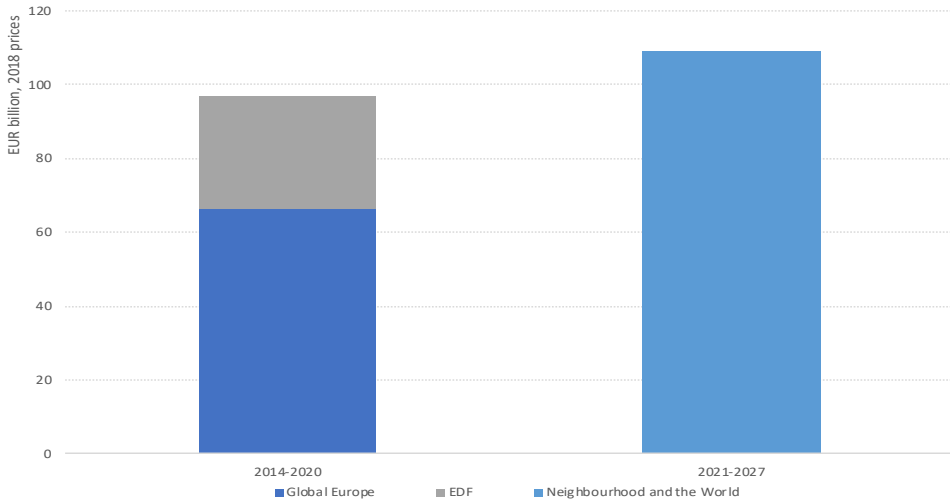
Increased funding for the Neighbourhood and the world

The Commission has proposed increased budgetary commitments for EU external action under a new and financially larger 'Heading VI' called 'Neighbourhood and the World'. This heading would include €123 billion in nominal terms (€108.9 billion in real terms), plus an off-budget

3 For these priorities, see the roadmap presented in the Bratislava Declaration of September 2016 (see Council of the European Union (2016)) as well as the Rome Declaration of March 2017 (see Council of the European Union (2017c)).

European Peace Facility and the Emergency Aid Reserve. This is a bold proposal, entailing a 13% increase in real terms (€12.14 billion) in resources for external action compared to the existing framework, if only on-budget resources are included. If the European Peace Facility and Emergency Aid Reserve are also taken into account, the increase rises to 24% in real terms (Figure 1).

Figure 1: The proposed increase in EU resources for external action is quite significant



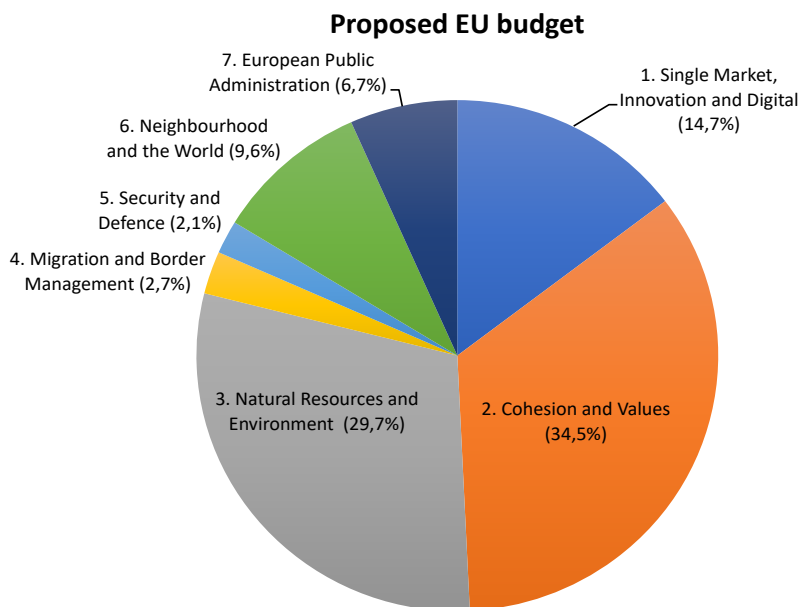
Source: ECDPM calculations based on European Commission data. Figures do not include the off-budget European Peace Facility and the Emergency Aid Reserve.

The proposed increase underlines the traction that external action has gained, from a European perspective, as a necessary area of cooperation and EU added value. The main driver of the increase is clearly the EU’s urgency to safeguard its own interests in regard to instability, security threats and geopolitical changes in its Neighbourhood and around the world. In particular, the framing of Heading VI reflects a need to focus on new strategic priorities, both geographical (the European Neighbourhood, Africa and the Western Balkans) and thematic (security, migration, climate change and human rights).

Despite this substantial increase, external action’s share of the overall budget would rise only slightly, from 8.7% to 9.6%, when including the off-budget European Development Fund (EDF). And the increase proposed remains less than European gross national income (GNI) growth (Figure 2). Thus, resources for EU external action would actually be reduced as a share of the whole EU economy without the United Kingdom.⁴

4 See Claeys and Darvas (2018).

Figure 2: The share of external action increases to 9.6% of the total proposed budget



Source: ECDPM calculations based on European Commission data. Figures for 2021-2027 do not include off-budget funds.

A new European Peace Facility

An important novelty in the Commission's proposal is the establishment of the off-budget European Peace Facility (€10.5 billion in current prices) to fund operations under the Common Foreign and Security Policy that have military or defence implications, and therefore cannot be financed under the EU's budget. All existing military and security-related actions would be funded under the European Peace Facility, including the African Peace Facility, which is currently under the EDF, and other crisis management components, such as the Athena Mechanism (which finances common costs relating to EU military operations). Creation of the European Peace Facility off-budget would be a significant innovation towards better alignment with today's more dynamic environment of European security and European support to African security.

A single instrument for development, the Neighbourhood and international cooperation

The Commission proposals pursue a more streamlined and transparent budget throughout the MFF, grouping programmes into policy clusters and reducing the number of financial instruments. This would drastically cut the number of thematic and geographic instruments

and programmes for EU external action. Most current mechanisms would be replaced by a new broader instrument, the Neighbourhood, Development and International Cooperation Instrument (NDICI).

The NDICI would absorb by far the largest share of funds (72.5%) under Heading VI and incorporate eleven of the current instruments and programmes. Due to their specific focus or legal basis, some instruments would remain self-standing, including the Instrument for Pre-Accession Assistance (IPA), the humanitarian aid instrument, the Common Foreign and Security Policy (CFSP) and other smaller components. The IPA and humanitarian assistance would receive, respectively, 11.8% and 8.9%. Table 1 lists the instruments under the MFF 2014-2020 alongside those proposed for the MFF 2021-2027.

The NDICI is envisioned to merge multiple instruments previously managed by different Commission directorate generals or services, such as the DG for International Cooperation and Development (DEVCO), the DG for Neighbourhood and Enlargement Negotiations (NEAR) and the Service for Foreign Policy Instruments (FPI). The wide sweep of the new instrument has raised questions about where responsibility for managing the NDICI will lie within the Commission. How will the Commission decide -- and who within it -- on the use of funds for priorities, commitments and strategic interests?

More flexible and simpler financing

Two main arguments have been put forward for the merging of instruments into a broad instrument for external action. The first is to prevent gaps and overlaps. The second is to facilitate coherent responses as well as exploit synergies, through greater simplification, flexibility and transparency.

These arguments are backed by the mid-term review of the external financing instruments,⁵ which points to shortcomings in the current architecture. The review particularly notes the fragmented nature and different legal bases of the current instruments and their lack of coherent political steering.⁶ The 'Coherence Report',⁷ observes that though they are still relevant to the EU's objectives, the external financing instruments have struggled to adapt to current challenges and agendas,⁸ and they are lacking in complementarity. It concludes that a 'major rethinking of the overall package of instruments and related division of labour' is required, as well as more agility and flexibility. It also calls for clearer distinctions between instruments oriented towards development cooperation and those addressing global challenges (e.g., the 2030 Agenda) or pursuing the EU's own priorities.

5 See European Commission (2017i)

6 See European Commission (2017p).

7 See Bossuyt, Caputo and Schwarz (2017).

8 See European Commission (2017j).

Table 1: Existing (2014-2020) and proposed (2021-2027) instruments

Instruments 2014-2020 (Heading IV)	Proposed Instruments 2021-2027 (Heading VI)
New Heading VI: Neighbourhood and the World (Heading IV in MFF 2014-2020)	
External Action	
Development Cooperation Instrument (DCI)	Neighbourhood, Development and International Cooperation Instrument (NDICI) together with the European Instrument for Nuclear Safety Cooperation on the basis of the Euratom Treaty
European Neighbourhood Instrument (ENI)	
Partnership Instrument for Cooperation with Third Countries (PI)	
European Instrument for Democracy and Human Rights (EIDHR)	
Instrument contributing to Stability and Peace (IcSP)	
European Development Fund (EDF), including ACP Investment Facility and excluding the African Peace Facility (APF)	
Instrument for Nuclear Safety Cooperation (INSC)	
European Fund for Sustainable Development	
External Lending Mandate (ELM)	
Guarantee Fund for External Action	
Macro-Financial Assistance (MFA)	
Overseas Countries and Territories	Cooperation with Greenland, Overseas Countries and Territories
Cooperation with Greenland	
Humanitarian Aid	Humanitarian Aid
Common Foreign and Security Policy	Common Foreign and Security Policy
Support to Turkish Cypriot Community	Support to Turkish Cypriot Community

Pre-Accession Assistance	
Instrument for Pre-Accession Assistance (IPA)	Instrument for Pre-Accession Assistance (IPA)
Instruments Outside the MFF headings	
Emergency Aid Reserve	Emergency Aid Reserve (internal and external)
Off-Budget	
Common Foreign and Security Policy operations with defence implications (Athena Mechanism)	European Peace Facility (EPF)
European Development Fund, including the African Peace Facility (APF)	

Source: Adapted from European Commission, 2018b.

Although some streamlining of the instruments would be welcome, there is a risk that the geographic and thematic specificities of the current external financing instruments could be lost. The Coherence Report also points to risks posed by the securitisation of cooperation and increasing use of development funds to address migration flows. These tendencies have diluted the EU’s values agenda to some extent. The political narrative supporting Heading VI, with its expanded mandate for EU external action, brings similar challenges in terms of reconciling EU development objectives with domestic and foreign policy priorities.

Another perceived risk is that bringing together multiple instruments with different objectives might reduce the resources available for development, particularly for least developed countries (LDCs) and sub-Saharan Africa, unless safeguards are clearly spelt out. A related concern is that the use of development resources could become skewed towards other priorities while remaining formally categorised as official development assistance (ODA). Whether and how these risks will materialise depends greatly on how the narrative underlying an eventual Heading VI filters down the lines through programming and the degree of ring-fencing of funds for specific purposes.

There are furthermore a number of legitimate concerns about appropriate oversight of EU funding for external action. While more flexibility is welcome it cannot come at the cost of accountability. The MFF negotiations could be an opportunity to bring a much-needed transparency to EU funding mechanisms, as transparency is a precondition for effective accountability. Simplification of the EU external financing architecture is a step in this direction, but other actions will also be needed to enhance transparency meaningfully. The NDICI should seek to balance appropriate oversight with a guarantee of sufficient flexibility while also preserving predictability. In addition to the downstream challenge of accountability, there is the upstream challenge of achieving better political steering of the instruments by the EU and its member states.

A reserve for unforeseen circumstances

An important aspect of the proposal is its integration of the current extra-budgetary European Development Fund (EDF) into the EU budget. The Commission has argued that bringing the EDF into the budget will increase transparency and democratic scrutiny by the European Parliament. Given the size of the EDF (€30.5 billion for the 2014-2020 period), its incorporation into the NDICI would appear a condition sine qua non for the success of the proposed broad instrument. But the Commission is also keen to import the flexibility features of the EDF, especially its unallocated envelope. The NDICI as designed would include an Emerging Challenges and Priorities Cushion that transposes this unallocated envelope into the budget. In addition, the Commission would like to see the ‘multi-annuality principle’ of the EDF applied to on-budget external resources. This would mean that unused funds could be carried over across years, and uncommitted funds could be allocated to priorities other than the original ones.⁹

The Commission is pushing for more flexibility overall in the MFF, between headings and years, as well as within and between programmes. A major novelty in the flexibility toolbox is the creation of a new crosscutting Union Reserve (Global Margin for Commitments) to allow swift responses to unforeseen circumstances and emergencies in areas such as security and migration. The Union Reserve would allow for flexibility and be financed from margins left available under the commitment ceilings of the previous financial year, as well as funds committed to the EU budget but ultimately unspent in the implementation of EU programmes and therefore decommitted.

Under Heading VI, the ‘Emerging Challenges and Priorities Cushion’ would be created, composed of non-programmable funds, allowing the Commission to move resources between pillars to respond to migratory pressures, unforeseen circumstances, new needs or emerging challenges, and new Union-led or international initiatives. The cushion would amount to €10.2 billion in current prices, corresponding to about 11% of the instrument. This is considerably more than all but the geographic pillar of the NDICI.¹⁰

A flexible reserve would allow the EU to respond more efficiently and rapidly to unforeseen circumstances and be an agile player post-2020. The Commission’s proposals go some way towards this end. The proposals would also allow for more predictability in other allocations, as there would be less need to renegotiate and reallocate from other areas. In this sense, it is a welcome innovation. Yet, ambiguity remains regarding the implementation, governance and accountability of the reserve. The proposed cushion is quantitatively substantial, considering its flexible and un-earmarked nature. Questions are justified regarding the criteria and procedures

⁹ See European Commission (2018b).

¹⁰ As a comparison, for 2014-2020 the initial EDF’s unallocated envelope was €5.8 billion (about 19% of total EDF), whereas 6% of the DCI’s geographic funding was unallocated.

for tapping into it and what it could be spent on beyond migration. What other emerging priorities would the reserve cover, and how would allocations be decided? How would funds be shared between different geographic or thematic priorities? Who will decide? What role would member states and the European Parliament play? While the EU undoubtedly needs greater flexibility, it must also ensure a relative clarity and predictability of longer-term funds to geographic and thematic areas. Also, appropriate governance and oversight methods must accompany any mechanisms for swift allocations.

A new external investment framework

Building on experiences from blending facilities and the European External Investment Plan (EIP), the Commission has proposed expanding the scope and coverage of its investment framework for external action. That framework would thus consist of the European Fund for Sustainable Development Plus (EFSD+) and the External Action Guarantee, which would be part of the NDICI.

The EFSD+ would have worldwide coverage for blending, guarantees and other financial operations. The Commission's proposed regulation establishing the NDICI makes no specification of the amounts or shares to be devoted to the various regions, meaning that blended finance and guarantees could be used more intensively in some regions than in others. Specific references to thematic priorities are also lacking. For comparison, the European Investment Bank (EIB) must allocate at least 25% of funds to climate action and mitigation, and the European Bank for Reconstruction and Development (EBRD) allocates 40% of its funding to set priorities. The NDICI regulation could similarly set explicit targets for the EFSD+, for example, focusing on LDCs, climate and gender.

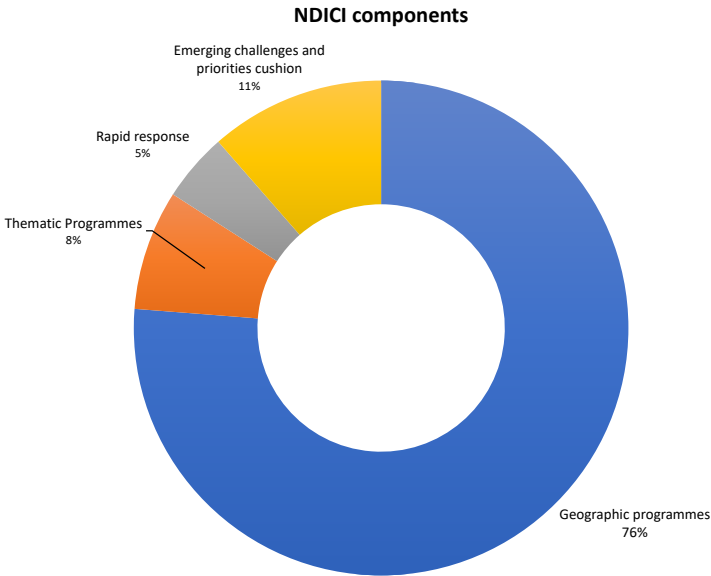
The EFSD Guarantee, the EFSD Guarantee Fund and the External Lending Mandate would be merged and replaced by the External Action Guarantee, under which budgetary guarantees would be provided for all countries covered by the EFSD+ and the Instrument for Pre-Accession Assistance. The External Action Guarantee is foreseen to cover operations up to a maximum amount of €60 billion for the 2021-2027 period. The provisioning rate would be at 9% for EU macro-financial assistance and sovereign risks (a rate identical to that under the External Lending Mandate), but it could be as high as 50% for other types of operations. The proposed NDICI regulation provides no further guidance or averages on provisioning rates.

Structure and resource allocations of the NDICI

The NDICI architecture

As proposed, the NDICI would be divided into three pillars: geographic programmes, thematic programmes and a rapid response component. The largest share of funds would go to geographic programmes (76%), while thematic programmes would receive 8% and the rapid response pillar 4%. In addition, the Emerging Challenges and Priorities Cushion would represent a substantial 11% of the instrument's resources (Figure 3).

Figure 3: The geographic programmes and the reserve get the most of NDICI funds



Source: ECDPM calculations based on European Commission data.

The aim of each of the three pillars and the reserve is to promote development cooperation, global action and EU interests, thus responding to different but complementary logics of EU external action derived from the objectives set in the Treaty on the European Union, especially Article 15. Article 3 of the proposed NDICI regulation spells out three objectives of the instrument as follows:

- to support and foster dialogue and cooperation with third countries and regions;
- to consolidate and support democracy, rule of law and human rights; support civil society organisations, further stability and peace; and address other global challenges, including migration and mobility; and
- to respond rapidly to situations of crisis, instability and conflict; resilience challenges and linking of humanitarian aid and development action; and foreign policy needs and priorities.

The Commission’s proposal also provides details on how resources would be allocated across instruments and sub-programmes (Table 2).

Table 2: Proposed Heading VI instruments and their funding (2021-2027)

Heading VI	Current prices (€ millions)	Current prices (€ millions)
Neighbourhood, Development and International cooperation Instrument (NDICI)	89,200	78,950
Pillar 1: Geographic programmes	68,000	60,186
- Neighbourhood	22,000	19,472
- Sub-Saharan Africa	32,000	28,323
- Asia and the Pacific	10,000	8,851
- The Americas and Caribbean	4,000	3,540
Pillar 2: Thematic programmes	7,000	6,196
- Human Rights and Democracy	1,500	1,328
- Civil Society Organisations	1,500	1,328
- Stability and Peace	1,000	885
- Global Challenges	3,000	2,655
Pillar 3: Rapid Response Actions	4,000	3,540
Emerging Challenges and Priorities Cushion	10,200	9,028
Complementary European Instr. for Nuclear Safety	300	266
Humanitarian Aid	11,000	9,760
Common Foreign and Security Policy	3,000	2,649
Overseas Countries and Territories (incl. Greenland)	500	444
Other	1,070	94913
Decentralised Agencies	149	132
Pre-Accession Assistance	14,500	12,865
Margin	3,283	2,913

Heading VI	Current prices (€ millions)	Current prices (€ millions)
Total Heading VI	123,002	108,928
Off-Budget Instruments		
Emergency Aid Reserve	4,734	4,200
European Peace Facility	10,500	9,223

Source: Adapted from European Commission, 2011; European Commission, 2018p. Constant prices discount the inflation from different years and thus allow comparability over time with other quantities expressed in constant prices for that same year.

Distribution of resources for thematic and geographic priorities

The lion's share of funding would be channelled through the geographic programmes, for which the Commission has proposed earmarked amounts divided into four regions: the EU Neighbourhood, sub-Saharan Africa, Asia and the Pacific, and the Americas and Caribbean. This structure is a clear demonstration of the Commission's prioritisation of regional geographic approaches over global thematic ones. The Commission proposals safeguard a prominent EU neighbourhood window with a ring-fenced minimum allocation of €22 billion in current prices. Sub-Saharan Africa would also receive a substantial ring-fenced minimum amount, some €32 billion in current prices, with additional funds likely to come from the other two pillars (thematic and rapid response) as well as potentially the cushion.

A number of thematic actions currently financed by thematic programmes under the Development Cooperation Instrument (DCI) and taking place at the country level would instead be covered under the geographic programmes in the new architecture.¹¹ For all geographic regions, cooperation would be structured around the 'five Ps' (people, prosperity, planet, peace and partnership). For the EU Neighbourhood specifically, the proposed regulation contains a dedicated chapter with provisions on allocation criteria, the performance-based approach and cross-border cooperation. Additionally, the actions funded under the geographic programmes are to be complemented by four thematic programmes addressing, respectively, human rights and democracy, civil society organisations, stability and peace, and global challenges.

With this shifting of thematic actions to the geographic programmes, the Commission aims to enhance synergies between both types of interventions. Thematic programmes under the NDICI would then cover issues that are better dealt with at the global level and in international settings rather than at the country level.

¹¹ See European Commission (2018c).

This could be a positive move as it would require delegations to have a stronger say and oversight of EU-wide cooperation, while also requiring them to go through national counterparts in partner countries in programming. Some concerns here have also been raised. Not least, such a requirement could weaken action on sensitive issues, especially human rights. This worry is somewhat countered by the fact that the envisioned envelope for human rights under the NDICI thematic programme is approximately the same size as the existing European Instrument for Democracy and Human Rights in real terms. Table 3 details some of the main changes proposed on selected crosscutting issues.

Table 3: Selected cross-cutting issues and main featured changes

Poverty	Interestingly, the 2 May MFF proposals do not refer to ‘eradicating poverty’ but to ‘overcoming’ poverty. Furthermore, poverty eradication is not mentioned explicitly as one of the objectives of the NDICI itself, but only indirectly through the reference to the EU Treaty. This absence has attracted criticism from civil society organisations working on development issues. Their concern is that poverty eradication as a longer-term objective will be lost or further diluted in the next programming cycle.
Sustainable Development Goals (SDGs)	According to the Commission, sustainable development will be mainstreamed throughout the MFF to implement the 2030 Agenda, both internally and externally. However, the SDGs are only mentioned in the introductory paragraph of the general proposals for Heading VI, and the NDICI itself foresees no strong concrete actions or dedicated funding for the SDGs. The proposed regulation states only, in Article 4, that the thematic programmes shall encompass actions linked to the pursuit of the SDGs at the global level, in particular in the global challenges programme, while actions undertaken throughout should pay special attention to linkages between the SDGs and integrated actions that can create co-benefits and meet multiple objectives in a coherent way.
Gender	The Commission’s 2 May communication makes no explicit reference to gender equality as a key political priority. Its annex refers to gender mainstreaming only twice, with one of these regarding the new NDICI. No details are provided as to how gender mainstreaming should be undertaken in the next MFF. The 20% spending target for social inclusion and human development, as currently proposed, explicitly includes gender equality and women’s empowerment, but again, without further details as to what this means.
Human rights	The proposed NDICI ring-fences human rights in the thematic pillar, providing a dedicated envelope of €1.5 billion, which is similar to the amounts available in the 2014-2020 period. The current Development Cooperation Instrument (DCI) sets a target of at least 15% of the indicative financial allocations to geographic programmes for human rights, democracy and good governance. There is no such target in the NDICI geographic pillar.

Peace, conflict and security	<p>The EU budget for security and defence (Heading V) would be significantly reinforced to €27.5 billion under the current proposals. The Commission has also proposed the creation of a new dedicated European Peace Facility, outside the budget, with a Common Foreign and Security Policy retained within the budget. Under Heading VI, the NDICI proposal does not retain the Instrument contributing to Stability and Peace (IcSP) as a separate tool, although a commitment to ‘conflict sensitivity’ is mentioned among a number of cross-cutting principles.</p> <p>The NDICI would include ‘stability and peace’ as a component of the thematic pillar, while also prominently incorporating peace, security and conflict considerations in the rapid response pillar. That last would constitute the main funding channel for quick responses for crisis management, conflict prevention and peacebuilding, strengthening resilience, and linking humanitarian and development actions. The rapid response pillar would adopt an approach similar to that of the IcSP, including quick deployment with non-programmable funds. Some concerns have been raised about the extent to which the rapid response pillar would be able to muster the longer-term preventive approaches also needed for sustainable peace and conflict prevention. Overall while mentioning both, the Commission’s budget proposals place a stronger focus on the EU’s own concerns, rather than overall collective global security.</p>
Migration	<p>Migration has clearly become a much stronger priority and is being mainstreamed throughout the MFF. In the MFF 2014-2020, migration was funded through a number of internal and external instruments, particularly humanitarian assistance and the EU Emergency Trust Fund for Africa. These, however, have tended to follow their own logics, cycles and processes, and have different ways of engaging with partners. To overcome the current disconnect between the various instruments and the EU’s overall migration agenda, the Commission has proposed a more comprehensive approach that combines the internal and external dimensions of migration. The 2 May communication stresses that ‘migration is a priority which will be identified and addressed across the instrument and in the different pillars, including by drawing on unallocated funds’. As proposed, 10% of the NDICI financial envelope is to be dedicated to addressing the root causes of irregular migration and forced displacement and supporting migration management and governance, including protection of refugees and migrants’ rights.</p> <p>An integral element of the NDICI is to promote effective cooperation of partner countries with the EU on migration. The EU, for its part, is to pursue ‘[a] more coordinated, holistic and structured approach to migration’ with partners and regularly assess its effectiveness. The principles for the geographic programmes state that these are to be ‘based on the partner’s capacity and commitment to promote shared interests and values’. The performance-based approach applicable to the Neighbourhood countries mentions cooperation on migration as a criterion for supplementing country financial allocations (the ‘more for more’ approach).</p>

<p>Climate</p>	<p>The MFF 2014-2020 has some important climate-relevant features such as ‘climate mainstreaming’, the political target of spending 20% of the EU budget on climate action and a strategic link to the EU 2020 climate and energy framework. So far, however, EU implementation of the 20% target has gotten off to a slow start. For the MFF 2021-2027, the Commission has proposed mainstreaming climate across all EU programmes by raising the current 20% target for climate-related objectives to 25% of overall EU expenditure. One quarter of the NDICI envelope would thus be devoted to climate-related goals. The EU would also like to better balance funding streams for mitigation and adaptation in external action, as overall EU climate change spending is unbalanced in favour of mitigation, mirroring a general trend in climate change financing. If the Commission proposals survive, and in light of the EU’s leadership on climate change under the Paris Agreement, the single instrument could provide a way to preserve the EU’s climate-related objectives from the DCI. Nonetheless, while increased funds for development and promotion of global public goods related to climate are welcome, some have criticised the amounts currently proposed as not sufficiently ambitious.</p>
<p>Civil society and local authorities</p>	<p>In the Commission’s proposals, the dedicated programme for civil society and local authorities is replaced by a dedicated programme on civil society. The new programme thus no longer refers to local authorities explicitly as beneficiaries. Local authorities are only mentioned as one of the topics to be covered under the global challenges programme of the NDICI thematic pillar. Here again criticisms have been voiced, as some see this change as inconsistent with the fundamental need to localise the SDGs, to recognise the crucial role of cities in sustainable development and job creation, and to mobilise local resources.</p>

Earmarking for specific objectives

It is important to note the limitations of any comparison of current earmarking under the different EU instruments with the proposed earmarking under the future MFF. Earmarking of allocations for specific objectives in the current external financing instruments, in the form of set percentages of spending within financial envelopes, will not necessarily be reflected in the NDICI in a similar fashion. Nonetheless, the Commission’s current proposal for the single external action instrument has fewer established earmarks than, for example, the DCI, which is one of the current instruments with the most earmarking for development cooperation. Fewer earmarks would allow more flexibility but may have negative impacts on areas currently specified for allocations. Table 4 compares earmarking for specific objectives in current and future instruments.

Table 4: Earmarking for specific objectives in current and future instruments

Earmarking under current external financing instruments	Proposed NDICI earmarking
<p>Development Cooperation Instrument (DCI):</p> <ul style="list-style-type: none"> • At least 20% of the instrument must be allocated to climate change-related activities. • At least 20% of the instrument must be allocated to basic social services with a focus on health and education. • At least 95% of thematic programmes and 90% of the Pan-African Programme must fulfil ODA criteria. • At least 25% of the Global Public Goods and Challenges Programme must be allocated to climate change-related activities, and 25% to human development. • At least 15% of the indicative financial allocation must go to human rights, democracy and good governance. • At least 45% of the indicative financial allocation must go to inclusive and sustainable growth for human development. <p>European Development Fund (EDF):</p> <ul style="list-style-type: none"> • At least 90% must be counted as ODA. • At least 20% must be allocated to climate action objectives. <p>European Neighbourhood Instrument (ENI):</p> <ul style="list-style-type: none"> • Up to 80% of the financial envelope is to be allocated to bilateral programmes. • Up to 35% of the financial envelope is to be allocated to multi-country umbrella programmes. • Up to 5% of the financial envelope is to be allocated to cross-border cooperation. <p>Instrument contributing to Stability and Peace (IcSP):</p> <ul style="list-style-type: none"> • At least 70% of the envelope is to be allocated to activities in response to situations of crisis or emerging crisis to prevent conflicts. • At least 9% is to be allocated to activities to assist in conflict prevention, peacebuilding and crisis preparedness. 	<p>Overall:</p> <ul style="list-style-type: none"> • 25% must be committed to climate objectives. • 20% must be committed to social inclusion and human development, including gender equality and women's empowerment. • 10% must be committed to root causes of migration and forced displacement and to supporting migration management and governance. • At least 92% must fulfil ODA criteria. • All allocations should further the collective target of contributing 0.20% of EU gross national income (GNI) to least developed countries (LDCs). <p>Neighbourhood window:</p> <ul style="list-style-type: none"> • 10% must be allocated according to performance. • 4% must be allocated to cross-border cooperation.

Sources: European Union, 2014c; European Parliament and the Council of the European Union, 2014a and 2014d; European Commission, 2018f.

Just how much protection earmarking actually provides is, of course, a matter of debate. Arguably, how funding is programmed and the implementation choices made matter more than the detail of earmarking in the instrument. Furthermore, earmarking tends to be a rather mechanical approach that focuses more on inputs than on the types of multidimensional outcomes that EU international cooperation needs if it is to demonstrate impact.

Strategic choices arising and outstanding questions

A bold package of proposals that deserves full consideration, not a hasty rejection

The package of proposals now on the table represents one of the most significant changes ever in the set-up of European external action financing. It undoubtedly holds potential for a more strategic EU engagement with the rest of the world. We now have an opening to ponder how long-awaited and necessary changes could occur. Yet, there is a danger that an inherent conservatism, mistrust and sticking-to-what-we-know attitude could result in an outcome that is not a bold step but more a minor revision to the current set-up, which would hamper the MFF's fitness for purpose in our rapidly changing world.

While difficult to draw direct comparisons, no area seems to lose out excessively

The very different way Heading VI has been drawn up makes direct financial comparisons difficult. But at this stage, the overall heading does grow and there seems to be no areas or regions that lose out excessively. Further details and analysis will be needed to refine this assessment, and significant ambiguities will remain, as some key choices will become clear only at the programming stage.

Important to mobilise and defend overall funding for Heading VI

The proposal seems quite reasonable and strikes a careful balance between the negotiating parties. But it will take a robust defence and a new collective alliance to protect this part of the budget from cuts in the upcoming negotiations. Indeed, based on past experience, the further negotiations could result in significant cuts in the overall size of the MFF from the Commission's proposed amounts to the final deal, especially in relation to external spending. Last time around, the external action heading suffered the largest cuts from proposal to final outcome. An alliance might be useful to stake out a common ground in the negotiations, across the so far quite divided development, neighbourhood and foreign policy constituency.

Caution on the assumption that ring-fencing and specific objectives protect resources

Past practice demonstrates that ring-fencing is an ineffective way of influencing Commission decisions. Putting too much emphasis and faith in ring-fencing within the NDICI might defeat the purpose of delivering a simpler, more effective and priority-oriented external financing architecture. Such a strategy would likely lead to replication of the overlaps, gaps and rigidities of the current external financing instruments. Earmarking everything from the start of the seven-

year cycle would rob the Commission of an ability to respond to emerging issues. This would lead to the need for painful reallocations and renegotiations later.

Reconciliation of values and interests, as Heading VI offers opportunities and risks

Bringing values and interests together could produce a modern international cooperation. Yet, the Coherence Report draws attention to the difficulties of reconciling both agendas and the incoherencies resulting from the diverse objectives pursued by the different instruments. **The NDICI could offer a more consolidated instrument to manage these challenges, provided that the values agenda is sufficiently mainstreamed in political strategy and implementation choices.**

The Sustainable Development Goals deserve more strategic relevance

The MFF proposal lacks a clear and visible commitment to the 2030 Agenda, which provides the framework for international action today. While the SDGs are mentioned under several relevant headings, there are no details on how the Commission intends to ensure that the post-2020 MFF as a whole addresses the various SDGs and targets. In particular, concrete details are lacking on how synergies and linkages between actions will be maximised towards the SDGs. Such details could calm the fear expressed by some that the EU's own narrower interests have gained too much prominence.

Flexibility is necessary and good, yet too much would be counterproductive

The size of the NDICI and the rather loose wording on its governance need to be addressed. A greater and clearer role for the member states and the European Parliament in both decision-making on the reserve and in more upstream choices regarding how the NDICI is used at the country level would contribute to ownership and accountability. Yet, mechanisms for **ownership and accountability need to be balanced with appropriate swiftness of action.**

Programming will have a big influence on how resources are used

Programming of the geographic and thematic components of the NDICI will really determine the extent to which particular areas of concern and commitments receive the appropriate prioritisation and funding. While programming processes are not part of the MFF negotiations per se, they will require active engagement if oversight is to be consequential.

There is a 'missing middle'

There is a gap between the overarching policy framework – set by, for example, the EU Global Strategy, the European Consensus on Development, the European Neighbourhood Policy and various high-level reviews – and the specifics of the proposed NDICI on priorities and processes for EU cooperation with third countries. Country and thematic strategies or their equivalent need to be spelt out in more detail, including the role of the member states in political steering and the function of the European Parliament in oversight.

Complementary measures are needed for oversight

While the negotiations are now focused on the details of the heading and instruments and the amounts associated with them, the significant changes proposed will require new governance structures and potentially new ways of working. Can the Commission access the right expertise? What types of results, including and beyond the SDGs, should the Commission be held accountable for? What new transparency is required to build trust?

Next steps

With its proposals for the MFF 2021-2027, the Commission has officially launched a period of intense negotiations within the Council, but also between the Council and the European Parliament. During these negotiations, the proposals will be discussed and amendments agreed. The past three MFF negotiations took more than 20 months to complete. Negotiations within the EU institutions can be just as lengthy as negotiations between institutions.

Governing a new broad instrument for EU external action: the ins and outs of the institutional power struggle¹

Alexei Jones, Emmanuel De Groof and Joanna Kahiluoto

Introduction

The governance of the NDICI is about how the EU institutions will exercise their respective powers to steer, manage and scrutinise the conduct of European external action. While the governance arrangements of the NDICI will largely build on existing mechanisms and legal procedures, the very nature and unprecedented scope of the new instrument implies certain necessary adjustments, notably in terms of strategic steering and oversight. The way in which the instrument is managed and governed in Brussels will shape the overall coherence and flexibility of EU external action. Yet, the key choices regarding the implementation of the NDICI will essentially happen 'on the ground' through programming.² The latter is an essential decision-making process through which the Commission together with the European External Action Service (EEAS), the partner countries and regions define development assistance strategies, priorities and funding allocations. While programming was traditionally confined to neighbourhood and development assistance strategies, it is now extended to EU external relations, globally.

The governance of the newly proposed NDICI relates to broader inter-institutional power dynamics on the control and influence over the use of EU financial resources (including but not only for EU external action). As such, the debate on the governance of the NDICI also touches upon the institutional checks and balances in place, and how they can be improved. These power battles have already been a major stumbling block in previous Multiannual Financial Framework (MFF) negotiations and will certainly remain a sticking point in the upcoming negotiations.

1 This chapter originally appeared as: Jones, A. De Groof, E. and Kahiluoto, J. December 2018. Governing a new broad instrument for EU external action: The ins and outs of the institutional power struggle. ECDPM Briefing Note 107. Maastricht: ECDPM. <http://www.ecdpm.org/bn107>

2 See Herrero et al. (2018).

This chapter is designed to inform those following the discussion³ to assist in understanding the interests and stakes at play in this dossier that is both political and highly technical. The chapter is divided in three sections. The first frames the issue of governance in the broader NDICI proposal and its stated objectives. The second outlines the interests of the key institutional players (European Commission, EU member states/Council and the European Parliament) with regard to the governance of the NDICI. The third part reflects on some of the most delicate points in the current negotiations where these players are yet to find a common ground.

Framing the issue

The NDICI proposal⁴ brings about a major overhaul of the EU's financial architecture for external action. It proposes an increase in available resources in a broad instrument proposed at €89.2 billion and reflects the EU's ambition for a more political and interest-driven external action agenda while respecting the EU's development agenda (based on principles like ownership and predictability).⁵ There are four specific drivers behind this ambition:

- More strategic external action: this requires stronger political steering to make EU external action more policy- and interest-driven rather than instrument-driven;
- More coherent external action: this requires a holistic approach to EU external action, making connections between its various dimensions (e.g. development cooperation; European neighbourhood policy; etc.), and linking them with internal EU policy areas;
- More responsive external action: this requires enhanced capacity to react swiftly to new challenges and unforeseen circumstances as well as the possibility to make use of diverse delivery methods;
- Streamlined external action: this requires the simplifying of administrative and financial procedures in the overall architecture of the instrument.

These ambitious drivers call for an equally ambitious governance system and will require some inter-institutional adaptations.

The Commission's NDICI proposal is currently being discussed in the Council and the European Parliament where it was received with mixed reactions. It has met opposition from some member states and the Members of the European Parliament (MEPs) on a number of contentious issues which will largely determine the viability of the proposed instrument.⁶

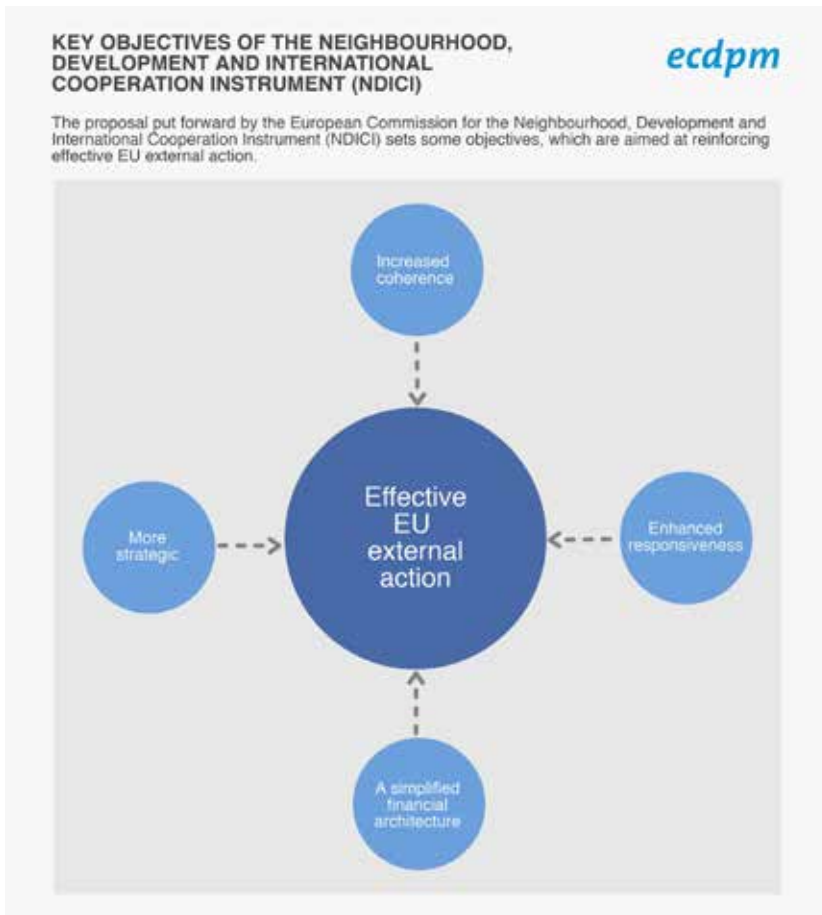
3 For wider analysis of EU budget proposals and negotiations or the EU programming process see ECDPM's other publications at: <https://ecdpm.org/dossiers/multiannual-financial-framework-mff/>

4 See European Commission (2018c).

5 See Jones et al. (2018).

6 See De Groof and Sayós Monràs (2018).

The main sticking point concerns the overall composition and structure of the instrument, and particularly the question of which current instruments or programmes should be included and which should be left out of the NDICI.⁷ A number of stakeholders consider that maintaining separate instruments - notably the European Development Fund (EDF), the European Neighbourhood Instrument (ENI), the Instrument contributing to Stability and Peace (IcSP), and the European Instrument for Democracy and Human Rights (EIDHR) - would better protect funding and preserve political visibility for specific policy priorities, in particular thematic or geographic areas. Yet, preserving too many separate instruments risks undermining the logic of simplification.



7 The proposed instruments to be merged are: the Development Cooperation Instrument (DCI), the European Neighbourhood Instrument (ENI), the Partnership Instrument for Cooperation with Third Countries (PI), the European Instrument for Democracy and Human Rights (EIDHR), the Instrument contributing to Stability and Peace (IcSP), the European Fund for Sustainable Development (EFSD), the External Lending Mandate (ELM), the Guarantee Fund for External Action, and the extra-budgetary European Development Fund (EDF), including the EDF's Africa, Caribbean and Pacific countries (ACP) investment facility.

At the same time, the need to limit the fragmentation of instruments, to be more responsive as well as to ensure strategic coherence of EU external action, has been largely acknowledged by all EU institutions and member states individually. Yet, there are still strong divergences on whether the creation of a broad instrument for EU external action is the best way forward.

In addition, the survival of the proposal also hinges on how the NDICI, with its unprecedented scope, will be governed. The governance of the NDICI will revolve around three main dimensions or stages noted below.

a) Ex ante strategic steering

The first element of governance relates to upstream policy and political guidance to orient the implementation of the instrument and to set targets *ex ante* at the overall strategic level. Given the general policy objectives of the NDICI, which address different but complementary logics of EU external action (i.e. to promote development cooperation, action in the Neighbourhood, global action and EU interests), strategic steering is essential to ensure the consistency and coherence of EU engagement and cooperation with partner countries.

In doing so, the right balance must be preserved between the predictability and long-term vision of EU development and neighbourhood cooperation, on the one hand, and the needed flexibility to adapt to a volatile global environment and to address new EU strategic priorities, on the other. As to the long-term vision, the policy framework guiding EU external action consists of a wide variety of country-level, regional and thematic policies. On the basis of this myriad of policies, priorities must be chosen. In particular, upstream choices need to guide the EU's priority areas for its international cooperation in each region and country - in line with its political priorities. Yet, formulating upstream policy choices at the initial policy stage will not always be sufficient. With changing circumstances or new priorities, initial choices must sometimes be re-adjusted during the actual implementation of the instrument over its seven-year lifecycle. This is what is meant with *ex ante* strategic steering between the policy formulation and implementation phase. How exactly the strategic steering of the NDICI will be realised in the policy-to-implementation period, and by whom, is largely left unanswered.

b) Implementation decision

Where uniform conditions for implementation of EU policies are necessary (to avoid dispersed practices), the Commission and member states exercise implementing powers together. For such cases, the so-called comitology procedure allows member states to control how the Commission implements EU regulations. Comitology is exercised through committees formed by representatives of member states and chaired by the Commission, and are in charge of scrutinising the proposed implementing acts. This allows member states to approve, by qualified majority, all specific funding decisions taken by the Commission through implementing acts. The European Parliament, however, has very limited scrutiny rights in the comitology procedure.

Until now, each External Financing Instrument (EFI) has had its own dedicated committee. Reflecting the merging of the current instruments, the Commission is proposing to establish a single 'NDICI Committee'. This Committee will be in charge of controlling how the Commission implements the instrument, and of "delivering an opinion on multiannual programming documents and annual work programmes".

c) Ex post scrutiny

The crux of the European Parliament's treaty-based powers lies in carrying out its scrutiny and oversight function over external assistance financed by the EU budget (and hence excluding activities funded by the large off-budget EDF). Through its scrutiny powers, the Parliament examines annually the implementation of the budget by the Commission and can grant, postpone or refuse to give its final approval, known as the discharge procedure. Through the incorporation of the EDF in the NDICI, the scope of the Parliament's scrutiny would be significantly extended both in geographical and budgetary terms. This is something the European Parliament has long been calling for.

To enable the Parliament to practice its scrutiny rights, the Commission must provide it with all necessary information with regard to budget implementation. The Parliament can request more evidence from the Commission regarding the execution of expenditure, including for external policy, and can postpone the discharge if it has concerns about how the Commission manages the budget. The Commission has to take measures, without delay, to remove any obstacles to the discharge decision. The discharge is one of the instruments that can be used by the Parliament to control the way the EU budget is spent.⁸

Concerns and interests at stake in the institutional battlefield

This section addresses the concerns and interests of key players in relation to the proposed instrument. Each of the key EU stakeholders (the Commission, the Parliament, and the member states) has concerns and interests regarding their respective role in the governance of the NDICI.

In its proposal, the Commission preserved the current inter-institutional balance and division of labour. The draft NDICI regulation essentially builds on and replicates the governance and oversight mechanisms that currently apply to the existing EFIs. No new specific governance

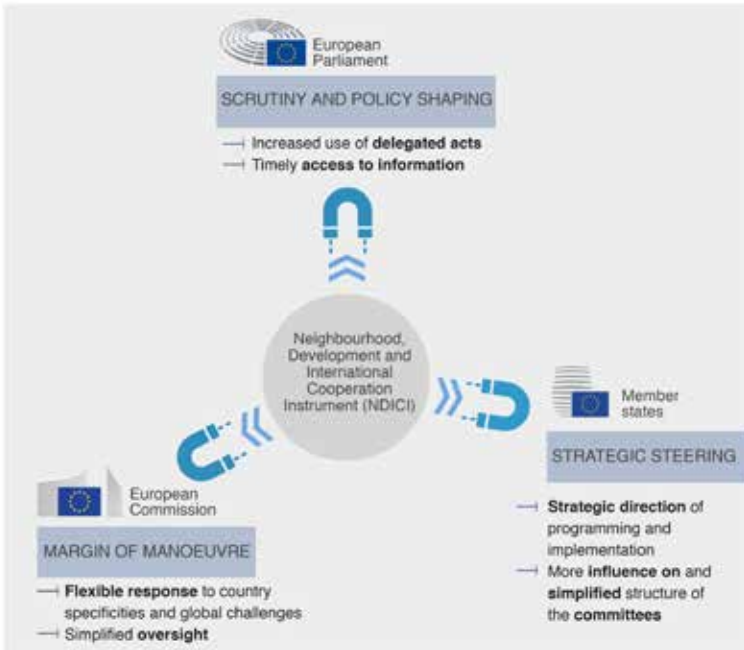
⁸ The refusal or postponing of the decision to grant discharge does not imply legal sanctions. The discharge decision, however, can be used as a political tool. For instance, in 1998, the Parliament's refusal to grant discharge and the related accusations of the Commission's mismanagement of the budget resulted in the resignation of a block of Commissioners, which ultimately led to the fall of the Santer Commission. See European Parliamentary Research Service (2018), pp. 60-61.

arrangements⁹ are introduced, and some current instrument-specific arrangements have not been reproduced to the same level of detail or have been left out altogether. This deliberate choice to streamline existing mechanisms and make some “legislative economy” in the draft proposal also leaves the space for key EU players to use the negotiations as an opportunity to further specify the relevant provisions (in the regulation itself as well as beyond it) with a view to maintaining - and even enhancing - their respective level of influence over the instrument.

MAIN INTERESTS OF THE EU INSTITUTIONS FOR THE GOVERNANCE OF THE NDICI

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The three key actors have competing interests for the governance of the proposed instrument. What do they exactly wish for?



9 Some of the current EFIs have more specific wording on governance arrangements, especially as they relate to the rights of the European Parliament. For instance, some existing provisions grant the Parliament a right to be informed in the programming process (DCI Regulation, Art. 10 (4)); to hold regular and frequent exchanges of views, to be given access to documents in order to exercise scrutiny in an informed manner and to have their views duly taken into consideration while taking measures under the regulation (EIDHR Regulation, preamble (24), Art. 3(3) and 9; and IcSP Regulation preamble (14) and Art. 2(2)); and to have the Commission present multi-annual joint operational programmes (based on the programming documents) within one month of their adoption (ENI Regulation, Art. 10 (4)).

Commission: more room for manoeuvre

The Commission's main concern is to be able to conduct a more agile and coherent external policy. As the initiator of the NDICI proposal, it has sought to simplify the management and governance of the instrument and to give itself sufficient leeway to respond to all priorities in a rapid and flexible manner. The Commission intends to achieve this in the following ways: including the possibility to use resources from the unallocated cushion for emerging challenges and priorities (€10.2 billion); importing from the EDF the multiannuality principle (which allows carrying over unused funds across years and the allocation of uncommitted funds to different priorities from the original ones); increasing thresholds under which small funding decisions can be taken without the approval of member states through comitology.¹⁰

The Commission is also keen to have a simplified oversight system that would allow the relevant institutions to have a better, more comprehensive view of EU external action. Instead of focusing on multiple programming processes, debates would be more focused on political objectives and engagement with external partners. At the same time, in order to reassure the Council and the Parliament, the Commission stresses that simplification does not mean less scrutiny and that the inter-institutional balance would be fully preserved, including through the standard comitology procedure.¹¹

European Parliament: enhanced policy shaping and scrutiny powers

The NDICI proposal provides the European Parliament a general right to have regular exchanges with the Commission (Art. 8), which allows for discussion between the two institutions on policy and implementation of the instrument. Yet, the Parliament has recently underlined the need for a stronger role at strategic level and in secondary policy choices, namely in programming.¹² In fact, the Committee for Foreign Affairs (AFET) and the Committee for Development (DEVE) have repeatedly requested that the European Parliament be consulted in the programming process and in the adoption of multi-annual programming documents. The Parliament argues

¹⁰ The thresholds correspond to those currently in place in the Common Implementation Regulation (Regulation (EU) No 236/2014, art. 2.3). But as compared to what is in place for the implementation of the 11th EDF Regulation (art. 9.4), thresholds allowing for deviating from the committee procedure in the NDICI proposal have been raised.

¹¹ The standard procedure applicable to EFIs, the so-called examination procedure, requires the committee of national representatives to issue a positive opinion by qualified majority on implementing acts proposed by the Commission. On the basis of the proposal, the examination procedure will continue to apply for the NDICI. Within the framework of this standard procedure, more specific rules of procedure could be elaborated for the NDICI Committee.

¹² See European Parliament (2018a), p. 201.

that, as a co-legislator, it should play a part in the elaboration of programmes¹³ and that both co-legislators should be equally involved at the strategic level.¹⁴ To this end, it wants to bring programming documents under its scrutiny competence and have them adopted as ‘delegated acts’¹⁵ (instead of implementing acts¹⁶ which they are currently). Furthermore, in respect to the proposed instrument, AFET and DEVE seek to not only have multiannual programming done by delegated acts, but also to eliminate the use of implementing acts and comitology procedure in this respect.¹⁷ This would significantly level up the powers of the Parliament in that area. Yet, this push for more delegated acts is unlikely to be accepted and will be strongly opposed again by both the Commission and the Council (see succeeding box).

In the previous MFF negotiations, the discussion around the delegated acts had already been one of the main contentious issues. A compromise solution was found in the late hours of the negotiations with the institutions accepting the use of delegated acts as a measure to revise certain details of the annexes of the EFI regulations (e.g. DCI, ENI, EIDHR, PI). In particular, delegated acts can be used to supplement or amend areas of cooperation (e.g. referred to in the Annexes of the DCI) and certain indicative financial allocations¹⁸ as well as the list of thematic priorities for Union support.¹⁹ The NDICI proposal envisages delegated acts for areas of cooperation for geographic programmes, areas of intervention for thematic programmes, areas of intervention for rapid response actions – all of which are part of the Annexes. It no longer foresees the possibility of delegated acts for financial allocations.

13 See European Parliament (2018b), para 28. The EP has stated that: “measures such as objectives and priorities, financial allocations in broad terms, eligibility, selection and award criteria, conditions, definitions, and calculation methods can entail important policy choices and should therefore be included in the basic act or, failing that, be adopted by delegated acts”. Consequently, the Parliament considers that, in this context, multiannual and/or annual work programmes should in general be adopted by delegated acts.

14 See European Parliament (2018a), pp. 201-202.

15 Delegated acts are non-legislative acts of general application through which the Commission may supplement or amend certain non-essential elements of a basic legal act (see Article 290 of the Treaty on the Functioning of the European Union). Both the Council and the European Parliament may revoke the delegation or express objections to the delegated act. Delegated acts may enter into force only if no objection has been raised by the Council or the European Parliament within the time limit set in the basic act.

16 Implementing acts are implementation measures, whereas delegated acts allow amending, supplementing, or deleting non-essential elements of the basic legislative act. The European Parliament has limited scrutiny rights in relation to implementing acts. It can only receive information on proposed draft acts, and control that the Commission does not exceed its implementing powers.

17 See European Parliament (2018a), pp. 201-202.

18 The ENI Regulation and the DCI Regulation indicative financial allocations under the geographic programmes and the Global Public Goods and Challenges (GPGC) Thematic Programme.

19 The ENI Regulation.

The debate around the delegated acts remains legally unresolved

This has been one of the most tricky issues in the previous MFF negotiations where a hard-fought battle had opposed the European Parliament against the Commission and the Council. The European Parliament had asked that all multiannual strategy papers and multiannual indicative programmes containing the instruments' political orientations and financial allocations be treated as delegated acts.

The Parliament's argument was that any decision concerning the choice of priorities, objectives or expected results and decisions adding new criteria or requirements should be either included in the regulation itself or in turn adopted by delegated acts. In the Parliament's view, such decisions essentially modify the content of the regulation and consequently fall exclusively under the scope of delegated acts.²⁰ However, both the Commission and the Council had refused the use of delegated acts by the European Parliament on the ground that these programming documents do not affect the substance and objectives of the regulation and do not supplement or amend non-essential elements of the regulation. Rather, programming documents were to be considered as implementing decisions, which should be treated according to the comitology procedure.

Whereas, in the case of delegated acts, the European Parliament has important rights to veto and/or to revoke the delegation, in the case of implementing acts, the European Parliament's rights are limited: it only has the right to receive information and to scrutinise whether the Commission stays within the limits of the implementing powers granted to it.

The delimitation between implementing acts and delegated acts has remained a contentious issue. The institutions have recognised the need for agreeing on non-binding common criteria for the application of delegated acts and implementing acts.²¹ Such criteria are yet to be established.

While the European Parliament did not get what it initially wanted, it still managed to strengthen its scrutiny powers during the last MFF negotiations for the areas included in the annexes and amendable by delegated acts, where it can exercise a power of veto or revoke its delegation altogether.

The compromise reached on delegated acts was accompanied by a 'strategic dialogue' mechanism permitting greater consultation with the European Parliament for the multiannual

²⁰ European Parliament resolution of 25 February 2014 on follow-up on the delegation of legislative powers and control by member states of the Commission's exercise of implementing powers, para 1. See European Parliament (2014).

²¹ See European Union (2016b), para 28.

programming documents. The strategic dialogue is not part of the regulations per se, but attached as a unilateral declaration from the Commission, thus not giving it the same legal force as the regulation itself. Concretely, the ‘strategic dialogue’, as it has been designed for the current instruments, requires the Commission to present to the European Parliament all relevant available documents on programming indicative financial allocations, possible results as well as the choice of assistance modalities. The European Commission should also take into account the position expressed by the European Parliament on those issues.²² Experience of the strategic dialogue thus far has been mixed, mainly due to lack of clarity on the process, timing and scope of the exchanges between the Commission and the Parliament.

Member states: more strategic influence

Several member states are concerned by their (perceived) lack of strategic influence in the fundamental (upstream) political choices and implementation of the EFIs. The traditional comitology procedure is often viewed as a mere (downstream) rubber-stamping exercise of the Commission’s proposals, not allowing for sufficient substantive *strategic* discussions and influence on the upstream decision-making, prior to the adoption of specific actions in partner countries.

The multiplicity of committees has also caused some fatigue with member states. While a single NDICI committee may partly remedy this sentiment, there are still questions around the composition and functioning of the committee in practice. The composition and structure of the NDICI committee will need to be flexible enough in light of the overarching nature of the single instrument. The NDICI committee would indeed be composed of member states’ experts having to cover and decide upon a panoply of EU external action domains, ranging from development cooperation and migration management to human rights protection - and from Africa to the Neighbourhood and beyond to Asia and Latin America. This poses the question of the ability to move away from siloed approaches and institutional arrangements that have prevailed until now. The strategic steering of the NDICI also calls for a more comprehensive overview of EU external action, which very few actors, apart from the EEAS, currently have.

EEAS: consistent and interest-driven EU external action

While the EEAS is not an EU institution in its own right, and as such is not formally part of the inter-institutional negotiations, it nonetheless has interests regarding the governance of the NDICI. The EEAS wants to promote a holistic and strategic approach to EU external action and ensure that the NDICI is used in a more strategic and interest-driven manner. The EEAS is potentially well placed to undertake the co-leadership and inter-institutional coordination of EU external action (including the external dimension of internal policies). It seems better suited for that because of its comprehensive vision and strategic approach (cf. the 2016 Global Strategy

²² Declaration by the European Commission on the strategic dialogue with the European Parliament, Annexed to, for instance, the DCI and ENI Regulations.

for the EU's Foreign and Security Policy, and the experience and expertise it has gathered since its creation). Yet, the EEAS has struggled to impose or even facilitate a unified strategic direction on the more powerful seats of EU institutional power in the European Commission and the Council. Indeed, the story of the EEAS to date has been somewhat caught between the existing powerhouses of the Commission, which controls the money, and the Council and member states, which insist on steering foreign policy. There is still some reluctance among the member states and the Commission to give more power to the EEAS and HR/VP.

Reconciling positions to accommodate institutional adaptations

Amidst the ongoing broader institutional power battles, the Commission, member states and the European Parliament are yet to find common ground on the NDICI governance. Five elements at this stage merit further consideration and clarification in view of the upcoming negotiations.

An appropriate role for the European Parliament

The European Parliament's powers were considerably strengthened with the Lisbon Treaty, including by increased parliamentary oversight over external affairs²³ and regular consultations with the HR/VP.²⁴ Yet, the Council and the HR/VP remain ultimately responsible for the common foreign and security policy. The role of the European Parliament in this area, and of the respective committees competent for scrutinising various aspects of EU external funding, is subject to a distinct set of institutional arrangements and decision-making modes (this depends on which policy is covered by which budget line). The NDICI could potentially bring a significant shake-up to these arrangements. At the same time, the Treaty mandate and constitutional role of the European Parliament do not foresee it to have a major say on "implementation issues", such as programming docs. The increased use of delegated acts would significantly enhance the powers of the Parliament, but could also create considerable delays in the implementation of the instrument.

Strategic dialogue and information-sharing

The NDICI proposal contains no reference (yet) to the strategic dialogue between the European Commission and the European Parliament (it is 'just' recommended practice based on a Commission's unilateral political declaration and therefore has no legal force). Yet, a similar solution could be proposed this time around, and even elaborated on. As a matter of fact, the draft proposal for a renewed Inter-Institutional Agreement (IIA) on improving cooperation on budgetary matters²⁵ recognises the need for increased informal dialogue between the

23 See European Parliament Directorate-General for External Policies (2015), for instance, p. 24.

24 Treaty on European Union, Article 36.

25 See European Commission (2018d). Article 23 of the draft IIA states that: "The Commission shall establish an informal dialogue with the European Parliament on development policy issues regardless of their source of financing".

Commission and the Parliament on development policy issues. Should this remain in the IIA, this dialogue (be it informal) would become a binding obligation between the parties to the Agreement. There is notably scope to improve communication between institutions. One important improvement could be to ensure that the strategic dialogue takes place on a more regular basis and does not limit itself to one-off exchanges. Currently, it is foreseen at specific moments in time, namely prior to the programming, in preparing the mid-term review and before any substantial revision of the programming documents. A possibility could be to have this dialogue on an annual basis, to allow the Parliament to have a better and more regular strategic overview of the NDICI implementation. This regularity would be particularly necessary in the context of the parliamentary scrutiny of the mobilisation of the NDICI cushion. Furthermore, it will also be important to focus the dialogue on the political aspects and strategic orientations for EU cooperation with partner countries. Such a dialogue at strategic level should also include the EEAS and the HR/VP.

More complete and timely sharing of information would also help create a higher level of trust between the institutions, including prior consultation of member states ahead of major EU initiatives, more detailed explanations by the Commission on how the Parliament's observations are taken into consideration in the implementation choices.

Creating a forum for strategic discussion with the member states

Recognising the need for upstream strategic steering of the instrument and for the member states to be involved in this process, a number of questions come to the fore. An important element for member states is the possibility to have regular focused discussions linked to how and why EU resources are spent.

Several instances exist at high level (e.g. Foreign Affairs Council, Meetings of EU Directors-General for Development) where the EU member states can have a say on the overall strategic steering of EU external action, including development policy. Should another forum be created for the steering of the NDICI specifically, where and when should this take place? At what level or in which forum? And how should this be organised, geographically or thematically? There are two basic options with regard to the *forum* for strategic steering.

A first option is to place the strategic steering on behalf of member states in the NDICI Committee. Should this be the case, an idea would be to have two levels of discussion within the committee: an operational one (at the technical level, for the usual business of approving the Commission's implementing acts), and a strategic one (at a more senior level, to allow for strategic discussions and steering of the NDICI). One example of such a two-tiered approach to governance can be found in the EU Trust Funds, which have both an operational and a strategic board. However, the "comitology" fatigue felt by several member states and the difficulty to mobilise the right level of expertise in committees would make this option a hard sell.

Another possibility is to place the strategic steering within the Council where political discussions already take place, albeit in a fragmented manner. The 'Ad Hoc Working Party on the Neighbourhood, Development and International Cooperation Instrument' (MFF NDICI) was created to examine the legislative proposals and come up with an agreed Council position in this regard. This Working Party could potentially become, if transformed in a permanent working party, an appropriate body for future political and strategic discussions on the NDICI.

Coordination of NDICI at the EEAS

If the overall aim of the NDICI is indeed to react more coherently and flexibly to global challenges, pressing development concerns and EU's own interest, its overall *coordination* could be centralised under the responsibility of the HR/VP and the EEAS. The *management* of the instrument would continue to be led by the Commission and the services in which the expertise has been amassed over the last decades. The EEAS can coordinate, but not manage the NDICI, as this is a Commission prerogative. The Commission has always fought hard to keep management away from the EEAS and to ensure that there is no slippage in this area. As the coordinator, the EEAS would thus rely on existing Commission structures unless the creation of the NDICI is accompanied by a restructuring of the Commission itself. This seems rather unlikely at this stage (but with a new Commission due at the end of 2019 some reorganisation could be envisaged).

The EEAS is currently doing significant homework in the programming process to place itself more at the heart of the strategic discussion.²⁶ It is for instance preparing so-called "strategic framework documents" at country level to define the EU's interests in a given country or region. The strategic framework documents seek to integrate the different strands of EU external action (climate, energy, migration, security, economy, development), and may clarify what the EU intends to achieve, in the field of development assistance and beyond that, in a given country.²⁷ The active involvement of EU member states in that exercise is necessary at partner country-level, especially in the context of EU joint programming.

Tapping into the flexibility cushion

To increase the EU's response capacity and flexibility in the case of unforeseen circumstances, the cushion allows moving funds between the geographic, thematic and rapid response pillars of the NDICI, and, within each pillar, between sections. But which procedures - be they flexible- are set up for that purpose? Besides the maximum duration for exceptional assistance measures of 30 months, the draft regulation is largely silent on such questions. Detailing basic criteria from the outset is essential to justify and control how, when and why the EU can tap into the cushion.

The Parliament has stressed "that enhanced flexibility cannot come at the expense of long-term policy objectives and reduced possibilities for the European Parliament to exercise its political

²⁶ See Herrero et al. (2018).

²⁷ Ibid.

steering and scrutiny rights”.²⁸ Member states also stress that strategic steering must also apply to the use of the cushion. Yet, developing criteria for using the reserve should not constrain its primary purpose to be used as a flexibility mechanism. Attempts to increasingly ‘programme’ or confine the reserve would hamper its ability to respond swiftly to new challenges, and would thus contradict the very purpose of the reserve - and, by extension, the logic of flexibility that informed the proposed instrument in the first place.

A way forward for the upcoming negotiations

The MFF negotiations offer a good opportunity to improve and fine-tune the governance mechanisms and procedures that would apply to the NDICI. In doing so, a number of considerations should be kept in mind.

First, the future NDICI governance setup should usefully build on what is already in place and seek to improve existing mechanisms where needed, rather than reinventing the wheel and creating additional layers or processes. Beyond the necessary improvement of current inter-institutional mechanisms that apply to the EFIs (such as comitology and strategic dialogue), there are a number of practices and processes in other policy areas that could also provide useful inspiration to improve the quality and regularity of exchanges. Among these are often cited the successful inter-institutional cooperation between the Parliament, EEAS, Commission and member states in the context of EU Election Observation Missions, or the regular exchange of views and structured dialogue between the Commissioner for Trade and the EP Committee for International Trade (INTA).

Second, the governance of the NDICI also implies homework for everyone. Institutional adaptations and new working methods are needed to break siloes and ensure better coordination between all external affairs, development, security, and foreign policy actors that the NDICI aims to bring together. The major change induced by the NDICI thus calls upon all EU institutions, as well as member states themselves, to coordinate internally with respect to EU external policy. All need to ensure that their own (inter- and intra-) institutional arrangements and working methods are fit for purpose.

- For the European Commission, this includes the Commissioners’ Group on External Action (CGEA) to achieve greater coherence in EU foreign policy, as well as inter-service coordination mechanisms between the various Directorates General and Services in charge of EU external policies (DG DEVCO, ECHO, NEAR, TRADE, Service for Foreign Policy Instruments (FPI)) and other line DGs with an external dimension (DG for Climate Action (DG CLIMA), DG Migration and Home Affairs (DG HOME), etc). How the future Commission will organise itself will have in that regard a big impact on EU external action.

²⁸ See European Parliament (2018c), para 7.

- At Council level, more synergies and increased cooperation could also be facilitated between relevant thematic and geographic Council working parties. Currently, thematic working parties (such as the Working Party on Development Cooperation (Codev) and African, Caribbean and Pacific (ACP) Working Party), and geographic working groups (such as the African Working Party (COAFR), Asia-Oceania Working Party (COASI) or the Working Party on Latin America and the Caribbean (COLAC)) discuss separately issues that are all relevant under the NDICI.
- Enhanced collaboration could also be encouraged between parliamentary committees. There is no doubt that, given the breadth of the instrument, AFET and DEVE will need to step up their collaboration. The increase in joint hearings and joint work by co-Rapporteurs coming from both committees is a welcomed step in this regard. A permanent working group on joint AFET-DEVE matters could be set up as a means to scrutinise the NDICI together.

Third, the governance arrangements of the NDICI should go beyond the NDICI regulation per se. Not all governance issues can nor should be solved through the NDICI regulation - and, as the case may be, should be addressed directly in the relevant texts (rather than channelled through the NDICI). The draft regulation is not a panacea for all governance-related frictions between EU stakeholders. Other regulations (e.g. on comitology and on financing) and inter-institutional agreements (e.g. on better law-making and on budgetary collaboration), as well as non-regulatory mechanisms and processes also inform the inter-institutional balance on governance. The NDICI governance will also be shaped by the broader MFF negotiations, and the inter-institutional deals concluded along the way.

Fourth, governance issues cannot and should not be addressed solely from a legal/procedural angle as this is essentially a power struggle tackling the political interests and incentives. Filling the gap between law and practice and oiling institutional wheels rely importantly on informal mechanisms too (including smooth and regular communication channels, informal relations between people and personalities, institutional internal dynamics). Such mechanisms are also indispensable to establish trust between the institutions. Opportunities for these informal channels to flourish should also be explored.

Ultimately, the governance of the NDICI will undoubtedly resonate and be shaped by the overall bargains and likely trade-offs that will occur in the broader MFF negotiations. The proposed increased budget for EU external action is not safe from cuts resulting from the overall deals in other policy areas, including for the EU cohesion and common agricultural policies. This in itself makes the necessity to 'get it right' on the governance of NDICI even more important.

Financing EU external action. Understanding member state priorities¹

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Introduction: Technical progress, political stalemate

In September 2017 the first of several high-level meetings on the European Union's next Multi-Annual Financial Framework (MFF) was convened by the European Commission at its Charlemagne premises. The discussions among senior policy-makers revealed a range of visions and expectations for the 2021-2027 EU budget. While some expressed a desire to move beyond 'business as usual' and secure an ambitious new budget that befits Europe's future, others sought to lower expectations of any such outcome given previous experience with EU budget negotiations. These tensions between ambition and caution continue to dominate the debate on the next MFF and it is still unclear what direction it will take.

The EU's proposal for the next MFF, published in June 2018, expresses a high ambition in terms of supporting multi-lateralism and the realisation of the 2030 Agenda and its SDGs. That in itself is an achievement in view of the challenging domestic European and external environment as characterised by Brexit, the Trump administration and rising concerns about migration and security. Discussions in recent months nonetheless show that - notwithstanding proposals to find new ways of resourcing the EU's budget² - the logic of 'net balance' continues to dominate member states' (MS) reactions to the European Commission's MFF proposals. Over the decades, the pre-dominance of the net balance logic has made the budget negotiations considerably path-led.³ Given this context, it is clear that the finances available for the EU's external action post-2020 will in large part be determined by battles over other elements of the budget - in particular, the Common Agricultural Policy and the Cohesion Policy.

1 This chapter originally appeared as: Castillejo, C., Keijzer, N., Chmiel, O., Di Ciommo, M., Jokela, J., Lundsgaarde, E., Olivié, I., Perez, A., Thijssen, S., Vaille, J., Végh, Z. and Venturi, B. December 2018. Financing EU external action. Understanding member state priorities. ETG publication. <https://ettg.eu/wp-content/uploads/2019/01/Financing-EU-external-action.pdf>

2 These include the common consolidated corporate tax base (CCCTB), the carbon market and the tax on non-recycled plastics.

3 See Núñez Ferrer et al. (2016), p. 27.

These battles mean that budget negotiations are moving more slowly than was hoped. Although EU Budget Commissioner Oettinger and others had initially expressed the hope that negotiations could be concluded by May 2019, in October 2018 EU Council President Tusk summarised the situation as follows: *“there have been detailed discussions on the next Multi-annual Financial Framework. But, in general terms, we are far from reaching any sort of consensus.”*⁴

Indeed, President Tusk’s comment summarises the present predicament in which the EU’s development and external action community finds itself. The May 2018 MFF proposal presents an ambitious budget for Heading VI, entitled ‘The Neighbourhood and the world’. A key feature of the proposed budget Heading concerns a single ‘Neighbourhood, Development and International Cooperation Instrument’ (NDICI) that merges several current instruments, as well as a European Peace Facility. Compared to the previous MFF negotiations from 2011-2013, the proposals showed a desire for fundamental change in the EU’s approach to financing EU external action that would be in line with the European Union’s 2016 Global Strategy (EUGS) and its 2017 New Consensus for Development.

Since the summer of 2018 detailed technical negotiations have been conducted on the proposed NDICI, which represents the lion’s share of the Heading VI of the proposed MFF (see Figure 1). While the emphasis of the proposed instrument is on consolidating as well as increasing flexibility and responsiveness, it should also be acknowledged that a host of new initiatives have been introduced since 2015 that were primarily motivated by these aims. Key among these were the EU’s Emergency Trust Fund for Africa and the European Fund for Sustainable Development. These initiatives have inadvertently been lost at the expense of efforts to strengthen the accountability framework in EU external action and make progress in reporting on results achieved.⁵

In terms of the negotiations of the budget as a whole, the political deadlock surrounding the overall MFF negotiations may mean that a late deal could end up prioritising budget headings that cater directly to the interests of EU citizens at the expense of external action. This is what happened during the last MFF negotiations when the proposed external action Heading ultimately suffered the largest cut in proportion to all the other proposed budget headings.

This chapter assesses the potential for a well-positioned and ambitious Heading VI and offers insight into factors that are likely to shape MS positions during the coming months. It therefore analyses the views and preliminary positions of nine EU MS: Denmark, France, Finland, Italy, Hungary, Germany, the Netherlands, Poland and Spain. This mix of MS includes a blend of MFF

4 See European Council (2018a).

5 On 26 November 2018 EU development ministers adopted the Council Conclusions on a Revised EU International Cooperation and Development Results Framework which included various commitments and potential steps that could be taken to this end. See Council of the European Union (2018a).

net contributors and net recipients, ‘founding’ member states and other countries in their second decade of EU membership, as well as those that are geographically at Europe’s centre and on its edges.

Box 1: A single instrument for EU external action

The European Commission proposal aims to undertake a major restructuring of the EU’s external action instruments to ensure “... *greater coherence, benefit from effective cooperation, simplify procedures and achieve economies of scale*”. The NDICI is a cornerstone of this proposed reform and has five key themes:

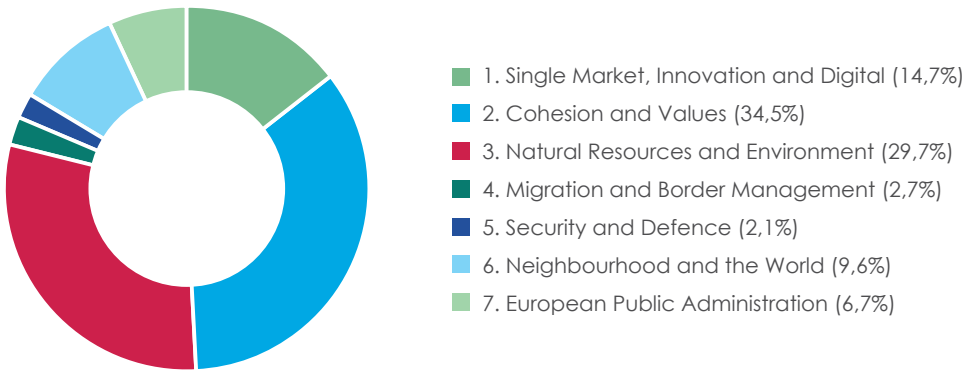
1. Geographical pillar (‘cooperate with partners’) covering cooperation with neighbouring countries and all other third countries
2. Thematic pillar (‘achieving common goals’), which addresses global issues and / or flagship political initiatives
3. Rapid response pillar for crisis management, conflict prevention and resilience building
4. Flexibility reserve for existing or emerging priorities, e.g. related to migration, or to stability and security needs and new international initiatives
5. The European Fund for Sustainable Development in the context of the External Investment Plan.

The thematic scope of the proposed instrument is in line with the 2017 New European Consensus on Development and covers the full width of the 2030 Agenda in line with its five Ps (People, Planet, Prosperity, Peace and Partnership). Within that broad scope, input targets serve to prioritise specific SDGs:

- the instrument should contribute to increasing Official Development Assistance (ODA) to Least Developed Countries (LDCs), as enshrined in the 2030 Agenda (0.2% of GNI)
- 20% of ODA for human development and social inclusion, including gender equality and women’s empowerment
- 25% for climate change
- 10% to address the root causes of irregular migration, and
- at least 92% of NDICI spending must be on ODA.

Source: https://ec.europa.eu/commission/publications/neighbourhood-and-world_en

Figure 1: The weight of external action in the proposed MFF



Source: Adapted from Jones et al., 2018.

Approach and structure

The chapter reflects analysis by researchers from the nine MS listed above, including European Think Tank Group (ETTG) researchers. Each of them provided 1-2 pages of analysis based on four standard questions that were jointly formulated at the start of the process.⁶ These background notes underpin the comparative analysis presented in this chapter. The country analyses reflect the researchers’ understanding of the emerging positions of the country in which they are based, which were expanded upon and cross-checked through informal discussion with government officials.

This chapter offers these experts’ perceptions and interpretations of the priorities, positions and interests of a selection of MS governments in relation to the MFF, rather than merely reflecting existing government positions on the budget proposals. This approach is pertinent given that negotiations are ongoing, i.e. nothing is agreed until everything has been agreed, so member state positions are likely to evolve further over the coming months.

6 These questions were: (1) What are your government’s top priorities in relation to the EU External Action heading for the proposed next MFF? (2) How does your government view the increased integration of EU development policy and foreign and security policy that is implied in the Commission proposals for the next MFF? (3) The EU was at the forefront of the 2015 negotiations of the Paris Climate Change Agreement and the 2030 Agenda for Sustainable Development. To what extent does your government support using the next MFF to promote these Agendas, and if so, how should this be done concretely? (4) What is your government’s position on the proposed structure for a future Heading VI in the MFF as proposed by the Commission? (5) What is your government’s view of the proposed geographic distribution of resources? Do they meet its regional priorities?

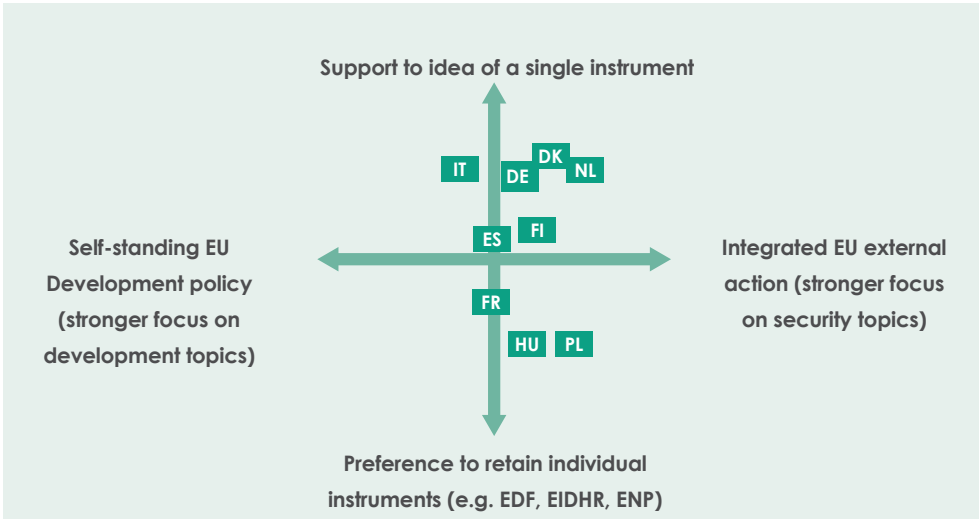
The chapter is organised as follows. The first section presents a comparative analysis of the emerging views and positions of the nine MS. This is followed by an analysis of the broader context, and finally some overall conclusions and recommendations.

Comparative analysis

Main priorities

A glance at the emerging priorities for Heading VI among the nine MS reveals alignment in some areas and divergence in others, which will be discussed below. Figure 2 shows the different positions of each MS in relation to both a shift towards more integrated EU external action, and proposals for combining multiple existing instruments within the proposed NDICI.

Figure 2: Overview of MS emerging views on key issues related to Heading VI



Member states by and large support a greater integration of the different domains of EU external action. This is expected to connect traditional foreign policy that promotes EU interests more closely with development cooperation in support of the sustainable provision of global public goods. This would be in line with wider ambitions towards a more interest-driven EU external action and an approach that combines interests and principles as set out in the 2016 Global Strategy for the European Union’s Foreign and Security Policy. It is also driven by the fact that a number of MS would like security to be a more central focus in EU external action. However, a preference for integrated EU external action does not automatically translate into an endorsement of the NDICI as some MS, notably Hungary, Poland and France, are concerned by the idea of the present multiple instruments being combined into a single one.

A number of areas stand out as the most important MS priorities for Heading VI. These are discussed in more detail in the rest of this section. In addition to these main priorities, various MS are also promoting various other priorities, including investment and jobs, the private sector, education, human rights, as well as development-humanitarian links and climate change.

The use of external funds for migration

Migration stands out as an important new priority for almost all MS in these budget negotiations. Indeed, for quite a few their primary 'ask' in relation to Heading VI is that significant resources for external action should be used to address migration flows into the EU. Although these flows have sharply declined since 2015, this remains a highly sensitive political issue in many MS. The prioritisation given to it in the MFF negotiations is thus not surprising. Indeed, the last few years have seen growing demands from MS to use EU external resources to address migration, a trend that has been criticised by civil society and the European Parliament.

While migration is a shared concern, some MS give greater priority to this than others. A number of countries, including Denmark, Italy and the Netherlands would like to see an even stronger emphasis on migration than is currently proposed in Heading VI. This may be in part because in Italy, Denmark and the Netherlands the issue of migration is caught up in domestic political agendas, while both Italy and Spain feel that they have carried the burden of migration flows (or border control in the case of Spain) with little solidarity from other MS.

There is variety in terms of the types of responses to migration that MS would like to see in the NDICI. Italy, Germany and Finland stress a long-term focus on 'root causes' and a strengthening of relationships with countries of origin and transit. This approach that is in line with Italy and Germany's sizeable contributions to the EU's Emergency Trust Fund for Africa. Spain stresses the importance of equal partnership and development orientation in migration programming. France prioritises the approach promoted at the Valletta Summit on Migration: legal migration, protection and asylum, prevention and returns.⁷ Meanwhile both Poland and Hungary prioritise border security and, in particular, some funding for national expenses for border protection, as well as addressing root causes. Italy, France and Spain all stress the importance of a stronger and more comprehensive EU-wide approach to migration, with Italy particularly underlining the need to connect internal and external elements.

In terms of funding for migration there are varying positions among the MS. France backs the Commission's proposals of dedicating 10% of the NDICI budget to migration, while warning that any potential reduction in the overall budget during the current negotiation should not result in reduced migration funding. Italy would like to see this percentage doubled to 20%, while Spain may also like more funds directed at countries of origin and transit. Meanwhile, Denmark

⁷ The Valletta Summit was held in November 2015 and was a conference where European and African leaders discussed migration issues. See Council of the European Union (2015).

and the Netherlands would like a stronger emphasis on migration, but stress that this has to be consistent with an overall reduction in the MFF budget.

There are also different perspectives on what modalities should be used to provide migration funding under Heading VI. Most countries seem happy with the current proposals in which migration is addressed across the instrument and under the different themes, including by drawing on unallocated funds. Others offer alternative approaches, with the Netherlands and Denmark suggesting dedicated funding streams for migration in the NDICI. Italy stresses that the trust funds have largely been a good model.

Box 2: MS budget ambitions

Understanding the diverse positions of MS regarding Heading VI requires an understanding of how MS are approaching the overall budget process. In particular, whether they want an increased or reduced budget, the extent to which they see greater EU integration and collective action – including in external affairs – as desirable, and underlying all this, the attitudes within MS governments and wider national political discourse about Europe. For many MS, current preferences regarding Heading VI may later be ‘overruled’ by preferences about the overall size of the budget.

For example, Germany and Spain have pro-European governments who want greater EU action across a range of external issues and are clear that they support an increased overall budget, including increases for Heading VI. France also wants to maintain a well-financed external action budget. Hungary and Poland are both relatively supportive of an increased EU budget in order to fund both traditional EU policies and new challenges, notably security. Finland takes a more nuanced position, largely supporting proposals for increased funding for external action, but stressing that the EC’s proposed overall budget figure is too high and does not take full account of Brexit.

Meanwhile, some countries with more Eurosceptic governments, such as the Netherlands and Denmark, want to see significant reductions in the overall MFF, a reprioritisation of spending, and a focus only on those areas where EU level action most clearly adds value. Denmark is calling for the budget to be limited to 1% of GNI⁸ and the Netherlands is concerned that the new budget should not further centralise powers in Brussels. For these countries the amount and focus on Heading VI is subordinate to the demand for a reduced budget.

8 The Government of Sweden earlier argued for the same ceiling in a position paper published early 2018. See Government Offices of Sweden (2018).

In view of the general agreement on the need to address migration, the topic is likely to permeate budget negotiations. The need to show results to domestic constituencies is likely to require that migration funds are made visible in the EU budget, either in the form of earmarking or with separate instruments or future trust funds.

Peace and security and related EU external action reforms

The EU foreign and security policy gained greater prominence with the development of the European Union's 2016 Global Strategy on Foreign and Security Policy. While MS largely agree on the importance of a stronger focus on security for the next budget, there is some divergence in approach. In particular, there are variations in their emphasis on 'harder' or 'softer' security elements and in what this integrated approach should mean for ODA levels.

France is strongly supportive of an approach that sees security and development as interdependent with a robust emphasis on security support. In particular, it would like to see the strengthening of Capacity Building for Security and Development (CBSD)⁹ and the development of a specific format for crisis management within the NDICI. Paris stresses that the proposed 92% ODA commitment in NDICI should not result in reduced support for promoting stability, conflict prevention and resilience measures, which are not necessarily ODA-eligible expenditure. Germany, in contrast, is still considering its position on CBSD, since it is still consolidating its position on a potential role for the NDICI in financing training, equipment and infrastructure to military parties. Meanwhile, Spain - while in principle welcoming the integration of development policy and foreign and security policy - may end up pulling in the opposite direction and trying to limit the extent of this integration. Given its low ODA/GNI, Spain would like most EU financial support to third countries to be ODA eligible.

The Netherlands wants to strengthen the emphasis on conflict prevention and peacekeeping. Meanwhile, Italy, while welcoming the integration of these policy objectives, stresses that development should remain a stand-alone policy area with its own approach and objectives, based on solidarity. For Finland, both the policy integration and increased funding for security – for example, through the European Peace Facility (EPF) and European Defence Fund – is welcome, given the country's strong interest in strengthening EU security and defence. Poland's position in relation to this integration is complex. It is concerned that mixing development and broader external action could reduce focus on the Eastern Neighbourhood in favour of other regions. Nevertheless, it welcomes any potential increase in focus on security implied by this integration.

Most of the MS appear to welcome the proposed creation of the new off-budget EPF, although again for different reasons and with different emphases. France insists the EPF should cover the current work of the Africa Peace Facility (APF) – in line with France's geographical prioritisation of Africa. The Netherlands stresses that the EPF should not be too demand driven (as it believes

9 Capacity building in support of security and development enabling partners to prevent and manage crises.

the current APF is), but should enable greater EU engagement with the African Union and the UN in defining the scope of missions. The Netherlands is also concerned that it should not be used to fund military equipment. Meanwhile, Denmark hopes that the EPF will strengthen the capacity of partner countries to resolve their own conflicts. Italy, while supporting the creation of the EPF and the increased focus on peace and security, believes that too much funding is being planned for the facility.

Climate and Sustainable Development Goals (SDGs)

There seems to have been relatively little discussion within or between MS on how climate and the SDGs should be integrated into the MFF, and particularly under Heading VI. Only a few countries among those reviewed – notably Germany and France – are known to have considered this issue. Germany wants to see the 2030 Agenda internalised across the next MFF and is among those MS that encouraged the EU to undertake a gap analysis of its contribution to the 2030 Agenda. It also supports the proposed 25% climate change input target in the NDICI.

France is in favour of changing the EU's procurement and tendering rules as a way to implement the 2030 Agenda and the Paris Agreement. Paris wants the EU to be much more ambitious, suggesting there should be 50% of environmental co-benefits in the NDICI and 40% of environmental co-benefits in the entire MFF. It also wants 85% of projects within the NDICI to support gender equality, in line with commitments under the Gender Action Plan II, and 20% of ODA to go to human development and social inclusion. While France offers an ambitious vision for spending on climate and SDGs, some civil society organisations have expressed concerns that applying these types of targets could undermine the principle of aligning aid effectiveness, and risk spreading EU support too thinly if each MS were to promote its own priority spending targets. However, civil society organisations are concerned that the climate target proposed by the European Commission is too low given the scale of needs for climate financing, and in view of international commitments to disburse US\$100 billion per year on climate from 2020.

Other countries, such as Spain and Finland, are generally supportive of both the SDGs and climate change action but are not themselves promoting specific approaches or targets. Unlike Germany and France, the Netherlands has no strong position regarding integrating the SDGs into external action, but shares France's ambition for a climate target that is higher than the proposed 25%.

Meanwhile Hungary, Italy and Poland express varying levels of concern regarding the integration of climate issues into the MFF. Hungary accepts the 25% target, but stresses that it does not want climate commitments to undermine its competitiveness. Italy appears to see climate issues as somewhat marginal to the MFF process – to be dealt with in different fora – and appears concerned that decarbonisation goals should not interfere with Italian industry. Meanwhile, the Polish government has expressed scepticism about decarbonisation and the EU's role in setting climate change goals. It believes that the EU's role in the implementation of the Paris Agreement should be in finding consensual solutions between different parties. It also stresses

that existing funds should not be diverted to climate in the next MFF, but that new funds should be found for extra climate financing.

Climate change is a contentious issue between EU MS. In this sense the European Commission proposal to increase the current target from 20 to 25% seems to strike a balance between these different perspectives. However, there might perhaps be scope for increasing the target further if some member states were to put political weight behind their demands and form broader coalitions. The latest International Panel on Climate Change (IPCC) report implies that profound and urgent action is needed.¹⁰ Climate change is one of the defining issues of the EU as a global player and one where there the EU could assume a global leadership role.

Geographic priorities

The EC proposal for the NDICI includes minimum allocations of €22 billion for the Neighbourhood and €32 billion for Sub-Saharan Africa. Together these two regions would amount to more than 60% of the total NDICI. Almost all the MS appear broadly happy with the proposed focus on Africa and the EU Neighbourhood in the proposal. Denmark, France, Germany, Italy, the Netherlands and Spain all see this geographical focus as largely matching their own development cooperation or strategic interests.

However, as with other areas, there are variations in emphasis and some caveats. Some countries including Germany, France and Italy, would like to see Africa getting more funds or a greater proportion of NDICI funds than is currently proposed. France is particularly concerned about the risk of funds being siphoned away from LDCs in Sub-Saharan Africa in favour of other priorities. For this reason France would like to keep the European Development Fund (EDF) off the NDICI budget and retain a separate European Neighbourhood Instrument (ENI), or ensure that legally binding minimum amounts for LDCs are included in the NDICI.

There is disagreement about the priority given to LDCs relative to Middle Income Countries (MICs), due to the different geographical priorities of different MS. Both France and the Netherlands argue strongly for a focus on LDCs, and in the case of the Netherlands, fragile states too. They warn against continuing the current pattern in which most EU development aid goes to MICs. The Netherlands, in particular, calls for stronger differentiation, with MICs primarily treated as partners for collaboration on shared goals in relation to SDGs or specific themes, rather than major aid recipients. Meanwhile, Spain, while happy to have a strong emphasis on Africa, is firmly opposed to any proposals that imply a reduction in ODA to Latin American MICs, given its strategic interests in the region and the already small aid contributions received by these countries. Madrid argues that a strong EU focus on Latin America is required as the region could be an ally in achieving global public goods such as the 2030 Agenda or strengthened multi-lateralism. Poland also strongly supports continuing the current patterns of high funding for MICs, notably in the Eastern Neighbourhood.

¹⁰ See IPCC (2018).

The positions of Hungary, Poland and Finland differ quite significantly from the other MS in that they are all particularly concerned about any potential reduction on aid to the Eastern Neighbourhood in favour of other regions. Budapest argues that there should be an increase in funding for the Western Balkans compared to the current MFF and is particularly concerned about proportional reductions to the pre-accession instrument. Finland underlines the importance of adequate funding engagement with the EU's North- Eastern neighbours, including the Baltic Sea region and the Arctic, as well as greater cross-border engagement with Russia given the high political tensions. While those MS on the Eastern edges of Europe clearly want to see funding for deeper engagement with their non-EU neighbours, including through the pre-accession instrument. Other MS are less supportive of this agenda, with Denmark calling for greater use of conditionalities in pre-accession assistance.

Such a wide range of positions highlights the scale of the challenge to reach agreement on the current Heading VI proposals. In view of this it is possible that over the coming months other less ambitious plans for the Heading will emerge, that look more like the status quo. Ultimately though, decisions about the structure and financing will be shaped as much by wider dynamics in the EU budget negotiations, as by opinions about what is more desirable for EU external action.

Structure of Heading VI

It is perhaps in the structure of Heading VI that the greatest divergence in positions among MS is visible, with these positions to a large part determined by each MS's strategic and geographic interests.

A number of MS, including Denmark, the Netherlands, Spain and Finland, are strongly supportive of current proposals to combine various existing instruments in the NDICI. Germany however – while broadly in favour of harmonising existing instruments – is currently reserving its judgement on what the exact structure of the NDICI should be. This is partly because of the lack of clarity about the role of different EU institutions in relation to the European Fund for Sustainable Development (referred to as EFSD+ in the NDICI proposal). Italy accepts the current proposal and welcomes the rationalisation of instruments and the EDF integration, although it does have some concerns about the merging of the Neighbourhood into the NDICI. The above countries largely see the NDICI as an opportunity to deliver on the ambitions of the EUGS and to develop external action which is more effective, coherent and flexible. Spain additionally argues that in overcoming the fragmentation of instruments, the NDICI will also overcome fragmentation among recipient regions that undermines potential regional cooperation schemes which are of interest to Madrid. Examples of this include cooperation between the Caribbean and Central America, or between Sub-Saharan Africa and North Africa, referred to in EU jargon as the 'Southern Neighbourhood'.

However, France, Hungary and Poland are deeply concerned about the proposed single instrument, although for different reasons. France argues that given the NDICI's broad focus and inclusion of multiple sectors, objectives and countries (including those previously covered by the Partnership Instrument), it risks diluting the development focus of EU external cooperation. However, the

country would be reassured if the EU would confirm that the bulk of funds will remain allocated to its priority geographic regions (Neighbourhood and Sub-Saharan Africa) and to long-term actions. Poland and Hungary oppose the proposed inclusion of the ENI in the NDICI. They consider that it would undermine the distinctive character of the ENP and communicate to Eastern Neighbourhood partners that the EU is losing interest in them and that their path to accession is even more arduous. Both countries' core strategic interests lie in the Eastern Neighbourhood and they are primarily concerned with developing and strengthening the Eastern Partnership, and they see the NDICI as limiting the potential to do this.

Another area where MS positions significantly differ is in relation to the budgetisation of the EDF, with similar fault lines between countries as in the NDICI overall. Denmark, Germany, Italy, the Netherlands, Spain and Finland are broadly supportive of EDF budgeting, seeing this as part of a welcome wider shift towards harmonised and coherent external action. Meanwhile France, Poland and Hungary are opposed to the current proposals to include the EDF in the budget.¹¹ Paris raises three specific concerns in relation to EDF budgeting and calls for the EDF to be kept out of the budget until these concerns can be resolved. These are a risk that funds for Sub-Saharan Africa could more easily be siphoned off for other priorities if the EDF is inside the budget; a concern that MS will have diminished control and oversight of these funds if the EDF is incorporated into the budget and the NDICI; and a belief that because it is outside the budget the EDF enables the EU to respond more quickly to external crises with flexible intervention modalities. Hungary meanwhile argues that since current budgetisation proposals have not been accompanied by a commensurate increase in the overall MFF ceiling, this could be at the expense of other policies and regions, including those in which Hungary has the greatest stake. Similarly, Poland argues that EDF budgetisation does not make sense while the future EU-ACP relationship has not yet been agreed, and believes it would result in higher budget contributions. Interestingly, both Hungary and Poland also argue that keeping the EDF outside the budget would make it more likely that the UK might want to contribute to it in the future, even though the UK has given no indication of this, instead arguing for a more bespoke and flexible arrangement.¹² Italy, while supporting EDF budgeting, also makes a similar point that mechanisms should be put in place for non-EU actors to jointly support EU-led external action initiatives.

It appears that a large number of MS are concerned about the governance of the NDICI, its reserve and the EFSD+. In particular, there are concerns about where decision-making will lie in relation to the new instruments, and how transparency and accountability for this decision-making will be managed. France is particularly worried that the new structures for Heading VI could reduce the role of MS in steering the external action of the EU. For the next MFF, the Commission has proposed setting up a Council committee covering the NDICI as a whole, thus merging several

11 It should be noted that there is no complete agreement in the French government regarding its position on the EDF.

12 In addition, it seems unlikely that the UK could justify contributing to a fund to implement a future international agreement to which it is not a party.

committees that presently deal with the various instruments (EDF, ENI, DCI). France sees this as a further dilution of already limited mechanisms for MS oversight and influence over the EU budget. Instead France would like to see a strengthened role for MS with regard to the governance of the new instruments and is frustrated that the EC has so far not responded adequately to this issue. The Netherlands has similarly raised concerns that the new MFF should not undermine existing MS powers and oversight in the area of EU external action and should instead give MS a more meaningful say over strategic decision-making and programming.

Horizontal challenges and contextual factors

From a global to a focused strategy?

Overall our analysis of emerging views and positions shows that while MS support the case for reforming the status quo, their emerging views and positions diverge considerably on what the outcomes of that reform should be. This reflects the various interests they pursue and are put forward in the budget negotiations. Yet the highly differing views can in part also be explained by recent major initiatives in EU external action in recent years, where implementation choices have guided strategy, rather than the other way around. A clear political strategy for development cooperation has yet to be articulated.

Developments in innovative delivery of ODA-financed resources have created new mechanisms for international cooperation, including new trust funds, a greater role for European implementing agencies and development finance institutions and a stronger role for blended finance. Yet the 2016 global strategy was inconclusive on the role of the EU's external action budget, although pitched many of the ideas that are now being pursued. The 2017 New European Consensus on Development also left most thematic and operational possibilities open rather than making real choices. So, we are missing a political strategy for international cooperation that clearly sets out how the EU will play its part in delivering the SDGs and makes the case for why reforms such as the single NDICI are in the interests of the EU and developing countries.

Five contextual factors

While the case for using the MFF negotiations to inform further strategy building and associated reforms, five contextual factors also need to be taken into account that each, in their own way, either facilitate or complicate the MFF negotiations. These factors concern a mix of direct influences affecting the negotiation process, as well as emerging issues that will be key to the budget negotiations and implementation. These are: (1) the forthcoming European Parliament elections, (2) the UK's withdrawal from the EU, (3) the role of European implementing actors, (4) conditionality, and (5) cooperation with advanced developing countries.

1. *European Parliament elections*

While the Commission primarily advocated a fast-track negotiation to present a decisive and united European Union and to avoid financial shortfalls, it also preferred to deal with the current European Parliament rather than the unknown quantity that will replace it after the upcoming EP elections in May 2019. Moreover, this new Parliament will influence the composition of the College of European Commissioners, potentially further complicating the post-election context for agreeing the budget.

It seems unlikely that the ‘grand coalition’ of the European People’s Party, the Socialists and Democrats group will continue after next year’s elections. An expected larger share of Eurosceptic parties also reduces the prospects for a ‘constructive opposition’ dedicated to advancing the European project. A third, or even fourth, political group may thus be required to get the majority needed for the EP to effectively play its co-legislative role, and this in turn would considerably change the way in which it would operate politically. A more fragmented European Parliament, and more fragmented majority coalition, could have a number of consequences. Parliament may become less predictable, and informal channels between the Commission and Parliament may become more complicated and less effective. There may also be a number of mini-deals done in order to achieve a coalition, which could result in a less ambitious agenda that caters to the particular interests of the political groups involved.

When it comes to the proposed Heading VI and the NDICI, four co-rapporteurs from two committees – dealing with development and foreign policy, respectively – are currently preparing a joint report to determine Parliament’s position in the negotiations. The four co-rapporteurs concerned will directly represent these positions during later stages of the negotiations. If the negotiations continue beyond the EP elections, the rapporteurs may have to be replaced at a rather late stage. This may in turn prompt some movement in the EP’s overall position.

2. *The UK’s withdrawal from the EU*

The UK’s exit will produce a host of implications for the financing and implementation of EU external action, both foreseen and as yet unknown. The UK is a major MFF contributor and represented 15% of the EU’s collective income at the start of the current MFF cycle. This has since declined to around 12% due to economic growth patterns within the EU.

The UK’s non-financial influence has also been particularly important in the area of external action and development. Over the last few decades the UK has played a considerable role in advancing and reforming the EU’s development policy and has built important coalitions for change. The 2005 EU Consensus for Development that the UK led under its EU Presidency and the strong political momentum it built for the legal basis of the Lisbon Treaty for EU development policy testifies to this. Another example concerns the UK’s leading role in furthering discussions

on strengthening accountability relations and reporting on results in EU development policy. Hence the loss of the UK means the loss of a powerful voice for development within the EU. EU member states are adjusting to the situation, and recent negotiations show that new coalitions are forming.

It is unclear how the reduced finances as a result of the UK's withdrawal will affect ambitions for Heading VI. Negotiations have been conducted under the assumption that the 27 MS will to an extent compensate financially for the UK's withdrawal. If at a later stage the EU finance ministers do not agree to such a relative increase – with a couple of MS already having indicated that they will maintain the 1% ceiling¹³ – then Heading VI may end up being spread too thinly across multiple regions and areas.

Another factor is that if the UK's withdrawal is protracted, involving a longer transition phase, then additional decisions will have to be taken about how the UK will continue to contribute to the MFF. It remains to be seen whether this would also extend to co-financing of the proposed Heading VI. Given the present political volatility in the UK and concerns about setting any precedents in other areas, at this point the EU is hardly willing to make any special allowances in Heading VI or the NDICI in order to leave room for UK. Although this could change if the negotiations surrounding Brexit are seen to be proceeding well over the coming 12 months.

3. *The role of European implementing actors*

The NDICI negotiations affect other actors that are not involved in the negotiations themselves, but have seen their role in implementing EU development cooperation increase considerably in recent years. These include civil society organisations, the EU member states' own implementing agencies and development finance institutions, international organisations such as UN bodies, the International Organization for Migration (IOM), the European Bank for Reconstruction and Development, as well as the European Investment Bank. Although to differing degrees and in different ways, these organisations exercise influence over the choices made in the design of Heading VI and will be involved in delivering it.

This involvement of MS-based organisations has changed the scene considerably, as has the EU's increased use of 'indirect management' as a mode of delivery,¹⁴ yet this also raises questions relating to established accountability processes. The new mechanisms for the established accountability processes are not well defined. Is it sufficient that these organisations continue to report to the Commission as the contracting authority, or should they become more answerable to the European Parliament or to the MS through the relevant Council Working Groups? The

¹³ This concerns restricting the size of the EU budget to 1% of the EU member states' collective Gross National Income.

¹⁴ https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/how-do-we-offer-funding_en

Commission has presented some tentative proposals for reforming the institutional architecture for the EU's external investment actions, yet contrary to the NDICI proposal, has refrained from proposing structural reforms.¹⁵ Key aspects of this architecture, such as the roles and responsibilities in blending operations between the Commission and the European Investment Bank, remain to be clarified and agreed upon. The present accountability deficit will need to be addressed if the Commission proposals are to win the support of MS and particularly the EP.

4. *Conditionality*

The EU Communication to inform a leadership summit on the MFF, published in February 2018, presented a stronger discourse on the idea of introducing greater conditionality into the EU's budget.¹⁶ Specifically, the Communication set out possible ways to strengthen the link between EU funding and respect for the EU's fundamental values, although conditionality has also been linked to other issues such as the greening of the EU's agricultural subsidies.

It is still unclear to what extent conditionality may be a key principle underpinning Heading VI. The NDICI proposals reiterate a performance-based approach for the Neighbourhood but it is unclear whether this would be applied more widely and based on what principles. The EU's development policy has traditionally been less prone to disruption and sanctioning compared to the MS bilateral policies, as can be seen from the limited interruption of EU budget support to countries where MS had put their own budget support operations on hold.

In past decades, conditionality in EU external action was shaped directly by its primary stakeholder groups. This has changed in recent years with the advent of a closer focus on (often migration-related) conditionality in EU development policy, from a 'more for more' perspective. Direct stakeholders involved in negotiating Heading VI thus need to be sufficiently aware of the ongoing broader debates on conditionality in EU policy and budgets, which may become a key issue during the forthcoming European Parliament campaign.

5. *'Advanced' developing countries*

A final contextual factor for the EU to consider is how to cooperate with 'advanced developing countries', a term loosely used by the EU to refer to economically strong MICs. A key element of the proposed NDICI is that 92% of expenditure under this single instrument should fulfil ODA criteria. One of these criteria is that countries are included on the OECD Development Assistance Committee's list of ODA recipients, which has rules that require countries to 'graduate' from ODA eligibility after being classified as a High-Income Country (HIC) for a minimum of three years.

¹⁵ See European Commission (2018e).

¹⁶ See European Commission (2018a).

This is a particular challenge for the EU, given that its ODA resources have played a leading role in enabling migration-related and other cooperation with the EU's Neighbourhood and candidate members, some of whom are likely to reach HIC status during the next budget period. For example, it has been projected that Turkey could reach HIC status in the early 2020s. On various occasions the EU has stated its willingness to diversify cooperation with advanced developing countries beyond ODA-financed cooperation, including in the 2017 New European Consensus on Development. However, it is notable that the proposed Heading VI continues to be highly dependent on ODA resources and therefore has limited potential as an instrument for engaging with HIC neighbours that are of significant strategic interest to the EU.

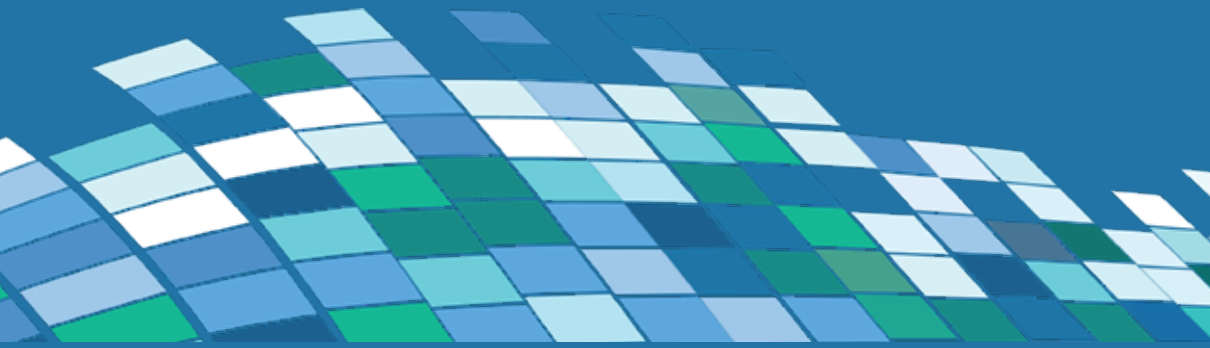
Conclusion

The overall picture that emerges from this comparative analysis of these MS positions and contextual factors is that the forthcoming negotiations will need to reconcile a host of diverging priorities, different levels of ambition, as well as some fundamentally different views of the role of EU external action. Negotiations are likely to be as challenging as during the last round in 2011-2013 when agreement was only reached at the last moment with the involvement of heads of state and government. In order to best position Heading VI in these broader negotiations, EU MS and the European Parliament are advised to specifically address current accountability and strategy deficits in the EU's external action.

The current status quo of the MFF and its various external financing instruments represents a careful balance of the member states' respective interests, and hence a source of considerable path dependency. MS' desire to protect and consolidate these interests in the next budget threatens the fundamental reform and higher level of ambition for EU external action that would be in the member states' collective interest.

There is growing recognition that political consensus within the European Council will not be reached in time for a deal on the overall MFF by the summer of 2019. The negotiation of Heading VI needs to be guided by a clear political direction to be set out at ministerial level through the EU's Foreign Affairs Council. A coherent vision and road map of this kind for EU external action is currently lacking, due to shortcomings in statements adopted in 2016 and 2017. This ministerial vision should set out how the EU will play its part in delivering the SDGs and make the case for why reforms such as the single NDICI are in the interests of the EU and developing countries. These political deliberations should take place through informed meetings and informal discussions at the working level, convened by the Commission and External Action Service in cooperation with the Rotating Council Presidency and with EP leadership participation.

Section III
Key thematic innovations
in finance, migration and security



Leveraging the next EU budget for sustainable development finance: The European Fund for Sustainable Development Plus (EFSD+)¹

San Bilal

The MFF proposal: a new framework with EFSD+ and External Action Guarantee

The Multiannual Financial Framework (MFF) 2021-2027, as proposed by the European Commission, aims to be a political budget aligned to new political priorities for the Union post-2020.² One of its objectives is also to be a ‘smarter’ budget in terms of its ability to stimulate investment and more effectively leverage private finance, within the European Union (EU) as well as outside the EU.

In terms of its external action, the proposed MFF aims “to uphold and promote the Union’s values and interests worldwide”, in line with notably the 2030 Agenda for Sustainable Development, the Paris Agreement on Climate Change and the Addis Ababa Action Agenda.

The NDICI principles

Most importantly, the European Commission proposes not only to significantly increase the budget for the EU external action – from €1.087 billion in 2014-2020 to €1.279 billion in 2021-2027 (in current prices). But perhaps more fundamentally to modernise and rationalise its financial architecture and instruments, merging several external financial instruments into a broad Neighbourhood, Development and International Cooperation Instrument (NDICI), with a financial envelope of €89.2 billion (in current prices).³ The single instrument aims to increase the coherence between instruments, promote economies of scale and synergies between programmes, as well as contribute to the simplification of processes.⁴

1 This chapter originally appeared as: Bilal, S. February 2019. Leveraging the next EU budget for sustainable development finance: The European fund for Sustainable Development Plus (EFSD+). ECDPM Discussion Paper 243. Maastricht: ECDPM. <http://www.ecdpm.org/dp243>

2 For analysis of the proposal see Jones et al. (2018).

3 See European Commission (2018f).

4 For analyses on the MFF process and NDICI overall, see ECDPM <https://ecdpm.org/dossiers/multiannual-financial-framework-mff/>

The European Commission proposes to structure the single NDICI instrument around three pillars:

- Geographic programmes, with €68 billion for 2021-2027 (in current prices), would constitute the main funding channels for bilateral EU cooperation with partner countries. The areas of cooperation, structured around the ‘five Ps’ – people, prosperity, planet, peace and partnership – would cover the following geographic regions:
 - (a) Neighbourhood (at least €22 billion)
 - (b) Sub-Saharan Africa (at least €32 billion)
 - (c) Asia and Pacific (€10 billion)
 - (d) Americas and the Caribbean (€4 billion)
- Thematic programmes (€7 billion) would have a worldwide coverage and are meant to complement geographic programmes by supporting global and trans-regional initiatives to promote the SDGs under the following four themes:
 - (a) Human rights and democracy (€1.5 billion)
 - (b) Civil society organisations (€1.5 billion)
 - (c) Stability and peace (€1 billion)
 - (d) Global challenges (€3 billion)
- The rapid response component (€4 billion) would constitute the main funding channel for quick response capacity for crisis management, conflict prevention and peace building, strengthening resilience and linking humanitarian and development actions.

The three pillars are also complemented by a flexible crosscutting ‘Emerging Challenges and Priorities Cushion’ (€10.2 billion), which corresponds to the Heading VI on external instruments to the ‘Union Reserve’ (Global Margin for Commitments) throughout the MFF to tackle unforeseen events and to respond to emergencies.

The Commission’s proposal also includes a number of commitments for the allocation of funding under NDICI. These include notably:

- 20% of the official development assistance (ODA) under NDICI should contribute to social inclusion and human development, including gender equality and women’s empowerment;
- 25% of the NDICI financial envelope should contribute to climate objectives;
- 10% of the NDICI financial envelope should be served “to addressing the root causes of irregular migration and forced displacement and to supporting migration management and governance including the protection of refugees and migrants’ rights”;

- at least 75% of the NDICI financial envelope must be dedicated to geographic programmes;
- indicatively, 10% of the NDICI financial envelope to the Neighbourhood countries allocated on performance-based approach.

The proposed NDICI should also contribute to the EU target of 0.20% of the EU gross national income (GNI) towards least developed countries (LDCs), and at least 92% of the funding under the NDICI should be ODA eligible under the aid definition of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD).

The proposed EFSD+ and External Action Guarantee

One of the key dimensions of the European Commission proposal is to establish a new unified financial architecture to crowd in sustainable private sector investment outside the EU, based on three pillars: the European Fund for Sustainable Development-plus (EFSD+), a unified and open system of budgetary guarantee – the External Action Guarantee (EAG), and financial assistance.

The proposed types of financing under the EFSD+ are composed of grants, financial instruments (e.g. loans, guarantees, equity or quasi-equity, investments or participations, risk-sharing instruments), budgetary guarantees and blending.

The objectives of the EFSD+ and EAG are to support investment and increase access to financing towards the achievement of the Sustainable Development Goals (SDGs), including inter alia for:

- sustainable and inclusive economic and social development
- socio-economic resilience
- poverty eradication
- sustainable and inclusive growth
- decent jobs creation
- promoting economic opportunities
- promoting skills development and entrepreneurship
- focusing on local companies and micro, small and medium-sized enterprises (MSMEs)
- strengthening socio-economic sectors and areas
- addressing root causes of irregular migration, fostering resilience of transit and host communities and contributing to the sustainable reintegration of migrants returning to their countries of origin
- contributing to climate action and environmental protection.

In doing so, the NDICI proposal specifies that special attention must be given to fragile and conflict countries, LDCs and heavily indebted poor countries (HIPC).

As indicated by its name, the EFSD+ is intended to build on and expand on the current EFSD.⁵ It will notably integrate all the existing geographic blending Investment Facilities (IF), including those beyond Africa and Neighbourhood (see Box 1), in the form of regional investment platforms. The rationale is to extend the scope and geographical coverage of the existing European External Investment Plan (EIP), building on the experiences of the other regional blending investment facilities of the EU, as well as on the experiences of EU budget guarantees and of the internal European Fund for Strategic Investment (EFSI) - commonly known as the Juncker Plan - which itself is proposed to be transformed into InvestEU.

Similarly, the proposed NDICI foresees a new unified and open framework for guarantees, the **External Action Guarantee (EAG)**, which merges and replaces the current EFSD Guarantee, the EFSD Guarantee Fund, the External Lending Mandate (ELM) available to the EIB only, and the Guarantee Fund for External Actions (GFEA), providing budgetary guarantee for all countries covered by the EFSD+. The risks covered by the EAG include not only sovereign risks, but also commercial risks.

The EFSD+ and EAG will cover all countries in the NDICI geographical regions (i.e. Neighbourhood, sub-Saharan Africa, Asia and the Pacific, Americas and the Caribbean), as well as pre-accession countries under IPA financing.

The financial amount dedicated to the EFSD+ and EAG is not specified in the proposed NDICI, which only indicates that the EFSD+ and provisioning of the EAG will be financed from the proposed €68 billion financial envelope of the geographical programmes, transferred into a common provisioning fund. The European Commission, in its proposal, indicates that the EAG may guarantee operations up to €60 billion, with a provisioning rate ranging from 9% to 50%, depending on the type of operations and associated risks (with a provisioning rate set at 9% for macro-financial assistance and for budgetary guarantees covering sovereign risks).

The proposed NDICI also states that EU member states, as well as third countries and third parties can also contribute to the EAG, provided they do not represent a larger share (i.e. over 50%) than the EU budget financing of the EAG. Their contributions can be earmarked (geographically or thematically). In the wake of Brexit this provision takes on an added significance.

The Commission proposal also foresees the possibility of the direct participation to the capital endowment of a development bank through the financial envelope of the geographical programmes.

5 See European Parliament and the Council of the European Union (2017). For an overview of the evolution of EU external investment architecture, see Gavvas and Timmis (2019); and for a discussion on the EFSD and EIP, see Bilal and Große-Puppenthal (2018a).

Box 1: Current EU Blending facilities

Under the ESFD, there are two regional platforms:

- the *Africa Investment Platform* (AIP), formerly known as the Africa Investment Facility (AfIF), which replaced since 2014 the EU-Africa Infrastructure Trust Fund (EU-AITF)
- the *Neighbourhood Investment Platform* (NIP), formerly known as the Neighbourhood Investment Facility (NIF)

In parallel, six other EU regional blending facilities co-exist:

- the Caribbean Investment Facility (CIF)
- the Investment Facility for the Pacific (IFP)
- the Latin America Investment Facility (LAIF)
- the Asia Investment Facility (AIF)
- the Investment Facility for Central Asia (IFCA)
- the Western Balkans Investment Framework (WBIF)

Currently, the AIP, CIF and IFP are financed under the 11th European Development Fund (EDF11), the NIP under the European Neighbourhood Instrument (ENI), the LAIF, AIF and IFCA under the Development Cooperation Instrument (DCI) and the WBIF under the Instrument for Pre-Accession Assistance (IPA). *Note that the proposed NDICI does not include pre-accession countries, covered under the Instrument for Pre-Accession Assistance.*

The EFSD+ is proposed to be managed by the Commission, which will be advised by a strategic board. The strategic board will be composed of representatives of the Commission and the EEAS, 27 EU member states and the EIB, with the European Parliament as an observer (other relevant stakeholders can have observer status if needed). The envisaged roles of the strategic board will be to advise and support the Commission in the strategic orientations, goals and the priorities of investments, in monitoring the right balance of geographical and thematic coverage of investment windows and in ensuring overall coordination, complementarity and coherence of the regional investment platforms, and between the three pillars of the External Investment Plan (EFSD+, technical assistance and investment climate), as well as with migration and 2030 Agenda efforts.

Specific considerations

The purpose of this section is not to describe what the EFSD+ and EAG should best look like, but to identify elements worth considering when assessing the merits of the Commission proposal, and suggest possible extensions. The focus is first on specific considerations related to the EFSD+/EAG only. The last section addresses more systemic considerations also related to the EU financial architecture.

A generic remark is that the Commission proposal aims at providing the basic architecture for a more unified and open EFSD+/EAG framework, with a broad coverage. It is foreseen as a flexible instrument, able to respond to evolving needs and priorities, with the European Commission clearly in the driving seat.

Better articulating the aims: climate, women, youth, business environment...

The aims of the EFSD+ (as summarised above - and articulated in the proposed NDICI Regulation para. (34), Art. 26.1 and Annex V) are clearly framed under the *Prosperity* as an *area of intervention for global challenges*, as stipulated in Annex III (4.C) of the proposed NDICI Regulation. While this is fully justified, these could well be extended.

Proposed aims for the EFSD+ do tend to neglect the important *Planet* area (Annex III.4.B). Given the importance of environment and climate objectives and sustainable energy as areas where the EFSD+ can effectively promote sustainable investment, explicit reference in the aims of the EFSD+ to these issues could be warranted. For instance, explicit references could be made to the Paris Agreement on Climate Change. Annex V on the priority areas of the EFSD+ operations does mention climate action and environmental protection and management, but these are not stated in para. (34) and Art. 26.1. Similarly, key principles such as promoting the conservation and sustainable use and management of terrestrial and marine ecosystems and renewable natural resources are mentioned in relation to EFSD+ operations.

To be more comprehensive, aims of the EFSD+ could also refer to *People* area (Annex III.4.A), including women (e.g. women protection and empowerment), youth (women and youth are useful priorities for job creation and investment support), decent work (including in global value chains) and social protection (as part of the job creation agenda), education and training (linked to sustainable investment and inclusivity agenda), health (this could build on the Bill and Melinda Gates Foundation - BMGF - contribution to the capital to the current EFSD and joint BMGF-EIB proposed health-related investments under the EFSD). Migration and forced displacement (Annex III.4.A.4) are already mentioned among the aims for EFSD+.

The underlying rationale for the EFSD and EIP is also to better link investment opportunities to the investment climate and business environment. As stated in the European Commission Communication *Towards a more efficient financial architecture for investment outside the European Union* (12.09.2018), “Investment supported by the EU budget must also increasingly contribute to structural reform implementation” (p.3).⁶ Yet, the proposed NDICI Regulation

6 The Communication goes on to specify that “Investment can be a powerful instrument to drive reform and better governance in partner countries, contributing to improved conditions for inclusive economic activity by promoting more sustainable policies and regulatory frameworks, international human rights standards, including core labour standards and due diligence requirements, more conducive business environments, new business models and greater government capacity.” See European Commission (2018e), pp.3-4.

fails to stress such linkages between EFSD+ operations with structural reforms and conducive business environment.⁷ This is in contrast with the EFSD Regulation, which makes explicit reference to the EU's External Investment Plan; the EFSD as a first pillar, is complemented by technical assistance as a second pillar and the improvement of the investment climate and overall policy environment as a third pillar of the EIP. This integrated approach, which underlies the EU approach, is unfortunately no longer spelt out in the NDICI Regulation, which only outlines the EFSD+.

Although the EFSD+ is implicitly enshrined in the Prosperity area, the NDICI proposal could explicitly mention EFSD+ operations under the EAG as a way to contribute for instance to:

- improving business environment and investment climate (Annex III.4.C.1(b)),
- business opportunities through trade (Annex III.4.C.1(c)),
- economic diversification and value addition, regional integration and sustainable green and blue economy (Annex III.4.C.1(d)),
- fostering access to digital economies (Annex III.4.C.1(e)),
- promoting sustainable consumption and production, low-carbon and circular economy (Annex III.4.C.1(f)),
- supporting food and nutrition security, and sustainable agriculture and fisheries (Annex III.4.C.2(a&c)).

Overall, the aims for the EFSD+ and EAG stipulated in paragraph (34) and Art. 26.1 of the NDICI proposal could potentially better reflect some of these dimensions and the broader objectives of the NDICI. Emphasis on human rights and due diligence principles could also be added.

Lack of specific targets

The proposed NDICI Regulation specifies a number of commitments for the allocation of funding to be devoted to specific themes or types of countries (e.g. 20% for social inclusion and human development, including gender equality and women's empowerment; 0.2% of EU GNI on LDCs; 25% on climate objectives; 10% to addressing the root causes of irregular migration). But there is no specific target in the specific context of the EFSD+. This arguably gives greater flexibility to the Commission and the EFSD+ strategic board to define (or not) specific targets at a later stage.

Yet, this is partly in contrast to the current EFSD and practice by some multilateral development banks (MDBs) and development finance institutions (DFIs).

⁷ Under the External Investment Plan, the proper articulation and synergy among the three pillars (EFSD, technical assistance, and investment climate) are a key dimension for its success. The NDICI Regulation provides an opportunity to stress and articulate such a complementarity in the context of the EFSD+. This is not clearly done though in the Commission proposal.

Take for instance climate objectives. The current EFSD Regulation states that at least 28% of financing under the EFSD guarantee must support investment in climate action, renewable energy and resource efficiency. This is higher than the 25% target of NDICI financing to climate objectives. The European Investment Bank (EIB) has committed to at least 25% of investments to climate action and mitigation for its overall investment (it reached 28% in 2017) and to 35% by 2020 for its investments in developing countries. The European Bank for Reconstruction and Development (EBRD) has set its climate objectives commitment to 40% of its investment. In comparison, the NDICI overall financial commitment for climate objectives of 25% is relatively low, and there is no envisaged explicit commitment for the EFSD+. This is even in contrast to the proposed InvestEU Regulation, which foresees that the contribution of the InvestEU Programme to the 2021-2027 MFF overall 25% target of EU expenditure contributing to climate objectives should be tracked through an EU climate tracking system. No such monitoring is foreseen under the EFSD+.

The geographical balance under the EFSD+ is not specified beyond the fact that regional investment platforms will be financed from the respective geographical programme envelopes. As a result, it is possible that EFSD+/EAG investments can take greater prominence in some regions or countries than others. In this respect, the Commission proposal provides great flexibility in implementation, indicating only that the “The Commission shall set up investment windows for regions, specific partner countries or both, for specific sectors, or for specific projects, specific categories of final beneficiaries or both, which are to be funded by this Regulation, to be covered by the External Action Guarantee up to a fixed amount.” (NDICI Art.27.7).

One of the rationales for the EIP and EFSD has been to induce MDBs/DFIs to undertake investments in more risky and difficult countries or type of projects, where in spite of the perspective of high development impact, they tend to do less. The EFSD+ does not directly address this need to focus on poorer and more fragile and vulnerable countries. It only indicates that “Special attention shall be given to countries identified as experiencing fragility or conflict, Least Developed Countries and heavily indebted poor countries” (NDICI Art.26.1), without specifying what this would mean in practice.⁸ This is left to the Commission, with the support of the strategic board, to determine.

There is a risk that EFSD+ operations under EAG will be directed mainly at middle-income countries (MICs). An OECD survey found that blended finance mainly targets middle income countries, with 77% of the US\$81 billion in private resources mobilised by public development finance between 2012 and 2015 going to MICs and only 7% to LDCs.⁹ Similarly, a recent report by MDBs indicates that poorer countries accounted for less than 4% of long-term financing for

8 A similar wording is used in the EFSD Regulation; so, the proposed NDICI Regulation is in that respect not different than the current EFSD Regulation.

9 See Benn, Sangaré and Hos (2017).

private direct mobilisation by MDBs and DFIs worldwide, around 2% in the case of the EIB and 9% for the EDFI (see Table 1).¹⁰

While the lack of risk mitigation tools is often cited as a major obstacle to raising private investment in poorer and more fragile countries, the EFSD+/EAG could effectively partly remedy this, justifying a strong, and perhaps more explicit focus of the EFSD+ on LDCs and vulnerable countries.

Table 1: Private direct mobilisation by MDBs and DFIs in 2017 (US\$, million)

	TOTAL	Low- & middle-income countries	LICs & LDCs	Africa
EIB	36776,5	4977,1	809,5	1244,4
EBRD	801,8	664,9	N/A	1
EDFI	1067,5	1067,5	99,8	324,6
Total worldwide	51997,5	19131,5	1853,9	3,714

Source: Compiled from World Bank, 2018b.

Level of guarantee provisions

The proposed NDICI Regulation foresees that the External Action Guarantee (EAG) may guarantee EFSD+ operations up to €60 billion, with a provisioning rate ranging from 9% to 50%. The rate of 9% corresponds to the level of the current External Lending Mandate (ELM), available only to the EIB, and to current Macro Financial Assistance and Euratom loans. Accordingly, EU budget provisions need to be made to cushion calls under the EAG only at a rate of 9% of the EU's total outstanding liabilities. Similarly, the rate of provisioning at 50% of the total guarantee obligations is identical to the one under the current EFSD guarantee used to cover the risks from loans, guarantees, counter-guarantees, capital market instruments as well as any other form of funding or credit enhancement, insurance, and equity or quasi-equity participations. In this respect, the proposed NDICI Regulation only transposes the current requirements to the EFSD+ operations guaranteed under the EAG, in a unified guarantee framework.

¹⁰ These different shares are also a reflection of the portfolio of the MDBs. It is worth keeping in mind that EIB activities outside the EU account for only 10% of the EIB investments, and that EIB financing for private direct mobilisation in LICs and LDCs are more than eight times bigger than the combined EDFI financing in these countries (and about four times higher for Africa), as reported in Table 1.

In doing so, however, the Commission does not propose a specific budgetary amount to be dedicated to EFSD+ operation under the EAG. Flexibility is maintained as to the type of operations and corresponding guarantee required. To guarantee operations up to €60 billion, Commission officials have suggested that some €10 billion to €15 billion from the proposed NDICI €68 billion geographic programme envelope would be dedicated to EFSD+ operations under the EAG. While these are sensible estimates, they are only potential estimates, as more or less funding might be dedicated to the EFSD+/EAG, depending on the type of operations envisioned and their risk profile. This is in contrast with the current EFSD Regulation, which clearly indicates not only the maximum amount of EFSD Guarantee (€1.5 billion), but also the allocation of resources from the EU budget (€350 million) and EDF11 (€400 million) for the EFSD Guarantee Fund of €750 million. Consequently, the ESFD Regulation also specified that at least €100 million from the EFSD Guarantee Fund coverage must be allocated to Neighbourhood countries and at least €400 million from the EFSD to EDF11 (i.e. ACP) countries.

It is worth noting that the EFSD Regulation had to accommodate the existing EU financial architecture and regulations: the European Neighbourhood Instrument (ENI) - financed from the EU budget - and the 11th European Development Fund (EDF11) - outside the EU budget -, and the two corresponding blending facilities, the Neighbourhood Investment Facility (NIF) and Africa Investment Facility (AfiF), whose combined resources provided €2.6 billion for the EFSD.

The proposed NDICI Regulation provides for a unified framework, both in terms of a unified guarantee framework (the EAG), and financial instrument (notably with the proposed 'budgetisation' of the EDF – bringing the EDF inside the EU budget), which accordingly offers the opportunity for greater flexibility and adaptability, including in terms of priorities and risk exposure. Yet, considerations could be given whether the NDICI Regulation should provide more specific indications with regard to the EAG and EFSD+ operations covered.

In its Communication Towards a more efficient financial architecture for investment outside the European Union, the European Commission foresees that through its new blended finance instruments, guarantees and other financial instruments it will be able to mobilise €500 billion in investment for the 2021-2027 period for the MFF's NDICI. This suggests that the Commission estimates that the EFSD+ guaranteed operations of up to €60 billion would have a leverage above eight, i.e. generating eight times more private investment (which is still a high yet reasonable estimate for operations in poorer developing countries).

Investment windows not defined

The Commission proposes to set up specific investment windows under the EFSD+/EAG, for specific regions, countries, sectors, projects or categories of beneficiaries. The choice, to be duly justified, is left to the European Commission.

This is similar to the current EFSD, where investment windows are not specified in the EFSD Regulation, but were identified after its adoption.

However, it is somewhat in contrast to the proposed Regulation on InvestEU, where four policy windows are identified, (i) sustainable infrastructure; (ii) research, innovation and digitisation; (iii) SMEs; (iv) social investment and skills, and where indicative allocation of the EU guarantee between the policy windows is specified (in an Annex).

Considerations on flexibility and adaptability would suggest that investment windows do not need to be identified a priori in the NDICI Regulation, and can be left to a later stage. Considerations on policy steering, predictability and clear priority objectives would suggest, on the contrary, that - at least some - investment windows can be pre-identified in the NDICI Regulation.

Still a European preference

It is worth noting that the EFSD Regulation contains an explicit preference for European financial institutions to take the lead for operations under the EFSD Guarantee,¹¹ though it does not exclude other financial institutions (which have been ‘7-pillar’ assessed)¹² to take the lead.¹³

The proposed NDICI Regulation does not contain such a clause relative to the EFSD+ operations under the EAG.¹⁴ However, Art. 23.6 of the proposed NDICI Regulation does suggest a general preference for European institutions, which could arguably have similar effects, as it states that:

“Financial instruments under this Regulation may take forms such as loans, guarantees, equity or quasi-equity, investments or participations, and risk-sharing instruments, *whenever possible* and in accordance with the principles laid down in Article 209(1) of the Financial Regulation *under the lead of the EIB, a multilateral European finance institution, such as the European Bank for Reconstruction and Development, or a bilateral European finance institution, such as bilateral development banks, possibly pooled with additional other forms of financial support, both from Member States and third parties.*”

11 Art.11.2 of the EFSD Regulation notably states that “The EFSD Guarantee shall be implemented whenever possible under the lead of a European eligible counterpart in line with the criteria set out in this Regulation.”

12 For criteria for financial entities to be entrusted in EU budget implementation tasks, see the information on pillars assessment at https://ec.europa.eu/europeaid/tags/pillar-assessments_en

13 Out of the first 12 EFSD guarantee tools selected by the EFSD Strategic Board, ten are proposals under the lead of a European financial institution (in these cases the EIB, EBRD, EDFI, AFD, KfW, FMO and AECID), and two are under the lead of a non-European financial institution, in both cases the African Development Bank (AfDB).

14 Article 27 of the proposed NDICI Regulation on “Eligibility and selection of operations and counterparts” does not include wording identical or similar to Art.11.2 of the EFSD Regulation.

Some EU member states had previously insisted that the EFSD Guarantee be restricted to operations under the lead of a European financial institution. Giving a preference (but not exclusivity) to the European financial institutions to lead appears thus as a compromise, between those who would prefer a fully open system and those that would prefer the guarantee to benefit operations exclusively under the lead of a European financial institution. Considerations on synergies with multilateral development banks (such as IFC for instance) - to which (some) EU member states are also shareholders, and with regional development banks – own by partner countries, would seem to also warrant opportunities for these financial institutions to take the lead for EFSD+ operations, provided they meet EU assessment requirements.

Absence of grievance and redress mechanism

Surprisingly, the NDICI Regulation contains no grievance and redress mechanism, contrary to the EFSD Regulation, which explicitly states in Art.19 that:

“In view of possible grievances of third parties in partner countries, including communities and individuals affected by projects supported by the EFSD Guarantee, the Commission and European Union delegations shall publish on their websites direct references to the complaints mechanisms of the relevant counterparts that have concluded agreements with the Commission. The Commission shall also provide the possibility of directly receiving complaints related to the treatment of grievances by eligible counterparts. The Commission shall take that information into account in view of future cooperation with those counterparts.”

Establishing a complaints mechanism has been a strong demand of the European Parliament and civil society organisations during the EFSD legislative process. It is also a recurrent issue raised by civil society actors on the role and activities of MDBs and DFIs.

The inclusion of a grievance and redress mechanism clause in the NDICI Regulation, at least for the EFSD+, could thus be a legitimate addition.

No provision to address tax avoidance and tax havens

The NDICI Regulation does not directly address the issue of tax avoidance, tax evasion, tax havens, illicit financial flows, money laundering which some EFSD+ operations under the EAG could possibly contribute to.

These have been an issue of concern for civil society organisations¹⁵ and the European Parliament.

¹⁵ See for instance the recent report by CounterBalance (2018).

This is in contrast to the EFSD Regulation, which states (para.37) that “Financing and investment operations supported by the EFSD should adhere to the Union policy on non-cooperative jurisdictions for tax purposes”, and Art. 22.1 on excluded activities and non-cooperative jurisdictions, which specifies that:

“In their financing and investment operations, the eligible counterparts shall comply with applicable Union law and agreed international and Union standards and, therefore, shall *not support projects under this Regulation that contribute to money laundering, terrorism financing, tax avoidance, tax fraud and tax evasion.*”

In addition, the eligible counterparts shall not enter into new or renewed operations with entities incorporated or established in jurisdictions listed under the relevant Union policy on non-cooperative jurisdictions, or that are identified as high risk third countries pursuant to Article 9(2) of Directive (EU) 2015/849 of the European Parliament and of the Council, or that do not effectively comply with Union or internationally agreed *tax standards on transparency and exchange of information.*”

Arguably, such basic principle-based tax-related provisions are already included in the EU Financial Regulation,¹⁶ and therefore do not need to be restated. Yet, given that these are most pertinent issues for the EFSD+, they could be explicitly referred to in the NDICI Regulation.

Governance of the EFSD+

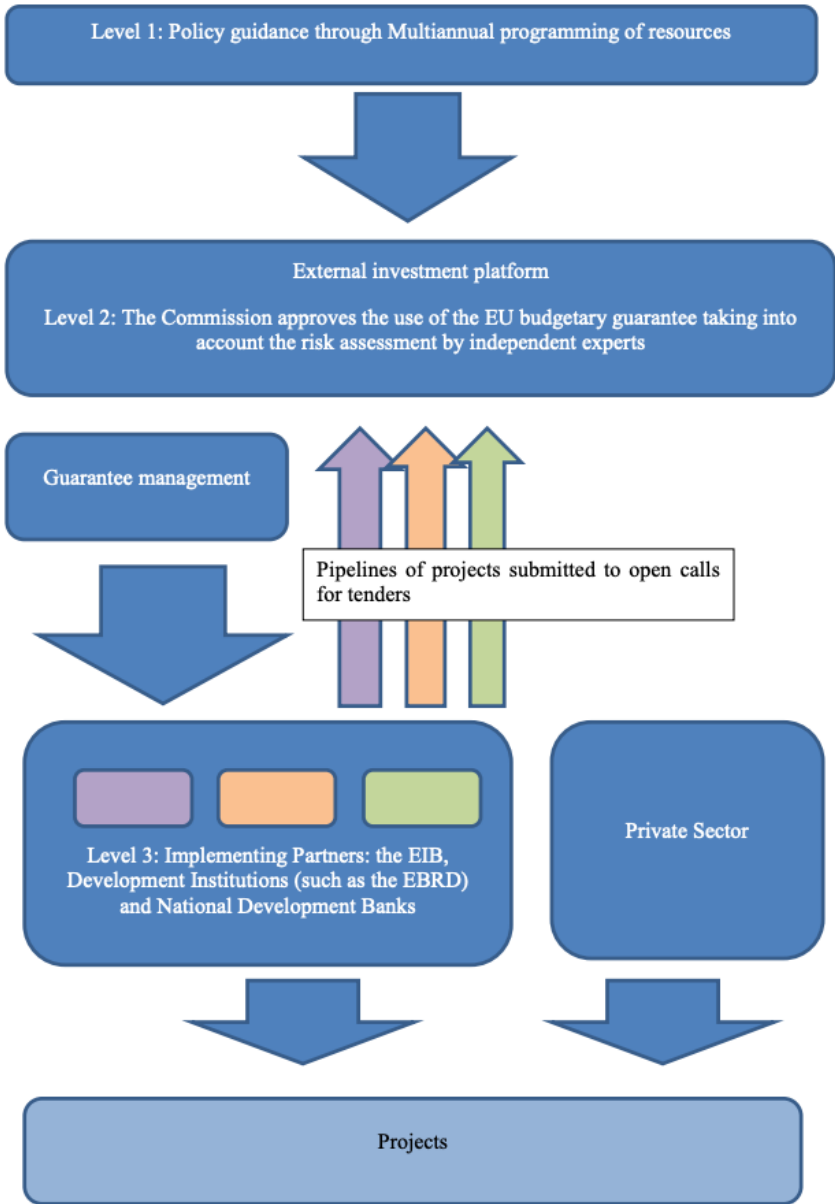
The governance of the EFSD+ is described in a very succinct manner in Annex VI of the proposed NDICI Regulation.¹⁷ The EFSD+ will be managed by the European Commission. The Strategic Board of the EFSD+ will in essence advise and support the European Commission, who is in the driving seat. Regional operational boards will support the Commission in the management of the regional investment platforms. The European Commission has outlined its vision and ambitions in its Communication *Towards a more efficient financial architecture for investment outside the European Union*, where it outlines its key role in steering and managing what it calls a reinforced EU’s external investment architecture (see Figure 1).

In essence, the European Commission is at the centre of the External Investment Platform, which in the context of the NDICI is the EFSD+. The Commission will manage the Guarantee, following EU policy guidance (level 1) as well as advice from the Strategic Board of the EFSD+, and support from technical expertise.

¹⁶ See Article 155.2 of the European Parliament and the Council of the European Union (2018) on the financial rules applicable to the general budget of the Union.

¹⁷ For wider issues associated with the governance of the NDICI overall see Jones, De Groof, and Kahiluoto (2018).

Figure 1: Architecture for the EU's external investment



Source: European Commission, 2018e.

The proposal from the Commission raises six possible concerns on the governance of the EFSD+ that could be explicitly addressed in the NDICI Regulation: (i) lack of specificity in the governance architecture, (ii) the centrality of power in the hands of the European Commission, (iii) the limited internal capacity of the Commission to deliver, (iv) the need for independent banking-related expertise, (v) the need for an explicit coordination process for EU MDBs/DFIs, and (vi) the lack of specific reporting and monitoring mechanism.

(i) Lack of specificity in the EFSD+ governance architecture:

Different types of governance models are possible, yet Annex VI of the proposed NDICI Regulation only sketches it in broad terms, lacking specificity, relating to the precise decision-making process, the types and roles of technical (financial and developmental) expertise,¹⁸ the place of banking input, etc. The governance of the EFSD+ could be aligned to the current governance mechanisms of the EU blending facilities, or of the EFSD (with its Guarantee Technical Assessment Group (G-TAG) for instance), or based on other modalities.

The advantage of the current proposal is that by leaving governance details out of the NDICI Regulation, it provides the flexibility needed for learning from current experiences (notably on the effectiveness of the governance structure of the EFSD) and for adjusting the governance modalities of the EFSD+ as needed in the future. The disadvantage is that at this stage, it increases the level of uncertainty on the effective modalities of management for the implementation of the EFSD+, and it precludes the EU member states and the European Parliament to shape it at the legislative level. Apparently, some EU member states have already indicated their disagreement with the light governance modalities mentioned in Annex VI.

(ii) The centrality of power in the hands of the European Commission:

The proposed design for the governance of the EFSD+, combined with the lack of details in its modalities, to be adopted at a later stage, outside the NDICI regulation, gives de facto central authority and power to the European Commission. The centrality of the European Commission is at the heart of the EFSD+ proposal (and arguably the NDICI and MFF proposals), allegedly to provide greater flexibility, adaptability and responsiveness of the European Commission to evolving needs. The proposal also gives power to the European Commission to adopt delegated acts (Art.34), including “to supplement or amend the priority areas in Annex V and the governance of the EFSD+ in Annex VI” (Art.27.9), as well as “to amend Annex VII to review or complement the [list of key performance] indicators where considered necessary and to supplement this Regulation with provisions on the establishment of a monitoring and evaluation framework” (Art.31.9). The question is whether the proposed NDICI Regulation, as currently formulated, gives or delegates too much authority and power to the European

¹⁸ In its Communication Towards a more efficient financial architecture for investment outside the European Union, the Commission proposes a risk assessment group, and recognises that different models of composition and governance for such a group are possible. See European Commission (2018e).

Commission in the structure and management of the EFSD+. Several EU member states and members of the European Parliament tend to think so, and that use of delegated acts should be constrained. The Strategic Board of the EFSD+ could be given explicit decision-making power, not only advisory, and this could be extended beyond strategic issues, to include individual programmes. Moreover, observer status could be given to partner (financial) institutions as well.

(iii) The capacity of the European Commission to deliver:

The EFSD+ proposal rests on the willingness and capacity of the Commission to properly structure, manage and implement the whole process, as outlined in Figure 1. This requires proper internal capacity, including in terms of banking and financial expertise, which commonly rests with the MDBs/DFIs rather than the Commission. The European Commission has demonstrated its capacity to set up the current EFSD, steer the policy process and manage the selection process of proposed investment programmes (PIPs).¹⁹ Yet, with the EFSD still being in its infancy, some concerns have been raised about the in-house expertise and capacity of the Commission to effectively manage and control the EFSD+ framework, as the Commission is not a development bank. The successful implementation of the EFSD+ will thus depend on the ability of (and support to) the European Commission to effectively mobilise the specific human resources needed, internally and externally, in synergy with other actors, to ensure quality and timely delivery of the EFSD+.

(iv) The need for independent banking expertise:

Related to the issue of the internal capacity of the Commission is the need to draw on the best available expertise in the banking-related assessment of the proposals to be covered by the EAG, including in terms of risk assessment, which requires strong financial and banking expertise. Hence the need to call on banking expertise outside the European Commission. The EIB, as the EU bank, is well-equipped to perform this task, given its expertise and experience. But the EIB is also a potential beneficiary of the EFSD+/EAG, and thus possibly not neutral enough to manage this process, being perceived as being both ‘judge and party’. Arguably, such perceived conflict of interests could be managed in a structural way, insulating EIB’s own origination of programmes from its risk management services to the EFSD+. Nonetheless, the perception of potential conflict of interest is likely to persist in situations where the EIB would compete with other DFIs/MDBs to get its proposed investment programmes guaranteed under the EFSD+. A further remedy could thus be to rely on the EIB banking expertise to assess only non-EIB proposals under the EFSD+, alleviating some of the perceived conflict of interest.

19 The EFSD guarantee has been fully allocated to 28 investment programmes, with the first guarantee agreement (for the NASIRA Risk-Sharing Facility) was signed between the European Commission and FMO (the Dutch DFI) on 18 December 2018 in Vienna at the High-Level Forum Africa-Europe. For an update, see https://ec.europa.eu/commission/eu-external-investment-plan/external-investment-plan-progress-so-far_en

Alternatives could include:

- calling on a pool of experts from different EU MDBs/DFIs (and not a single DFI alone), in a more structural basis; though the potential conflict of interest could be diluted, it would arguably potentially still present, as DFIs/MDBs would be judge and party; or
- rely on banking consultancy not related to involved MDBs/DFIs.

Expertise on development finance is important though, as the banking-related assessment of EFSD+ proposals should be carried out in conjunction with development impact and market-based assessment, to ensure effective additionality and crowding in (and avoid crowding out) private finance, addressing clear market-failures and not adding market distortions. Such a process should also draw on a proper assessment of the experiences from the EFSD and its G-TAG mechanism, before adopting a new structure for the EFSD+.

(v) An explicit coordination process for EU MDBs/DFIs:

The NDICI Regulation does not foresee any specific mechanism or process to strengthen the coherence, synergy and coordination among the EU MDBs/DFIs and with the EU institutions. The EFSD+ could build on the effective added value and comparative advantage of MDBs/DFIs while stimulating policy and possibly modalities' alignment, as well as stimulating cooperation among them and with EU institutions. This explicit coordination mechanism would be critical also in terms of enhancing the expected development impact of the EFSD+. While such endeavours do not have to be spelt out in the NDICI Regulation, doing so would provide a strong political signal and practical guidance, including in terms of accountability and reporting.

(vi) Lack of specific reporting and monitoring framework for EFSD+:

Besides a generic reporting requirement, the NDICI Regulation does not specify what reporting, monitoring and evaluation principles and framework should be adopted specifically for the EFSD+. This is in contrast to the current EFSD Regulation, which in Article 16 outlines the reporting and accounting requirements. Given the transparency and accountability requirement called for to ensure the effective use of blended finance and guarantee for greater development impact, without distorting markets and competition or crowding out investment, the NDICI Regulation could further build on the current EFSD to more explicitly spell out the basic parameters of such reporting, monitoring and evaluation framework.

While all these governance-related issues could partly be addressed outside the NDICI Regulation, in follow up processes, the uncertainty and incompleteness created by the Commission's proposal, arguably for the sake of flexibility and simplicity, could usefully be addressed in the Regulation itself.

Systemic considerations

More fundamentally, the proposed EFSD+ and EAG aim at contributing to reshape the EU financial architecture for external investment. The ambition is to create a level playing field

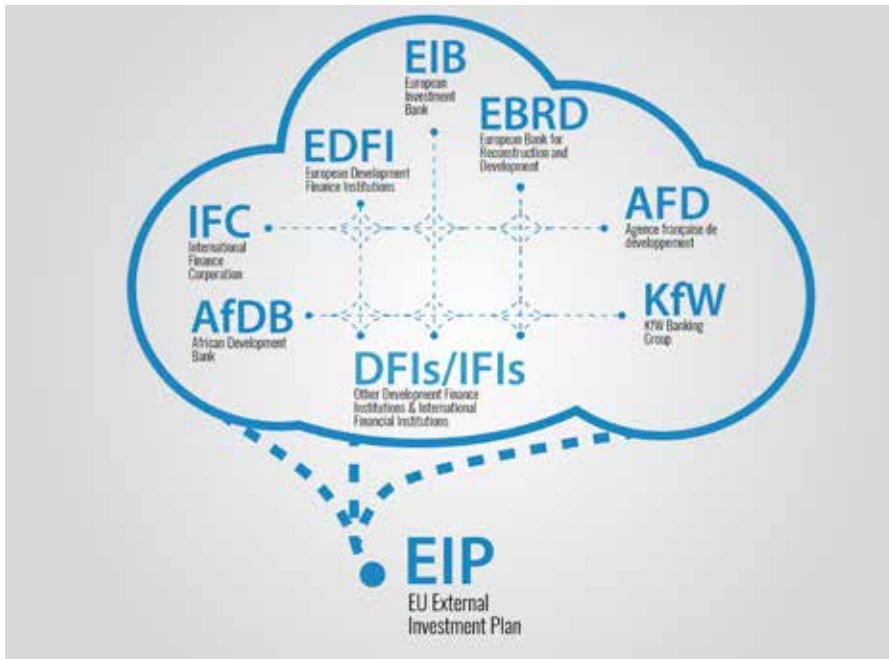
among (European) MDBs and DFIs by opening up the EU guarantees, beyond the EIB only. It is also to provide a stronger political steer to investment finance along EU development, economic and political priorities, in a flexible and responsive manner. To do so, strong power and management responsibilities are assigned to the European Commission, which becomes the steering centre - with the EIP (and proposed EFSD+/EAG) - of a European development finance architecture composed of (primarily European) MDBs and DFIs, as illustrated in Figure 2.

The Commission proposal is therefore not simply a new technical adjustment and marginal innovation to the development finance modalities of the EU, but is part of a more ambitious endeavour towards a systemic revamp of the EU financial architecture for development finance, as discussed by the Commission in its recent Communication Towards a more efficient financial architecture for investment outside the European Union. It is therefore also in this perspective that the Commission proposal for the NDICI Regulation, and the EFSD+/EAG must be assessed.

In considering the systemic implications of the EFSD+/EAG proposal, two issues deserve particular attention:

- the EIB and its contribution as the EU bank to EU development finance;
- the coherence and complementarity of reforms of the EU financial architecture for development finance.

Figure 2: The EIP/EFSD+/EAG steering centre of a constellation of (European) MDBs and DFIs



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What future for EIB operations?

The proposed NDICI Regulation amounts to a major reshaping of the institutional and regulatory framework under which the European Investment Bank will operate post-2020 for its activities outside the EU. This raises two questions: (i) what will be the potential consequences for the EIB? and (ii) will it enhance the overall EU financial ability to promote development investment?

The EIB operations outside the EU benefit from a sovereign risk guarantee by the EU, under the External Lending Mandate (ELM) and in the ACP countries under the ACP-EU Partnership Agreement (Cotonou Agreement), guarantee provided exclusively to the EIB and no other MDBs/DFIs. This sovereign-risks guarantee is essential for the capacity of the EIB to undertake operations outside the EU, as it allows the EIB to undertake activities in riskier countries while preserving its AAA rating and associated low financing costs on the international capital market. Without sovereign risks guarantee, the whole EIB operations outside the EU could be jeopardised.

With the Commission proposal, a unique External Action Guarantee will merge and replace the ELM, as well as the EFSD Guarantee and the EFSD Guarantee Fund. Unlike the ELM, the EAG is not limited to the EIB operations, but open to all eligible counterpart institutions, with a view to create a level playing field for (primarily European) MDBs and DFIs.

While breaking up the 'monopoly' of the EIB on EU guarantees and stimulating competition (as well as cooperation) among MDBs and DFIs is a desirable outcome, a legitimate question for the EU should be to which extent the EIB will be able to continue to benefit from the EU guarantee, which is essential for the EIB to operate outside the EU.

The proposed NDICI Regulation does not provide an answer - and not even a guidance - to this question. It states that "the European Investment Bank should remain a natural partner for the Commission for the implementation of operations under the External Action Guarantee" (para. 33), but it fails to specify how. What will it mean in practice for the EIB to be a natural partner of the Commission?

Concretely, under the NDICI proposal, and in the absence of other guarantee mechanisms such as the ELM, only the EIB operations conducted under the EFSD+ will benefit from the External Action Guarantee.

In parallel, the Cotonou Agreement is also up for renegotiation, creating further uncertainty about the specific role of the EIB in the ACP under this special arrangement. Arguably, sovereign guarantee provisions could still be provided under a post-2020 new ACP/AU-EU Partnership Agreement, exclusively to the EIB or extended to some other MDBs/DFIs. However, at this stage this appears unlikely. First, the EU Negotiating directives for a Partnership Agreement between the European Union and its Member States of the one part, and with countries of the African, Caribbean and Pacific Group of States of the other part (21 June 2018) do not mention any such

possibility; they do not even address the future of the ACP Investment Facility, a revolving fund managed by the EIB.²⁰ Second, it would run against the proposed NDICI logic to provide a unified guarantee mechanism with the External Action Guarantee.

As a result, the current NDICI proposal leaves the EIB in limbo, creating unwarranted uncertainty as to the future of its operations. The lack of clarity (or embodied flexibility) in the Commission proposal only increases this uncertainty. As no guidance is provided on the final structure of the EFSD+ and type of investment windows, it is not possible, under the current proposal, to anticipate how the EIB will best fit this new framework.

If the EFSD+ is structured in a way similar to the current EFSD, with few specific thematic investment windows and call for proposals, this would likely lead to an increased fragmentation and significant diminution of the EIB activities outside the EU. This is because the EIB may no longer be able to provide comprehensive support programmes as for instance with the Economic Resilience Initiative under the External Lending Mandate,²¹ and the ACP Investment Facility under the Cotonou Agreement. If the EFSD+ cannot accommodate medium- to long-term significant engagements of the EIB, this could lead to a loss of operations as well as strategic attention of the EIB for activities outside the EU, significantly reducing its development impact, with the EIB focusing instead its limited human resources and efforts to operations inside the EU.

Unlike other major European bilateral financial institutions such as the Agence française de développement (AFD) and the German KfW, which benefit from their respective national state guarantees, the EIB depends on the EU for sovereign guarantees. European DFIs also benefit de facto from a guarantee from their own national government, which is also their shareholder. In that respect, there is no real level playing field between these institutions and the EIB, as the guarantee for the EIB is provided solely by the EU.

A reduction of EIB operations outside the EU could have a large impact on the EU external financial architecture. First, as shown in Table 2, the EIB is one of the major European financial institutions active outside the EU. But unlike the AFD or the EBRD, most of its investment operations (about 90%) are within the EU. It is also one of the lead European financial institutions when it comes to supporting and leveraging private investment, compared to other European DFIs (see Table A1 and Table A2 in the Annex). Second, the EIB accounts for a third

²⁰ See for instance Bilal and Große-Puppendahl (2016).

²¹ The Economic Resilience Initiative is a €6 billion initiative launched in 2016, aimed at upgrading social and economic infrastructure and stimulating private sector growth and job creation in the Southern Neighbourhood and Western Balkans, which will bring the total commitment of EIB operations to these Neighbourhood regions to €15 billion by 2020.

of ODA from EU institutions (34% in 2016),²² and as such is part of the EU institutions arsenal and capacity to act as a political actor with significant clout on the international development scene.

Recent developments have rather pointed to means for the EIB to do more outside the EU, not less, including to address the root causes of migration. For instance, the ELM for the 2014-2020 period had been increased in 2016 from €27 billion to €32.3 billion; the Impact Financing Envelope of the ACP Investment Facility had been increased by 60% (from €500 million to €800 million) and transformed into a revolving fund; the EIP and the EFSD initiative was meant to enhance the capacity of the EIB to promote more impactful investment outside the EU, not to substitute for its current activities; and the EIB President proposed at the end of 2017 to set up an EIB's subsidiary, the EU Bank for external Investment and Partnership (EUBIP), to more effectively stimulate investment outside the EU.

Table 2: Annual new committed investment in 2017 (€ billion)

	Outside Europe	Share of total for the Group	Group Total
EIB	7.9	10%	78.2
EBRD	6.4	66%	9.7
KfW	8.2	11%	76.5
AFD	8.8	85%	10.4
EDFI	7.1	99%	7.2
TOTAL	38.4	21%	182.0

Source: Compiled from annual financial statements and overviews from these MDBs.

The EFSD+ and EAG could be set up in a way to better accommodate the EIB long-term strategic ambitions to be even more impactful in enhancing investment outside the EU. For instance, a specific share of the EFSD+ operations guaranteed under the EAG up to €60 billion could be devoted to the EIB. Alternatively, the EIB could be allowed to make major proposals, outside specific EFSD+ investment windows (or crossing over several thematic investment windows

²² Taking into account the EBRD in ODA from EU institutions, the share of the EIB would be at 26%. Own calculations from the OECD DAC CRS (OECD Development Assistance Committee's Creditors Reporting System) for the year 2016 (<http://www.oecd.org/development/stats/idsonline.htm>).

and/or over several regional investment platforms), so as to allow for innovative EIB initiatives (e.g. inspired from the Economic Resilience Initiative, or revolving funds like the ACP Investment Facility, possibly with broader geographical coverage). Or the current ELM system could co-exist alongside an EAG, as currently the case with the EFSD Guarantee alongside the ELM. Provisions could also be introduced in the NDICI Regulation to allow for the continuation of the ACP Investment Facility for the 2021-2027 period of the MFF, and its possible replenishment and geographical extension.²³ More generally, the possibility of a loss of guarantee and subsidies for the EIB could also jeopardise the continuity of EIB current operations outside the EU, an issue that also deserves proper consideration.

While the proposed NDICI Regulation does not preclude such tailor-made approaches for the EIB, it does not foresee any, which are left to the appreciation of the European Commission. The Council (with EU member states also being shareholders of the EIB) and the European Parliament, together with the European Commission, could remedy this situation by jointly agreeing, in consultation with the EIB, to concrete provisions relative to the EIB under the NDICI Regulation.

In this context, it is also important to briefly point to the political economy dynamics surrounding the revision of the EU financial architecture. In essence, this has been characterised by increasing tensions between the European Commission and the EIB, with the European Commission seeking to better harness the EIB activities to its policy objectives.²⁴ Recurrent critics are that the EIB tends to be too conservative and risk-averse, focusing more on its investment banking perspective than on development impact objectives.

In this regard, it is important to note that the EIB has no independent power: as the 'EU Bank', it responds to the will and decision of its shareholders, the EU member states. The EIB is thus in principle the most appropriate EU institution to finance external investment in line with

23 As a revolving fund, which is now financially sustainable, additional financing from the EU budget is not necessary, though it could be envisaged to extend the activities of the Facility.

24 Although the EIB operations outside the EU are carried under a mandate from and policy objectives set by the EU, and that the European Commission has a seat in the EIB's Board of Directors (which is responsible for approving all EIB financing operations), it is common for the European Commission to criticise EIB operations outside the EU as not sufficiently development oriented. The European Commission increasingly took back control away from the EIB, as in the case of the Africa Infrastructure Trust Fund which was managed by the EIB before being transformed as the African Investment Facility managed by the European Commission; the setting up of the EFSD to further open up the EU external financial architecture; and now the EFSD+ proposal taking secured EU guarantees away from the EIB; and similarly within the EU, the move away from EFSI to InvestEU under the proposed MFF. No doubt the EUBIP proposal was meant as a response by the EIB to this trend. For an illustration of the public law between the European Commission and the EIB, see deVex articles Chadwick (2018) and Saldinger (2018).

EU policies and interests. Should the EIB need to act differently, and undertake significant improvements in its activities, these can be shaped and guided by the EU member states. The proposal to set up a subsidiary of the EIB as its development arm, currently referred to as the EU Bank for external Investment and Partnership (EUBIP), is another illustration of the EU and its member states' capacity to shape and control the EIB's future activities. As the EU bank, there is institutionally no reason for a divergence of the EIB with EU policy guidance and objectives, and rivalry with the European Commission.

Towards a coherent EU architecture for development finance?

The EFSD+ and EAG are part of a larger endeavour to reshape the EU development finance in the context of the 2030 Agenda and the Addis Ababa Action Agenda on Financing for Development.²⁵ As outlined in the European Commission Communication Towards a more efficient financial architecture for investment outside the European Union (p.1), "Due to the current fragmentation, investment decisions are not always made in full coordination and consultation across institutions and Member States, thereby potentially weakening the EU's ability to pursue its external policy objectives vis-à-vis third countries." The overarching objective of the reforms of the EU external investment should thus be to foster greater coherence and complementarity of the EU actions and financial instruments, at the Union and member state levels. This is also the objective of the June 2018 Franco-German initiative "to set up swiftly a High-level group of "wise persons" on the European Financial architecture for development (especially regarding the respective roles of EIB and EBRD)",²⁶ currently set up by the Council.

The main issue at stake is how the EFSD+ proposal can bring the EU closer to a more effective financial architecture, and whether it opens new avenues or closes some others. This raises issues of sequencing as well as clear identification of the chosen direction.

The European Commission argues in its Communication on the financial architecture that "time is of the essence and that the EU's current focus must be on operational and practical solutions, rather than measures that would require fundamental institutional and structural changes such as the creation of new bodies or entities or mobilising additional capital participation from the EU budget" (p.2). The MFF process clearly offers not only a timely window of opportunity, but also generates the attention and dynamics needed to stimulate reforms. Yet, a comprehensive, coherent approach is needed, as competing models may otherwise have difficulties to co-exist and undermine one another's effectiveness. Strategic choices will have to be made.

This is well illustrated by the issue on the role and place of the EIB in the new architecture, as discussed in the section above. Should there be a new European Development Bank or entity, such as the EIB's proposal for the EUBIP, or a merger or rapprochement between the EIB and

²⁵ See for instance Bilal and Große-Puppendahl (2018b).

²⁶ See Franco-German Council of Ministers (2018).

the EBRD, or even closer structured cooperation among European MDBs/DFIs under specific institutional arrangements, these would have strong bearing on the desirable features of the EFSD+ and an EAG. The effectiveness of the EU external finance architecture will depend not just on the EFSD+, but how the EU set up of different frameworks, mechanisms and/or entity to stimulate development finance for external investment are articulated.

The proposed NDICI Regulation foresees the possibility of using the financial envelope of geographic programmes to contribute to the capital endowment of a development bank. So, the model of a European development bank is clearly compatible with the EFSD+ and the contribution from the EU budget. But the Commission is silent in its NDICI proposal and in its Communication on the articulation and complementarity between the EFSD+ and a European development bank or other development finance frameworks.

Similarly, while the Commission wants to stimulate a collaborative approach among European financial entities, it does not articulate how this could be done. European MDBs/DFIs have their own respective proposals and visions on this, not yet unified, which should be better elaborated, spelt out and articulated in a coherent manner.

The centrality of the European Commission in the NDICI proposal as well as in its vision for the future European financial architecture for development investment would imply a strong delegation of power from EU member states and the European Parliament to the European Commission. Yet, alternative governance modalities could be envisaged, including by building more strongly on development finance entities and alternative financial and guarantee mechanisms and models.

For instance, the EFSD+, like the EFSD, is based on the principle of fixed budgetary allocation, with the foreseen depletion of the allocation from the financial envelope of geographic programmes. Yet, other models exist, such as revolving funds. This is the case for instance of the ACP Investment Facility managed by the EIB, where reflows from successful investments can be reinjected into new development investments, providing for an additional leverage of the initial endowment. An enhanced EFSD+ or complementary mechanism could be conceived as a fully revolving fund, which could then follow on stronger banking approach, with potentially higher leverage or less ODA-intensity, than the more traditional donors-type (blended) finance approach of the current proposal of the EFSD+.

So, while the 2021-2027 MFF process is a good opportunity to start pushing hard for quick reforms of the EU financial architecture (“time is of the essence” indeed to adapt the EU to new international realities), approaches to the EFSD+ could be reconsidered or the proposal could be fine-tuned. If this were the case, several options might be envisaged:

- 1. The proposal for an EFSD+ and EAG as part of the NDICI Regulation could be simply abandoned at this stage.** The advantage might be to get time to elaborate a fully-fledged proposal to be enshrined in an independent EFSD+ Regulation (to replace the current ESFD Regulation) or to develop alternative models building on development finance entities initiatives and synergy, as in the case of a European development bank or similar mechanisms for instance. In this case, it might be desirable to keep the possibility of the participation from the EU budget to the capital endowment of such a new development finance entity. The major disadvantage would be to lose the opportunity of the MFF 2021-2027 process to start effectively reshaping the EU financial architecture, using the potential leverage of the EU budget and guarantees of a more unified approach.
- 2. The NDICI Regulation could foresee the possibility of an EFSD+ and EAG in broad terms only,** but leave most of its details to a future specific EFSD+/EAG Regulation. This would ensure that the NDICI Regulation would not preclude the future adoption of an EFSD+/EAG type of proposal, or the participation from the EU budget to a future European development bank or entity/mechanism. It would buy time to allow proper systemic considerations on the future EU financial architecture and tailor the details in a later Regulation that would complement the EFSD+. The disadvantage would be a potential loss of (political) momentum, the risk that there would be no decision taken in a foreseeable future, and the risk of discontinuity in current approaches under the current EIP and EFSD post-2020.
- 3. More details of the EFSD+ and EAG could be identified,** including to more explicitly provide for synergy with the overall EU financial architecture for external investment, based on the roles of European development finance institutions, the EIB and/or a European development bank. These would not have to be left solely to the initiative of the European Commission, but could be shaped by the views of the EU member states and the European Parliament, on which depends the approval of the NDICI Regulation. The advantage would be to reduce the uncertainty as to the future shape of the EFSD+ by addressing in the NDICI Regulation already some legitimate concerns with a view to improve the coherence and effectiveness of the EU financing for development. This would require a shared vision or at least some consensus on the direction of the future EU financial architecture for external investment. The potential disadvantage is that some of the flexibility of the EFSD+ could be lost, and wrong choices on the specific features of the EFSD+ and EAG might be more difficult to remedy.

As to the MFF 2021-2027 process in general, the issues around the NDICI Regulation, the EFSD+/EAG and the future of the financial architecture for the EU external investment are not simply technical issues, but are also highly political ones, which should be rooted in clear strategic interests and vision. Building on an open and flexible system, the EFSD+ and EAG proposal is an important step in the right direction towards a more effective EU financial architecture. It benefits from the MFF and NDICI momentum, an opportunity which should not be missed. The

EU has an opportunity to show it can innovate in a responsive manner to changing times and increasing challenges. This requires collective efforts, within the EU, but also in partnership with multilateral institutions and initiatives, and most of all partner developing countries. Ensuring that major concerns are addressed in the NDICI Regulation (as suggested in option (c) above) should thus be a priority if the EU is to use in a timely fashion the opportunity of leveraging its next budget for more effective sustainable development finance.

Chapter

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Annex: European Development Finance Institutions**Table A 1: Amounts Mobilised from the Private Sector by the European Official Development Finance Interventions (2012-2015, US\$ million)**

PROVIDER	Credit lines	Direct investment in companies	Guarantees	Shares in CIVs	Syndicated loans	Grand Total
EIB	12857,7		150			13007,7
EBRD		666,4	433,6	683	2704,2	4487,3
European countries						
CDC Group Plc (UK)				3430,5		3430,5
KfW (DE)	1356,3	181,1	30	357,9		1925,3
IFU (DK)		1140,8	2,1	647,6		1790,5
AFD (F)	438,9		1220,4			1659,3
FMO (NL)			90,2		1017,2	1107,3
Proparco (F)	238,8		10,7	726,6	130,7	1106,8
Sida (SE)			894,3			894,3
Norfund (NO)	25,5	344,6		126,3		496,5
SIFEM (CH)		3		223,8	5,5	232,3
Finnfund (FI)		152,5		68,1	2,7	223,3
DFID/DECC (UK)				138,9		138,9
BIO (BE)	54	19,8		3,7	21,1	98,5

PROVIDER	Credit lines	Direct investment in companies	Guarantees	Shares in CIVs	Syndicated loans	Grand Total
Swedfund (SE)		5		48,5	5,2	58,7
DECC (UK)				57,5		57,5
MAEC FONPRODE (ES)				51,2		51,2
DFID (UK)				45,2		45,2
SOFID (PT)		3,9	21,3			25,2
MFA (LU)				13,9		13,9
OeEB (AT)				1,8	1,2	3
Camoës Institute (PT)			0,5			0,5
TOTAL EUROPE	14971,3	2517,2	2853	6624,5	3887,7	30853,7
(as % of total world)	98	54	8	70	25	38

Source: Compiled from Benn, Sangaré and Hos, 2017.

Table A 2: Profile of EDFI member institutions, 2015

	Investments (€, million)			Financial instruments (%)			TA
	Annual commitment	Portfolio	Investment funds	(Quasi) equity	Loans	Guarantees	
BIO (BE)	168	715	200	35	65	0	0,4
BMI-SBI (BE)	8	37	0	99	1	0	0
CDC (UK)	1162	6920	3618	78	16	6	1,4
COFIDES (ES)	165	881	88	44	56	0	0
DEG (DE)	1533	7247	1632	35	65	0	4,1
FINNFUND (FI)	188	719	126	50	50	0	5,4
FMO (NL)	1837	9155	432	42	56	2	6,4
IFU (DK)	147	669	114	64	35	1	0
NORFUND (NO)	357	2078	297	86	13	1	1,0
OeEB (AT)	229	1079	300	30	63	8	1,0
PROPARCO (F)	1129	5656	689	23	75	2	0,8
SIFEM (CH)	73	632	568	82	18	0	0
SIMEST (IT)	154	963	0	73	27	0	0
SOFID (PT)	2	10	0	0	65	35	0
SWEDFUND (SE)	64	465	148	54	46	0	0,4
TOTAL	7216	37224	8212				20,8

Source: Compiled by the author from EDFI, 2016.

Migration and the next EU long-term budget: key choices for external action¹

Anna Knoll and Pauline Veron

With the proposed EU budget from 2021 to 2027, the EU Commission aims to address future challenges and incorporate lessons learned from the past few years. Addressing migration plays a large part in this endeavour. Since 2015, the EU has faced rising numbers of asylum seekers and other irregular migrants. A key response has been to increase funding in support of EU member states (MS) and to address migration situations in third countries. Both internal as well as external funding have come under significant pressure. Available instruments and the level of funding in the existing 2014-2020 budget were inadequate, leading to ad-hoc solutions, reshuffling of funds and the exhaustive use of margins and other flexibility instruments.²

The way migration is integrated in the proposed next Multiannual Financial Framework (MFF), presented by the EU Commission (EC) in May and June 2018, is based on these lessons. Assuring adequate levels of flexible resources for the external dimension³ of the EU's migration policy is one of the priorities for the EC and its member states. It is however also one of the politically sensitive elements in the ongoing negotiations.⁴ Integrating external

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- 1 This chapter originally appeared as: Knoll, A. and Vernon, P. March 2019. Migration and the next EU long-term budget: Key choices for external action. ECDPM Discussion Paper 250. Maastricht: ECDPM. <http://www.ecdpm.org/dp250>
- 2 The budgetary response to the 2015-16 refugee and irregular migration situation resulted in a reconfiguration of the EU funding landscape, including the establishment of new funding solutions and tools, such as Trust Funds, the Facility for Refugees in Turkey or the External Investment Plan, to leverage funding beyond the limits of the budget. Externally, the EU has made available a total of € 6.2 billion to address the 'refugee crisis' in 2015 and 2016 (Knoll and Sherriff 2017: 224). Moreover, the Asylum, Migration and Integration Fund was more than doubled (+123%), funding for decentralised agencies increased by 86% and Emergency Assistance increased by almost 500% (European Commission 2018a: 4). For further reading see den Hertog 2016; Knoll and Sherriff 2017; Rasche 2018.
- 3 The EC proposals for instance increase funds for external action by 13% in the context of migration and instability (Sherriff et al. 2018).
- 4 However it is important to note that at the time of writing, there are other key issues, such as the overall budget headings, the funding for the Neighbourhood or the budgetisation of the European Development Fund (EDF) that have to be resolved and could significantly change the external action instrument landscape, including available funding for migration-related activities.

migration priorities within the next MFF⁵ brings to the fore the divergences among EU member states on how to best address the issue. The stakes are high due to strong interests and the request of MS for the Commission to “deliver adequately on leaders’ priorities in the area of migration” (Council of the European Union 2018a: 6) – yet with little clarity on how these interests interact with partner countries’ development priorities

Within an overall limited budget, negotiated also in the context of Brexit, including certain funding priorities leads to tradeoffs and comes at the cost of other issues. The discussions and position-finding to date have been revolving around the priority given to funding for the external dimension of migration and the scope of activities under each of the relevant instruments.

This chapter will explore the current discussions around the EU Commission MFF proposal specifically concerning the external dimension of the EU’s migration policy⁶ under the proposed funds administered by the Directorate-General for Migration and Home Affairs (DG HOME) and those administered by the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), the Directorate-General for International Cooperation and Development (DG DEVCO) and the European External Action Service (EEAS). It is based on a desk study of positions and available EU documents and research papers relevant to the MFF discussions. The desk work has been complemented by 9 interviews with EU and EU MS officials and Members of the European Parliament. The note will analyse various positions and discuss the issues to be resolved in the way forward. First, we will give an overview over how the external migration dimension features in the proposals by the European Commission and provide a background on the state of play of the MFF process. It will then explore the various issues that will be part of the negotiations and where different points of view exist and where choices will have to be made. These relate to flexibility, delineation and complementarity as well as conditionality, which will be negotiated during the coming months. The note will provide an overview of the different options and risks that are inherent in the decisions to be taken. It will conclude with the message that much is at stake to ensure that the EU will adopt the right balance between long-term strategy and flexibility, as well as coherence and complementarity when it comes to its

5 Based on the EU Council priorities identified amongst at the Summits in Bratislava, Rome or Salzburg during 2016 and 2017.

6 While this short chapter focuses on financing the external dimension of the EU’s migration policy, the issue of migration is not limited to the discussion around activities in third countries. Dissatisfaction of some EU member states about the lack of European internal solidarity in the context of migrant arrivals has already led to attempted hijacking of the overall budget process: Italy’s deputy prime Minister Di Maio for instance, “threatened to veto the EU’s seven-year budget plan if the bloc did not do more to share the burden of migrant arrivals” (Zalan 2018). Questions around migration, in various ways, are thus part of the possible difficult elements in the MFF negotiations. The funding for asylum and migration within the EU is however outside the scope of this paper.

external migration spending. While much will depend on the choices made as part of the MFF, establishing the right mechanisms during the implementation phase will equally be crucial.

Background: The external dimension of migration in current proposals and state of play of negotiations

Reserving more funding to address irregular migration emerged as a clear priority from the 2017 Rome and Bratislava EU Council summits of European Heads of Government. In the early discussions on the next long-term EU budget, suggestions were made for establishing a dedicated financial instrument or funding stream⁷ to address migration and combine internal and external dimensions more closely (see Box 1). While showing a strong political signal, this would entail a larger restructuring between internal and external funds and the institutions linked to their administration. The current Commission proposal does not follow this path but instead views migration as an issue to be mainstreamed throughout different financial instruments internally and externally. The proposal aims to balance the wish of EU member states for strongly prioritising migration in budgetary terms, while ensuring complementarity between different headings and instruments.

Key resources for the **external dimension** of migration feature under three different headings:

- **Heading IV on migration and border management** (2.7% of the overall MFF), which includes the proposals for the Asylum and Migration Fund and the Integrated Border Management Fund;
- **Heading V on security and defence** (2.1% of the overall MFF), which includes the proposal for the Internal Security Fund;
- **Heading VI Neighbourhood and the world** (9.6% of the overall MFF), which notably includes the new Neighbourhood, Development and International Cooperation Instrument (NDICI) in which migration is mainstreamed.

Both Heading IV and Heading V are administered by the Directorate-General for Migration and Home Affairs (DG HOME), while the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), the Directorate-General for International Cooperation and Development (DG DEVCO) and the European External Action Service (EEAS) administer Heading VI.

The remainder of this section provides an overview over the proposed overall increases and flexibility provisions that built on lessons learned in recent years from addressing the migration situation. The last section will further explore the scope of the external migration dimension within these funds and the tradeoffs to be considered.

7 This was mentioned for example in a 2017 letter of the President of the European Council Tusk to EU leaders.

Box 1: Positions on a dedicated fund for migration vs. a mainstreaming approach

Most countries seem to agree with the current proposals in which the external dimension of migration is mainstreamed through the Neighbourhood Development and International Cooperation Instrument (NDICI) (including by drawing on unallocated funds) and is included in DG HOME-administered instruments. Yet, some other EU member states offer alternative approaches (Castillejo et al. 2018). Proponents of a specific migration instrument combining internal and external spending argue that it would show commitment to make the necessary resources available for the EU's priorities and provide a coherent, stable and long-term financing mechanism. The Netherlands and Denmark have voiced a preference for a dedicated migration fund or instrument. Similarly, Belgium initially preferred to have a specific migration instrument or heading (bringing together the internal and the external dimensions), yet with the motivation to protect development spending, as well as to bring coherence between internal and external EU policies. On the contrary, Sweden may not be in favour of an instrument for migration without also establishing separate instruments for human rights or gender equality for instance. (Council of the European Union 2018b: 118; Interviews 2019).

Overview: The European Commission's DG HOME-administered funds

Following the experience of the 'migration crisis', the EC has proposed a **considerable increase in overall resources for migration, border management (Heading IV) and security (Heading V)** in the next financial period. Under all these funds spending for migration externally is possible – yet the scope and level is to be defined as further explained in the last Section.

The proposed overall amount for Heading IV is €34.9 billion,⁸ compared to €13 billion for the period 2014-2020. This is a response to “increased migratory, mobility and security challenges, with more flexible funding instruments to address unforeseen migratory events and border protection” (European Commission 2018b). It includes two components with dedicated instruments:

- **A comprehensive approach to managing migration** (“supporting a robust, realistic and fair policy” (European Commission 2018b)), with the **Asylum and Migration Fund (AMF)**, which is allocated €10.4 billion. As a comparison, the previous Asylum, Migration and Integration Fund was allocated €3.1 billion. From the proposed AMF, each Member

8 All the figures in this chapter are in current prices.

State will receive a fixed sum of €5 million with the remainder distributed based on an assessment of the pressures faced and taking into account proportions in the area of asylum (30%), legal migration and integration (30%) and countering irregular migration and return (40%) (European Commission 2018b) – however, no specific justification is provided for the higher weighting for 'countering irregular migration' priority (Westerby 2018: 9).⁹ Some feel that the current allocation rules may create incentives to enforce return decisions to the detriment of actions in the field of asylum, legal migration and integration (Westerby 2018).

- **Strengthening the management of external borders (€21.3 billion)**, with the **Integrated Border Management Fund (IBMF)** allocated €9.3 billion and covering border management, visas and customs control equipment. As a comparison, for the period 2014-2020, the Internal Security Fund was allocated €3.8 billion, of which €2.8 billion went to its Borders and Visas instrument. In addition, the European Border and Coast Guard Agency (FRONTEX) and EU-LISA are strengthened and allocated a proposed €12 billion. The Commission envisages creating a standing corps of around 10,000 border guards by the end of the financial period.¹⁰ Border management, and especially the European Border and Coast Guard, are clearly the winners in this proposal, having the single biggest increase in funding. Moreover, the agency is envisaged to receive a wider mandate with scope for action in third countries beyond the Neighbourhood. The Council agreed its negotiating position on a regulation on the European Border and Coast Guard on 20 February 2019.
- The **Internal Security Fund (ISF)**, as part of Heading V, supports police and judicial cooperation against and amongst other the exploitation of illegal immigration. The EU Commission proposed to more than double the amount compared to the current ISF, from €1.18 billion to €2.5 billion.

Flexibility is built into the structure of the home affairs funds.¹¹ Each of three funds [AMF, IBMF, ISF] is composed of national programmes – financing which is allocated to actions planned by EU member states¹² – as well as a thematic facility, which is meant to provide flexible funding in urgent cases, either to support national programs but also to finance third countries and

9 It was however noted in our interviews that a bilateral programming exercise will determine where the funding goes, and member states do not necessarily have to spend 40% of the resources on returns for instance (Interviews 2019).

10 There is currently a pool of 1,500 national border guards activated for rapid border interventions. One interviewee however noted that the number of border guards proposed is very ambitious and unlikely to be reached, because of a lack of human resources in member states. Yet for some member states it is politically very important to live up to expectations (Interviews 2019).

11 The last section analyses flexibility more in depth.

12 This is partly allocated upfront and partly after a mid-term review taking into account needs and pressures.

other entities directly (both shared and direct management are possible under the thematic facility). The European Commission proposal allocates 60% to national programmes and 40% to the thematic facility – increasing available emergency funding as compared to the current budgetary framework. The external dimension of migration can be covered under both the national programmes and the thematic facility. The proposed AMF for example allows for third countries to be direct beneficiaries of Member State national programmes.

Overview: Migration in the EU's external financing for the Neighbourhood and the world

The Commission proposes to increase the overall funding for external action to €123 billion. The newly proposed NDICI (allocated €89.2 billion)¹³ follows a **strategy of mainstreaming migration** throughout the instrument's pillars. The proposal also sets a **horizontal spending target of 10%** “dedicated to addressing the root causes of irregular migration and forced displacement and to supporting migration management and governance including the protection of refugees and migrants' rights within the objectives of this Regulation.” (European Commission 2018: 22).

Migration is mainstreamed in the following way:

- ‘Mobility and migration management’ is one of the priorities of the major **geographic pillar**¹⁴ and will likely influence allocations geographically. The impact assessment accompanying the proposal states that “on migration, while numerous instruments and ad hoc tools, such [as] the creation of the EU emergency trust funds for Africa have helped the EU support this issue, the broad instrument would go further by ensuring full geographic coverage of support.” (European Commission 2018c: 19)
- ‘Migration and forced displacement’ is one of the global challenges addressed in the **thematic pillar**.¹⁵

Flexibility is also built into the structure of the NDICI through:

- The **rapid-response pillar** (€4 billion) is designed to “mobilise short-term assistance in a swift and effective manner - for example to react to critical situations of refugee waves in conflict-ridden areas or of migrant influx” (European Commission 2018d: 5).
- The **emerging challenges and priorities cushion** (€10.2 billion which represents about 11% of the instrument (Jones et al. 2018a: 5)), which is unallocated money designed to “enable

13 For a comprehensive analysis of the proposed NDICI overall (including an overview of proposed allocations), see Jones et al. 2018a.

14 The geographic pillar has a proposed allocation of €68 billion.

15 The thematic pillar overall has a proposed allocation of €7 billion. According to one interviewee, it is difficult to programme migration-related projects at the global level. Given that migration governance needs to be tailored to the national context, it seems more important to mainstream it through the geographic windows (Interview 2019).

the EU to react swiftly to emerging challenges, for example those linked to migratory pressures” (European Commission 2018d: 6), while leaving flexibility also to address unforeseen events, stability needs and new international initiatives and priorities.

Migration also features strongly in the proposal for a **new Instrument for Pre-Accession Assistance (IPA III)**. Indeed, it is one of the key challenges that are taken on board more visibly in the proposal and improving migration management, including border management, is one of the specific objectives of IPA III. The proposal also mentions that a share of the total budget (e.g. 10%) could be kept unallocated to cater for unforeseen needs (e.g. migration).

There is no clear definition of what counts as migration-related spending¹⁶ (e.g. under the 10% proposed earmarking) beyond the vague notion of addressing ‘root causes’ of irregular migration and forced displacement. Because of this and the fact that migration-related programmes are mainstreamed in various budget lines, it is difficult to compare how much more focus the proposal gives to migration in monetary terms compared to the current budgetary cycle.

However, with this caveat in mind, a comparison of the existing dedicated budget lines and funds targeting migration with the proposed future budget shows that a **considerable increase in dedicated funding for migration under the NDICI is possible**.¹⁷

Dedicated funding for migration in the NDICI could amount to €23.1 billion:

- The 10% spending target represents €8.9 billion in the current proposal. This amount reserved for tackling the root causes of irregular migration and forced displacement however depends on whether the 10% target is a minimum or a maximum. If the former, it could be higher.
- In a scenario in which the rapid-response pillar and the ‘emerging challenges and priorities cushion’ would entirely be used for ‘migratory pressures’, the overall available funding would add up to €14.2 billion. This however depends on the governance arrangements made for this flexible funding.

By comparison, in the current MFF 2014-2020, specifically large dedicated funds and budget lines for addressing migration externally were approximately €8.6 billion:

- The thematic line ‘Migration and asylum’ as part of the Global Public Goods and Challenges programme of the Development Cooperation Instrument for 2014-2020 was allocated €703 million (European Commission 2018l: 78).

¹⁶ The recently introduced OECD-DAC code for migration governance remedies this to some extent.

¹⁷ This is an imperfect and rough comparison as the geographic instruments are not taken into account and because possible dedicated spending in the NDICI depends on choices still to be made in the programming phase. Yet, it does show the increase of emphasis on dedicated migration spending.

- Resources allocated to the EU Trust Fund for Africa (EUTF) from the European Development Fund (EDF) and EU financial instruments amount to 3.7 billion (European Commission 2019a). They largely came from tapping into flexibility provisions and unallocated resources.
- As of March 2019, the EU Commission noted it had mobilised over €4.2 billion in non-humanitarian aid for the Syrian crisis, which largely addressed refugee situations and thus migration dynamics (European External Action Service 2019: 6).

If one assumes that in addition migration has been mainstreamed in the geographic funds (11th European Development Fund with €30.5 bn and the current European Neighbourhood Instrument with €15.4bn under the current budgetary cycle) with also 10%,¹⁸ it adds approximately another 3.5 billion and 1.5 billion respectively.

However, **much still depends on the negotiations and choices made on the scope and level of overall funding.** Box 2 highlights the state of and way forward for the negotiations in relation to migration. The following section will analyse what is at stake.

Box 2: State of play of the MFF negotiations on migration as of mid-March 2019

The various Commission proposals relevant for migration are discussed in the Ad Hoc Working Party on the NDICI, the Ad hoc Working Party on Justice and Home Affairs (JHA) Financial Instruments and the Ad Hoc Working Party on the MFF. These bodies are composed of experts from each member state and chaired by the EU Presidency of the Council (Romania for the first half of 2019, Finland for the second half), examining the Commission proposals. After examination, the proposals will be forwarded to the Foreign Affairs Council, the JHA Council and the General Affairs Council respectively. At the time of writing, discussions on external migration dimensions as part of the internal instruments (JHA) were more advanced than discussions on migration in external action (NDICI) (Interviews 2019).

The Council Working Groups discuss details of the proposed regulations for the different funds under Heading IV, V and VI - yet more political or sensitive issues where divergences exist or have implications for other budget areas are discussed as part of the Negotiating Box. This Negotiation Box “brings together those elements which are most likely to require political guidance from the EU leaders with a view to the Council reaching its position. It is a tool for structuring and facilitating the negotiations on the overall MFF” (Council of the European Union 2019), which is updated as negotiations progress.

¹⁸ This is not an empirical share and is just used as comparison to the 10% target proposed in the new external action fund, the NDICI.

Next to the overall amounts for each heading, instrument, flexibility instrument and ratios for margins, the Negotiating Box includes questions related to a dedicated external migration component for Heading IV and Heading V. At the time of writing, the overall amounts were not yet discussed. Technical discussions thus take place in the context of an overall uncertainty of the level of available funding.

The General Affairs Council on 19 February 2019 agreed that “[t]he shared objective is to provide the June European Council with a streamlined draft Negotiating Box, with a view to achieving an agreement in the European Council in autumn 2019.” (Council of the European Union 2019). The Council is planning to reach a ‘partial general approach’ in June (Interviews 2019). On the European Parliament (EP) side, the European Parliament’s Committee on Foreign Affairs (AFET) and European Parliament’s Committee on Development (DEVE) voted on their joint report on the NDICI on 4 March 2019, while the LIBE committee voted on its reports on the AMF and the instrument for financial support for border management and visa (as part of the IBMF) on 19 February 2019. The trilogue (negotiations between the EP, the Commission and the Council) will only start after the EP elections in May 2019.

Negotiating the external dimension of migration - key issues and tradeoffs

This section explores the various issues related to the external dimension of migration on which different point of views exist and which will have to be resolved during the negotiations: complementarity and coherence between internal and external funds; increased flexibility and governance, predictability and strategic direction; conditionality and incentives. All of these issues raise concerns related to the development focus of the EU’s external action and to the **balance between the EU’s short-term interests and an overarching longer-term strategy regarding the external dimension on migration** that the next MFF will strike. They very much depend on crucial decisions related to the overall architecture, the amounts of money involved, the level of earmarking as well as governance which will be taken in the next few months.

Complementarity and coherence

With a **possible substantial increase in the overall proposed resources for external action on migration**, questions about complementarity, overlaps and gaps as well as division of labour between Heading IV and Heading VI emerged. Especially because there remains room for interpretation in the delineation of the scope of activities in each.

The size and scope of the external dimension of migration in home affairs’ instruments

Financing the external dimension as part of the instruments administered by DG HOME (e.g. on legal migration, pre-departure, return etc.) is not new. Experiences in the past budget cycle have however shown that a number of funding gaps for “accompanying measures in third countries which support the Union’s efforts to protect its borders and enhance sustainable returns” existed (European Commission 2018e: 17). Specifically in the areas of border protection, pre-integration, return and reintegration as well as protection systems in third countries, not all support actions could be covered by the existing funding instruments, which were limited in size and scope. At the same time external instruments were not always prepared to cover these either.¹⁹ One of the lessons agreed by stakeholders during EC consultations on the EU’s internal funds was thus the “need for a wider scope of action for EU funding, including as regards its external dimension” as part of the home affairs funds (European Commission 2018f: 11).

With the current negotiations on an expanded role of the European Border and Coast Guard (Frontex), it is likely that international engagement and cooperation with third countries on return and migration management increases. Beyond this, the EU Commission proposal includes the **possibility for spending DG HOME funds in third countries** (and **expands the scope** to do so), yet does not put a specific figure on it. This seemed not sufficient for some EU member states which want to ensure the availability of dedicated funding as part of the home affairs instrument in order to stem irregular migration to the EU. Accordingly, the EU Council concluded that the internal funds should “include **dedicated, significant components for external migration management**” (European Council 2018).²⁰ This wording was included in the MFF Negotiating Box in autumn 2018, but it is still bracketed and has not been allocated a specific share (Council of the European Union 2018c: 38-39). The specific earmarking and the possible links to policy concepts for external migration management championed by some politicians²¹ are part of political signalling that money is being put behind certain priorities.

Most EU member states are generally not against earmarking a specific share for external action. The discussion for such earmarking focuses on the thematic facilities part of each instrument

19 This had several reasons. Partly this was due to geographic restrictions (e.g. the EUTF for Africa only covers the main origin and transit countries in Africa), partly this was due to the requirement for implementers of EU funds to undergo a prior pillar assessment, which entities working on issues relevant to the DG Home agenda did not necessarily have (e.g. in the area of return) (European Commission 2018e: 17). Moreover, external action instruments are meant to largely focus on sustainable development aspects.

20 “In the context of the next Multiannual Financial Framework, the European Council underlines the need for flexible instruments, allowing for fast disbursement, to combat illegal migration.” (European Council 2018).

21 Austria, under its EU presidency in 2018, suggested to include in the text related to possible actions of the instruments, specific references to policy concepts such as ‘disembarkation platforms’ in third countries (Council of the European Union 2018d: 5) – a concept strongly promoted by Chancellor Kurtz in the second half of 2018.

as this would provide enough flexibility to channel funds either as emergency assistance, Union actions or through national programmes top-up.²² This could also ensure that the flexible funds allocated by the EC are to some extent defined ex-ante, which may defeat the purpose of the flexibility provision. It is thus not an approach favoured by the EC (Interviews 2019). For EU member states, it could however mean a possibility to use parts of their national programmes for the external dimension and ensure that the thematic facility does the same. Yet there is no final agreement among member states where such earmarking should be placed (Council of the European Union 2018e: 4). Moreover, in the context of a limited budget, any specific earmarking will lead to tradeoffs with important internal actions in the area of asylum and migration. The LIBE committee of the European Parliament in its draft reports on the AMF and the instrument for financial support for border management and visa (as part of the Integrated Border Management Fund) adopted on 19 February 2019, thus recommended to cap the external dimension of these funds (5% for the AMF and 2% for IBMF), with the understanding that the primary focus of these funds should be actions within the Union.²³

The proposed regulations introduce some modifications compared to what DG HOME was able to fund in the current budget cycle. The EU Commission and EEAS however stress that funding administered by DG HOME externally concerns only the **immediate “extension of the internal policy”** (Interviews 2019): “In relation to the external dimension, the [Asylum and Migration] Fund should target support to enhance cooperation with third countries and to reinforce key aspects of migration management in areas of interest to the Union’s migration policy” (European Commission 2018f: 5). The NDICI remains the main instrument for external action on migration. Next to already existing possibilities for external spending (see Figure 1), two **new possibilities** for actions are included: (i) the development of mobility schemes to the EU in the area of legal migration and (ii) a possibility of providing incentives and support to (and in) third countries to accept and reintegrate returnees from the EU in the area of return (European Commission 2018f: 48). Overall, stronger focus is put on return and reintegration compared to the previous cycle (Interviews, 2019).

The AMF furthermore provides the possibility for **third countries to be direct beneficiaries** of EU member states national programmes (Westerby 2018: 14). For some EU member states, the new possibility to provide incentives to third countries to accept and reintegrate returnees, and resource infrastructure, equipment and 'other measures' in third countries to counter irregular

22 The national programmes of EU MS could of course in addition use their allocated funds for actions with an external dimension, e.g. for migration management and incentives to third countries in the area of return and reintegration.

23 In this context, MEPs note that “it is essential to limit cooperation with third countries under this Fund [AMF] to the domain of internal affairs and specifically to legal migration, return and readmission; avoiding to destabilize third countries with a narrow approach based on EU interests and priorities on migration management.” (European Parliament 2018).

migration (including policy ideas such as the discussed ‘disembarkation platforms’), seems particularly important.²⁴ As per the regulations, AMF-funded actions in this area will have to be coherent with external actions and the underlying principles and objectives of the EU’s foreign policy. Yet, the scope is not further defined and how coherence will be established in practice (both in shared management and Union actions) will have to be clarified. As partner countries where EU member states have migration-related interests include those with mixed human rights track records, it would be important to clarify management arrangements and transparency provisions to ensure that policy coherence with the EU’s foreign and development policy in these countries is upheld. The scope for both the Integrated Border Management Fund as well as the Internal Security Fund remains as it currently is (see Figure 1). The proposed regulation for the **Integrated Border Management Fund** states that “in relation to the external dimension, the instrument for border management and visa will target support to enhance cooperation with third countries and to reinforce key aspects of their border surveillance and border management capabilities in areas of interest to the Union’s migration policy and Union’s security objectives” (European Commission 2018h: 6).

Figure 1: Existing and new elements under proposed Heading IV instruments (external action on migration)

AMF		
Resettlement		
Capacity building to support migration management and protection		
Pre-departure measures for third-country nationals		
Return, Readmission and Reintegration		
	IBMF	
Actions preventing irregular migration (information campaigns, tracking of flows etc.)	Sharing of information and best practices with third countries	ISF
Mobility schemes/legal migration	Improve operational cooperation (incl. through joint operations)	Cooperation with third countries on anti-terrorism and anti-radicalisation
Incentives for accepting and reintegrating returnees	Capacity building of third countries to protect borders (training/purchase of equipment/operational necessities)	Cooperation of law enforcement authorities in fight against terrorism, smuggling and trafficking (joint investigation teams)

Source: ECDPM based on European Commission proposal for AMF, IBMF and ISF; new elements in bold.

24 EU member states will need to consult with the European Commission prior to associating third countries

Identifying the scope of the external action on migration in the NDICI

The proposed NDICI, as main external action instrument (including on migration), would fund actions “addressing the root causes of irregular migration and forced displacement and supporting migration management and governance including the protection of refugees and migrants’ rights” (European Commission 2018g: 22). It would be able to support cooperation with third countries on migration management and security, thus contributing to the implementation of the EU Partnership Framework on Migration (see European Commission 2016).

The scope of the external action on migration in the NDICI will depend on crucial choices made in the negotiations. First of all, while the current proposal for the NDICI regulation sets a **horizontal spending target of 10%** for migration-related activities, which, as noted above, could be a significant portion, it **remains to be determined whether this is a minimum or a maximum target**. If it is a minimum target, it prioritises migration over other aspects and may work against flexibility and a needs-based allocation. Nevertheless, some EU member states would like to increase this percentage to reach up to 20 or 30% (Interviews 2019).²⁵

Another important question to be resolved in the negotiations is **what type of activities the 10% spending target to tackle the ‘root causes’²⁶ will entail** – also vis-a-vis those in Heading IV. While some member states want a clear definition of what the 10% will cover before discussing the target, others point to the fact that from a negotiation point of view, it might be easier to reach an agreement with more vagueness on what it entails.²⁷

Currently there is “variety in terms of the types of responses to migration that MS would like to see incorporated in the NDICI. Italy, Germany and Finland stress a long-term focus on ‘root causes’ and a

25 The joint report of the EP AFET and DEVE committees on the NDICI however sets the 10% target as a maximum.

26 The current wording of ‘root causes of irregular migration and forced displacement’ is carefully chosen. It ensures that there is no funding for general actions against migration per se. The reduction of migration is not supported from a development or human rights point of view. This wording is however not accepted by all EU member states, especially those who view any type of migration as negative. Member states’ positions overall are very polarized at the moment (in favour or against migration). Some member states have successfully pushed for stronger language on ‘root causes’, stemming (irregular) migration or conditionality into the text of the MFF in many areas - as has been the case in other EU documents and agreements with third parties. One interviewee noted that this pressure for stronger language tends to be increasingly accepted by other member states, while another pointed out that it is not so much about having migration in or out per se, but about using the right words when talking about migration (‘irregular’, ‘forced’...).

27 Given that the European Consensus on Development, the EU Partnership Framework for Migration (European Commission 2016) and various other EU Council documents note that development cooperation should address the root causes of irregular migration and displacement, it may be difficult to remove this notion from the 10% allocation.

strengthening of relationships with countries of origin and transit. [...] Spain stresses the importance of equal partnership and development orientation in migration programming.” (Castillejo et al. 2018: 7). France seems to have argued for restricting the 10% earmarked migration funding under the NDICI to domains 2, 3, 4 and 5 of the Joint Valletta Action Plan²⁸ focusing on activities related to legal migration and mobility; protection and asylum; prevention of and fight against irregular migration, migrant smuggling and trafficking in human beings; return, readmission and reintegration (Interviews 2019). This would be a more narrow interpretation focused on migration governance than the wider area of addressing root causes. Following this interpretation, it could mean that 10% of the instrument (almost €9 billion, with the current proposal) could be available for migration-related projects that are potentially overlapping with Heading IV. As a comparison, domains 2, 3, 4 and 5 of the Joint Valletta Action Plan had received €5.3 billion as of October 2018 (JVAP database 2018). This is thus a very strong increase for such projects (given that the current €5.3 billion are already part of the strong raise in funding for migration). On the other hand, it would provide a clearer concept of what should be funded through the earmarked target. Another question is whether the earmarked funding will fulfill OECD-DAC criteria on migration (see Box 3).

Chapter

8

In case the notion of ‘root causes’ continues to prevail, the **absence of a clear definition** means that monitoring and evaluation of effectiveness in the area of migration will be very difficult (Keijzer 2018). It is **not clear what type of projects would count as addressing ‘root causes’** and thus fall under the 10% in the current proposal – given that arguably most of the instruments’ activities to foster sustainable development could be connected to a ‘root cause’ argument. An emerging delineation²⁹ in EC circles is to ask whether a thematic project (e.g. private sector development) would be there if it was not for migration-related objectives. If it would not happen other than for migration, it could fall under the possible target of addressing root causes of irregular migration.

A similar private sector support project in a different context where no migration interests prevail would not fall under it (Interviews 2019).³⁰

28 The Valletta Action Plan in November 2015 identified five priority domains (or ‘pillars’) – the first one being “development benefits of migration and addressing root causes of irregular migration and forced displacement”(Valletta summit 2015).

29 As part of the considerations in the EU Commission to find a practical definition.

30 Concerning tracking such spending on ‘root causes’, the OECD DAC has been deliberating the introduction of a policy marker for projects that address the ‘root causes’ similar to the gender equality marker. As of 2019 it is however not included in the list of policy markers. If introduced, it could be used for monitoring and reporting on migration-related spending beyond the existing purpose code focusing on migration governance projects.

There is a tradeoff between what some see as ‘constructive ambiguity’ in the definition that provides flexibility to respond to EU priorities on migration, on the one hand,³¹ and wording that would push sizeable components of the NDICI to become less focused on sustainable development aspects of migration, on the other hand. Overall, the amendments of the co-rapporteurs and shadow rapporteurs of the EU Parliament attempted to make the contribution of migration to development more prominent in the regulation and in line with the Sustainable Development Goals (SDGs) (although the European People’s Party, who reportedly found the NDICI text too ‘developmental’, had very different views from the Socialists and Democrats and the Liberals and Democrats) (Interviews 2019).

Box 3: Which influence for the 92% ‘DAC-ability rule’?

The NDICI will to a large extent have to follow the rules of the Organisation for Economic Cooperation and Development’s Development Assistance Committee (OECD-DAC) to determine what activities are eligible as official development assistance (ODA). According to the EC proposal, 92% of the NDICI should be spent on activities that fall under the OECD-DAC ODA definition. The fact that the 92% rule features in an article (article 3) makes it legally binding. Some EU member states view this as a positive political commitment. The European Parliament, however, would like to see this requirement increased to 95% of the NDICI.

The EU finances a number of activities through its external action instruments that are not classified as ODA. For the next budget cycle, the remaining 8% (or 5% if EP proposal is followed) still represent a considerable amount of money available for activities primarily based on EU interests – outside the scope of actions supporting sustainable development as per the OECD-DAC definition. Some activities on migration that emerge predominantly from the EU’s own migration interests and do not fit the DAC criteria could fall under these 8%. At the same time, since the 2017 reporting period, a specific OECD-DAC code has been introduced for migration governance.³² This means that activities supporting well-managed migration governance are seen as contributing to sustainable development in line with the migration-related targets of the Sustainable Development Goals. The following activities can thus be reported as ODA and are in line with the 92% requirement:

- capacity building in migration and mobility policy, analysis, planning and management,
- measures to improve migrant labour recruitment systems in developing countries,
- capacity building for strategy and policy development as well as legal and judicial development (including border management) in developing countries,

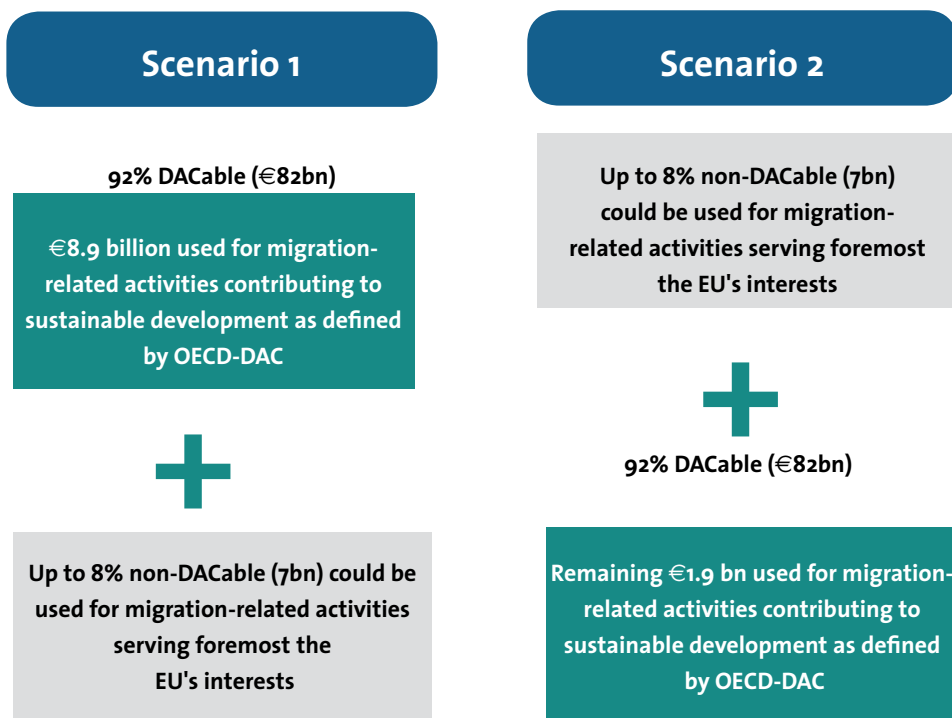
31 Depending on the choices made for migration spending in the NDICI and Heading VI, there is a concern that certain actions on migration, border management and security could not be covered and rapid action may be compromised if Heading IV cannot fill gaps.

32 The OECD-DAC established a purpose code 15190 to track donors’ assistance to developing countries that facilitates the orderly, safe, regular and responsible migration and mobility of people.

- support to effective strategies to ensure international protection and the right to asylum,
- support to effective strategies to ensure access to justice and assistance for displaced persons,
- assistance to migrants for their safe, dignified, informed and voluntary return to their country of origin (covering only returns from another developing country, excluding forced migration), assistance to migrants for sustainable reintegration.

Moreover, a number of other OECD-DAC codes exist, that can be used for other specific migration-related activities, such as support to authorities for immigration affairs, remittances, humanitarian assistance to refugees and internally displaced people (IDPs) etc. Activities that may fall under ‘root causes of irregular migration and forced displacement’ would be put under relevant thematic codes. While activities that pursue first and foremost providers’ own migration related interests are excluded from ODA, the distinction is not always clear cut.

Figure 2: How to use the €8.9 billion (10%) dedicated to addressing the root causes of irregular migration and forced displacement?



Source: ECDPM based on the premise that the amount allocated to the NDICI is indeed €89.2 billion.

There are several options for how the possible definitional scope of the 10% migration-related spending under the NDICI interacts with the 92% rule. These depend on different choices concerning what counts as migration-related spending under the NDICI.

Figure 2 shows a summary of two possible extreme scenarios.³³

- Under the first scenario, the scope of the 10% target for migration in the NDICI would be limited to activities that would fall under the OECD-DAC rule and would thus be within the 92% requirement. This scenario does however not exclude that 8% of non-DACable funds are also available and possibly used for migration-related activities serving EU interests. This would mean that a considerable amount is available for migration-related activities and overall spending on migration in the NDICI could be more than 10%.
- In scenario 2, the scope would entail any migration-related projects, including both development-oriented ones (fulfilling OECD-DAC criteria) and projects solely related to EU interests. In the presented scenario the EU would make full use of the 8% non-DACable spending for migration related projects³⁴ and thus the contribution of the NDICI to respond to developing partners' development priorities in the area of migration would be limited (€1.9bn if the 10% are a maximum target).

The presented options are extremes but they illustrate that the choice of definition matters for how much funding is available for the external migration dimension under the NDICI. In addition, the proposed IPA III, worth €14.5 billion, does not have to follow the DAC-ability rule, but can also fund activities related to migration management (e.g. border management).

Defining the relationship between internal and external funds in addressing migration in third countries

Given the presence of the external dimension in several instruments, there is a **need to strive for “complementarity between the different actions that support different aspects of migration policies”** as well as to avoid overlaps (Council of the European Union 2018e: 4). Many EU member states have voiced concerns and demand a **further specification of the scope and delineation and linkages of the various funds** concerned with external migration management. As part of the discussions in both Heading IV and Heading VI, a working group has met to further discuss the delineation between internal and external instruments. However, one interviewees stated that many issues remain open: *“The EU Council is clear on the fact that it wants more money for the external dimension, but the where, how and which instruments are still left open”* (Interview 2019).

33 These are showing the extremes and making full use of possibilities for migration spending - in-betweens are of course possible.

34 This in theory is possible but may be unlikely as some of the activities in the area of peace and security are also likely to fall outside the scope of the OECD-DAC criteria.

Complementarity and policy coherence can be supported by:

- establishing dividing lines and **delineation** between different funds and
- establishing effective **coordination and consultation mechanisms** as part of the working arrangements between the actors involved (DG DEVCO, DG HOME, EEAS and DG NEAR) to ensure that there are no overlaps or gaps.

Delineation: A possible delineation can concern the motivation of action and its objective, the timespan, and the type of activities.³⁵

The **delineation in terms of objectives** as understood in the current proposal is that whatever is immediately emerging from the EU internal policies (asylum, return, border protection) that needs to be financed externally would be financed by DG HOME. Beyond this, activities linked to partner priorities or with longer-term aspects are financed by the NDICI. The EU Commission and EEAS have maintained that the main instrument for financing the external dimension of migration remains the NDICI (Interview, 2019). The NDICI, which is still to a large extent a development instrument (although, as noted above, it has a sizeable component for non-ODA expenditure – see Box 3), follows a different logic and would be more detached from immediate priorities emerging from the DG HOME agenda. The Asylum and Migration Fund on the other hand, “is not intended to support actions which are development oriented but to complement, when appropriate, the financial assistance provided through the external Instruments” (European Commission 2018e: 30). For instance, DG HOME’s support to member states on return and reintegration can be useful to fill a gap when the International Organisation for Migration does not intervene or external instruments are not ready to do so.

Independent of the motivation or underlying objective, this can still lead to overlaps in the **type of activities** that are fundable: In the Commission’s proposal, the external instruments (not only the proposed NDICI but also IPA III) are expected to cover a range of actions including biometric databases (instrumental for readmission agreements but also vital for sustainable development objectives) as well as capacity-building of police and border authorities (which could be a priority of partner countries also) (European Commission 2018k: 9). These could also fall in the realm of the immediate external projection of the EU’s asylum and migration policies. Clearly demarcating the types of activities seems impractical given the amount of possible support in this area, which could come both from an internal migration as well as a sustainable development interest. In practice and in terms of the type of activities there is thus overlap, yet the NDICI may be restricted in terms of modalities and which type of actors can be supported.

³⁵ The mid-term evaluation of the AMIF notes that coherence and complementarity was established through difference in points at which [Funds] intervene, or the different angles taken relative to the implemented activities – short-term, medium- and long-term support, reception phase or long-term integration (European Commission 2018j: 46).

A third delineation could be temporal in a number of areas. For instance activities on return and reintegration can be financed as an immediate priority emerging from the DG HOME agenda, while longer-term and more systemic aspects of reintegration support could be financed by the NDICI in a complementary way. The NDICI could in such cases provide continuity for certain activities (Interview, 2019).

Because of the complexities and the possibility to look at similar migration-related aspects and activities from different angles (type of action, objective of the action, context of the action), **finding a clear-cut delineation that avoids the emergence of overlaps is a dilemma.** Clarity and precision in the definitions also means losing flexibility. In the current setup of interest constellations, the risk of emerging gaps between the fund seems lower than the challenge of avoiding overlaps, which could run counter to lessons of good donorship. In countries where the EU and its member states have a strong migration-related interest, e.g. in the Neighbourhood, the challenge of ensuring complementarity seems larger than where this interest is lower. In most developing countries, where DG DEVCO is in the lead, a delineation between activities financed by the different funds may be easier than in those where DG NEAR is in the lead (Interviews 2019).

Complementarity through coordination and consultation in practice? Since different funds can in principle fund similar activities and, according to some member states, also support the same objectives in relation to migration, there is an **increased need for coordination between interventions under the various instruments to ensure complementarity** and avoid overlaps in practice (Council of the European Union 2018e: 4). This is essentially a **governance issue** and concerns various levels (e.g. the coordination between the relevant EU Council Working Groups, management of funds between DG HOME, DG DEVCO, DG NEAR, EEAS and good communication between EU Delegations and headquarters).

Some member states are reportedly in favour of having a horizontal discussion on the external dimension of all relevant funds (internal and external) during the MFF negotiations in order to clarify some of the above questions together. This seems however unlikely. Others propose setting up specific EU Council working groups to ensure coordination during the implementation of the next MFF (Interviews 2019). The Ad Hoc Working Party on JHA Financial Instruments discussed the possibility of establishing a body that would have the overview of the different possibilities of funding on the external migration dimension and which would coordinate actions. The setup of a specific governance structure could also ensure more visibility, transparency, better communication and involvement of EU member states (Council of the European Union 2018e: 4). Other suggested options include carrying out regular thematic meetings of the NDICI Committee on migration and the association of actors responsible for external migration cooperation under the new Heading 6. Enhanced governance mechanisms that can facilitate strategic links, complementarity and coherence is an important element for the MFF during its implementation.

At the level of the Commission, there is usually a wide consultation across relevant DGs. DG HOME and DG DEVCO seem to be more coordinated on the external migration dimension today than they were in the past. The EUTF has reportedly enhanced complementarities between the two directorates (Interview, 2019). The mutual understanding of their positions has improved, leading to agreement and a common language – though not without limits. Return and reintegration was cited as an area in which joint DG HOME-DG DEVCO meetings are much more common than they used to be. Yet, although cooperation has improved, there is a recognition within DG HOME that it will have to be stepped up, as a result of the external dimension being in the spotlight and increased interest from member states (Interviews 2019). This is also to ensure that external action on migration is part of an overall comprehensive partnership approach and in line with diplomatic relations. At the level of the EU Delegations, this may mean equipping them with sufficient expertise on the internal and external dimensions of migration if external action funding is to be stepped up under the DG HOME funds.

With shared management as part of Heading IV activities,³⁶ member states may also implement their own programmes externally. This means that stronger coherence and complementarity through working arrangements will also have to be established between development or external affairs ministries and interior ministries in EU member states in order to avoid double funding and ensure that there are no gaps.

Increased flexibility: tradeoffs related to governance, predictability and strategic direction

Resources for migration (both internal and external) contain a considerable amount of flexible money in order to be able to provide fast responses and channel emergency funding to member states when needed in the next financial period. This potentially makes them more politically driven and geared towards the short-term, raising concerns about oversight, safeguards and management.

Flexibility in Heading IV

The Thematic Facilities as part of DG HOME funds described above provides flexibility. Member states overall support the division of resources between national programmes (60%) and the thematic facility (40%) in the JHA funds as they recognise this need for flexible resources.³⁷ The thematic facility is meant to ensure sufficient flexibility for channeling emergency funding to member states and to address new and critical priorities as they emerge. In the AMF, it represents around €4.2 billion and can support: specific actions; Union actions; emergency assistance; resettlement; support to MS contributing to solidarity and responsibility efforts; support to the European Migration Network. In the Instrument covering Border Management and Visa (BMVI)

³⁶ It has yet to be decided how the external dimension of Heading IV would be implemented (shared management, Union action etc.).

³⁷ Some EU MS would like to increase the percentage for national programmes. This ratio is 'bracketed' in the Negotiating Box.

(€3.2 billion) and the Internal Security Fund (€1 billion), it can also support: specific actions; Union actions; emergency assistance.

All three proposed regulations state that the thematic facility is “a way to balance the predictability of multiannual allocation of funding to the national programmes with flexibility in disbursing funding periodically to actions with a high level of added value to the Union.” Despite the fact that the thematic facility shall respond to urgent needs in line with agreed Union priorities, **there is a risk, as with any flexible and emergency funding, that it is mostly used for short-term migration management measures externally.** The note from the Austrian presidency on “reinforcing the external dimension of migration in home affairs funds” for instance states that “[t]he thematic facility could be mobilised for any actions considered necessary to meet the objectives defined at EU level, including actions in third countries such as actions with the **purpose of stemming illegal migration.**” (Council of the European Union 2018e: 3). It should however be ensured that the flexibility and assistance to MS brought by the thematic facilities of the home affairs funds do not serve the sole purpose of stemming irregular migration, which risks narrowing the EU’s approach to migration management and could run counter to the links between development and migration made in the NDICI.

Moreover, while the AMIF regulation required at least 20% of funds to be allocated to asylum and another 20% to integration in the current MFF,³⁸ the proposed AMF does not have such requirements for flexibility and efficiency reasons. This “creates a risk that EU funding will be implemented according to the political priorities of individual Member States rather than Union priorities” (Westerby 2018:13). Without initial minimum allocations that ensure a balanced approach, there may be a higher risk that particular policy areas will be prioritised and others neglected.

Increased flexibility thus raises issues related to **governance and oversight.** According to one of our interviewees, member states are likely to demand sufficient transparency and input in the decision-making when it comes to flexibility. The EC has proposed new oversight roles for the European Union Agency for Asylum and the European Border and Coast Guard Agency. It further aims to ensure coherence with Union Policies through a Partnership agreement for EU-funded programmes implemented by member states, in which member states need to motivate priority choices. Yet, it does not require these to be discussed through a formal policy dialogue process or based on structured needs assessments. The EP is also likely to seek more oversight. **Issues related to the strategic direction of the funds** (flexibility at the cost of long-term objectives for migration?) **and governance** (flexibility at the cost of member states’ oversight and democratic scrutiny?) will have to be resolved in the negotiations between the three institutions (EP, Council, EC) over the next few months.

³⁸ However actual spending could differ from this allocation.

They also raise broader questions on what the EU seeks to achieve in its migration policies and how the three funds can coherently support that vision.

Flexibility in Heading VI

The NDICI includes an **emerging challenges and priorities cushion**, providing flexibility for unforeseen events, including an increase in irregular migration and displacement.

Such flexibility can come **at the cost of predictability and possibly at the support of longer-term development in partner countries**. There exists a fear in the development and NGO community that a significant amount of unallocated development funding will be instrumentalised for EU short-term external migration or other political objectives. As Concord Board Member Bruno Rivalan stated: “Aid diversion is the biggest risk of the Commission’s proposal.” (Concord 2018). According to one of our interviewees, it will be important to ensure the cushion “does not give *‘carte blanche’* to the Commission and the EEAS to do whatever they want” (Interview 2019).

The question about **governance and oversight of the use of the cushion and other flexibility instruments is thus also important here**. Yet, the implementation, governance and accountability of this substantial reserve remain ambiguous. In order to calm critics, there will need to be clearer criteria for when tapping into cushions or margins is adequate as well as safeguards ensuring that funding foreseen for sustainable development is not used for more narrow EU interests and where a link to sustainable development outcomes may be less clear.³⁹

Another issue related to flexibility is the extent of democratic scrutiny. The European Parliament and the member states have expressed concerns over their oversight over this unallocated funding (Interview 2019; Jones et al. 2018b: 11). The AFET and DEVE co-rapporteurs for the NDICI believe that the scope of the cushion as currently proposed is unjustified and therefore they would like to reduce it (a compromise position was reached with the shadow rapporteurs with €7.5 billion). A shadow rapporteur also pointed to the fact that with €11 billion for humanitarian aid in the current proposal, there is no need for additional flexibility since potential ‘migratory pressures’ in the future could be addressed with this humanitarian funding (Interview 2019). The EP and a number of EU member states feel that with increased flexibility, there is also a stronger need to be able to hold the Commission to account. In this context, there is a demand that the EU Commission would track its spending (including the implementation of the spending targets)⁴⁰ as one interviewee noted. ETG researchers similarly suggested that in exchange for flexibility, the EC “must get better at documenting, communicating and evaluating its programming and providing a convincing development narrative”, which will require clear spending criteria linked to SDGs, unambiguous objectives and a detailed results framework (Keijzer et al. 2018; see also Jones et al. 2018b).

39 We could for instance imagine a cap on migration spending for the use of resources coming from the cushion.

40 Apart from the 10% for migration, the Commission proposed targets for other thematic areas: 20% for social inclusion and human development, including gender equality and women’s empowerment; 25% for climate change.

Finally, a pending question when it comes to flexibility concerns the **continuation of the EU Emergency Trust Fund for Africa (EUTF)** as a modality, which in the past years has provided flexible working methods, joined up and coherent approaches, as well as additional funding (including contributions from member states) in the MFF 2014-2020 at a time when resources were stretched. A number of actors, including from Belgium and Germany, believe that the proposed NDICI provides enough flexibility and that the EUTF as a specific modality is thus not needed anymore (which is why the European Commission initially wanted a flexible instrument), while for countries like Italy, the EUTF is a way to tackle their agenda of addressing root causes visibly (Interview 2019). Sweden does not support the EUTF either, as it believes they do not follow the right approach (i.e. “a quick fix for something that is long-term”) (Interview 2019). Besides, some MS seem to find it problematic that the EUTF bypasses member states’ control.⁴¹ One interviewee also pointed to the fact that the EUTF was meant to be an emergency mechanism, it has an end date and should not be endlessly prolonged. On the contrary, countries like Italy are in favour of keeping the EU Trust Fund for Africa, as it helps them tackle their agenda of addressing root causes visibly. If the trust funds are maintained however, several additional questions arise: Where (i.e. which part of the NDICI) will the money come from? In the countries covered by the EUTF, how much will migration represent compared to other thematic areas?

Conditionality and incentives

The way that the external dimension of migration is included in the MFF proposal and the issues that are yet to be resolved show that there has been a **move towards a more interest-driven approach in relation to migration**. This clearly follows requests from the EU Council throughout 2018.

Clear references to the Partnership Framework on migration are made to guide the NDICI. After the EU Trust Fund for Africa has introduced this link, **development aid is now more broadly considered a tool to leverage third countries’ cooperation on EU migration interests** (see European Commission 2018g: 22). An important element of the instrument is the promotion of third countries’ effective cooperation with the Union in the area of migration.⁴²

41 The EUTF is a flexible tool meant to speed up procedures, which sometimes leaves limited time for the Member States’ representatives to scrutinise project documents properly. A number of them have also regretted the absence of clear project selection criteria (European Court of Auditors 2019).

42 The proposal states that “[s]uch cooperation should contribute to ensuring access to international protection, addressing the root causes of irregular migration, enhancing border management and pursuing efforts in the fight against irregular migration, trafficking in human beings and migrant smuggling, and working on returns, readmission and reintegration where relevant, on the basis of mutual accountability and full respect of humanitarian and human rights obligations.” (European Commission 2018g: 22).

Some of the included objectives for which such leverage can be used may well serve global development objectives (such as the protection of refugees in partner countries, more effective migration governance in support of the SDGs), others may be legitimate goals of EU member states yet with little connection to sustainable development, such as enforcing readmission agreements or encouraging large-scale involuntary return.

The NDICI also includes a number of specific provisions for the Neighbourhood, including the **'performance-based approach' or 'more-for-more principle'**, according to which indicatively 10% of the funds shall be allocated to partner countries on the basis of their annual progress towards democracy, human rights, rule of law, **cooperation on migration** and economic governance and reforms (European Commission 2018g: 37). As ETTG colleagues point out, "[i]t is not yet clear [...] what this might mean for regions that are not involved in migratory routes to Europe" (Keijzer et al. 2018).

Moreover, as part of the programming principles features "the partner's capacity and commitment to promote shared interests and values, and to support common goals and multilateral alliances, as well as the advancement of Union priorities." (European Commission 2018g: 34). However the EP position is that the allocation of development aid to third countries should not be conditioned on migration management (Interviews 2019).

The pressure from some EU MS to include conditionalities (including negative conditionalities) has increased. For others the 'more-for-more' approach and other conditionalities are acceptable for the Neighbourhood but not for the rest of the world, as there is not proven that it contributes to sustainable development. Experiences of EU MS have led to questions about the practicability and viability of migration-related aid conditionality. Examples where negative aid conditionality has been applied in the past, have shown that such approaches are not effective in achieving better cooperation on return and readmission. Besides, it risks subjecting aid objectives to those of migration control which in turn could make aid less effective in what it is set out to achieve (Knoll & Sherriff 2017).

Conclusion

The Commission's proposal for the next MFF has clearly been influenced by the need to show migration as a priority of the EU budget to domestic constituencies. It has not only increased the possible available funding for spending related to the external dimension of migration but also broadened the scope for external action in some of the DG HOME-administered funds.

The **strong emphasis on flexibility** – largely motivated by the experience of responding to large-scale migration flows – shows that the EU Commission seems to prepare for a crisis-driven next budgetary cycle. While the EC recognises that "migration will continue to remain a long-term challenge for the Union" (European Commission 2018i: 14) and that "[l]ong term policies continue

to be essential to address its root causes” (European Commission 2018d: 5), it puts a strong focus on preserving capacities for responding to crisis situations. This of course comes at the request of a number of EU member states, that aim to use the next MFF for political statements and want to ensure that short-term measures based on migration interests can be funded in the future. At this stage, there is not much clarity about the objectives and vision the ‘mainstreaming’ of migration in the proposal will serve. It seems that it responds to pressures more than it offers a longer-term migration and mobility framing. There is for instance very little reference to global frameworks and agreements in the area of migration and mobility. This is not surprising given the divisions within Europe on the adoption of the UN Global Compact for Migration at the end of 2018.⁴³

While migration concerns loom large, another concern is about how to preserve the **sustainable development and long-term focus of EU external action**. The strong pressure of the past years has influenced the development agenda and pushed migration spending into grey zones between migration interests of the EU and partner countries. The narrative has been strongly influenced by EU concerns and does not always follow migration realities and priorities in developing partner countries. The NDICI as a broad instrument is visibly more interest-driven and not comparable to development-focused instruments of the past. Some feel that the proposed instrument with a strong focus on migration is going too far: One Member of the European Parliament noted that the problem with merging the instruments into one is that it mixes geopolitics, which is short-term, day-to-day politics, with development cooperation, which is a generational process (Interview 2019).

In the next few months, important decisions will have to be taken as part of the negotiations, for instance on the **overarching architecture** proposed by the EC as well as on the **amounts of money** involved. Experience shows that the heading for external action tends to be the first one to be cut in the negotiations (Mayer and Sherriff 2012). But also in the DG HOME Funds, the overall amounts and allocations between national and thematic programmes are not set. These decisions have significant implications for the amounts available for the external dimension of migration.

Second, important decisions concerning the external action on migration include the **level of earmarking** in both DG HOME-administered funds as well as the NDICI and the scope defined for any earmarked funds. As this chapter has shown, there are various options and combinations, each of them bearing advantages and its own risks. Decisions on earmarking should be taken with awareness of the possible tradeoffs with other thematic areas and an understanding of the needs of partner countries in this area. From a sustainable development perspective, there is a risk that EU development cooperation is further instrumentalised for migration priorities. At best, the

43 In December 2018, 152 countries voted in favour of the Global Compact for Safe, Orderly and Regular Migration at the UN General Assembly in New York, while 5 nations voted against it (the US, Hungary, the Czech Republic, Poland and Israel). Among the 12 abstaining countries are EU members: Austria, Bulgaria, Italy, Latvia and Romania.

MFF will however provide flexible and sufficient funding that can support EU partner countries in the migration-related SDG targets and to implement the development-oriented provisions of the Global Compact for Migration.

A third important area is about **ensuring complementarity and coherence**. It seems unlikely that a perfect delineation can be found between internal and external instruments, even if some boundaries are put in place. Some actors also favour the flexibility offered by grey zones. There is however a risk of adopting a possible uncoordinated approach whereby many different actors address migration in third countries without much interaction and conciliation. This would depart from a strategic approach and would not be depicted as good donor practice in developing countries. Coherence and complementarity on the ground thus seem key and possible additional mechanisms for exchange and joint decisions will have to be established both at the level of the EU as well as in EU member states, e.g. in the form of Expert Working Groups across strategic headings and regular meetings. The programming process will further determine how migration considerations influence priorities at country level and how complementarity can be found between funds.⁴⁴

Chapter
8

As with past MFF negotiations, the overall process seems like a giant multi-dimensional chess board which can in addition change its pattern. Each decision does not only interact with others but also influences the scope for future options. This chapter – while not providing full answers – has attempted to outline some of these interactions and issues at stake, as well as how the EC, some EU MS and the EP are currently positioning themselves. Much of it is still in flux. The MFF may not be adopted before the EP elections in May 2019 which means that the negotiations could be finalised in an even less favourable political context, pushing shorter-term and less balanced agendas on migration. Those aiming for a balanced approach to migration in the next EU budget – one that provides flexibility, yet equally leaves scope for a joint strategic direction and which acknowledges that migration narratives in the world go beyond the EU's crisis experience – will have to team up, exchange information and choose their moves wisely, both during the negotiations and afterwards, when actors move to implementation.

44 There are concerns that the EU's short-term self-interests rub off on its strategic frameworks and programming choices and that the NDICI will be a 'piggy bank for migration and security' (Herrero et al. 2018).

List of interviews

Belgian Ministry for Foreign Affairs, Coordination Unit European Development Cooperation

DG DEVCO, Unit B3, Migration and Employment

DG HOME, Unit A1, Inter-Institutional Relations and Citizenship

DG HOME, Unit E3, National programmes for North and West Europe; Evaluations; MFF

EEAS, Global 5, Development Cooperation Coordination

EEAS, MENA 5, Strategy and Instruments of the ENP

Swedish Permanent Representation, Aid and Development and Justice and Home Affairs

Member of the European Parliament, ALDE group

Member of the European Parliament, Green group

The uncharted path towards a European Peace Facility¹

Matthias Deneckere

During a speech on 13 December 2017 at a conference on the future of EU security and defence policy, Federica Mogherini, the EU's High Representative for Foreign Affairs and Security Policy (HR/VP), announced the proposal for the creation of a 'European Peace Facility':

"We need to equip ourselves with the means and resources to live up to our new joint ambition on security and defence. With the Commission we are working on the next multiannual financial framework – our spending plans for the next seven years in the Union. In that context I would propose to create a new European Peace Facility, financed and managed together with our Member States. This would allow to be much more efficient in planning and deploying our military missions, but also to support our partners in dealing with our shared security challenges." (EEAS 2017b)

A concrete proposal for a new EPF was presented by the HR/VP to EU member states in June 2018² and is currently subject to an intense discussion regarding its final shape, scope, governance and objectives. These discussions are taking place in parallel to ongoing negotiations on the future Multiannual Financial Framework (MFF) 2021-2027, the EU's long-term budget. While the EPF would be placed outside the MFF, the discussion cannot be isolated from the wider EU financial planning for the next seven-year period.

The EPF proposal was made as part of a wider set of new initiatives either planned or under execution to strengthen the EU's role in the domain of security and defence, both in terms of financing arrangements, operational structures and capabilities. Such initiatives have included the activation of Permanent Structured Cooperation (PESCO) for joint defence capability development among EU member states, the proposal for a European Defence Fund to incentivise joint research and innovation in the European defence industry, a coordinated annual review on defence (CARD) and the establishment of a Military Planning and Conduct Capability (MPCC) to serve as an operational headquarters for small-scale EU military missions under its Common Security and Defence Policy (CSDP).

¹ This chapter originally appeared as: Deneckere, M. March 2019. The uncharted path towards a European Peace Facility. ECDPM Discussion Paper 248. Maastricht: ECDPM. <http://www.ecdpm.org/dp248>

² See EEAS (2018).

Such institutional reforms and innovations illustrate the growingly bold European external policy ambitions, including in the domain of military cooperation. This is not a trivial development, but the result of a number of concurrent factors that have pushed forward some of the commitments voiced in the 2016 European Union Global Strategy for Foreign and Security Policy. Such drivers have included growing violent conflict in the EU's neighbouring regions, recent records in irregular migration to Europe, as well as a more assertive Russia and growing doubts over the transatlantic partnership and other multilateral norms and institutions under the Trump presidency, pushing the EU towards more strategic autonomy.³ Moreover, the planned exit of the UK from the EU has removed a traditionally lukewarm supporter of more European defence integration, thus paving the way for various new initiatives that look for a global role for the EU that goes beyond its traditional focus on civilian 'soft power'.⁴

The proposal for an EPF is central to this broader process towards a stronger Union of security and defence. As currently proposed, the EPF would be designed to enable the EU to plan and deploy military CSDP missions more effectively, while also financing peace support operations led by other international actors and military capacity-building activities for third countries and regional organisations.

This chapter aims to build a better understanding of the EPF proposal and offer a brief analysis of the main issues for discussion as regards its thematic scope and governance. In doing so, it offers some reflections as to how the EPF would contribute to the EU's new external action ambitions, including the EU integrated approach to external conflict. This analysis is based on a review of the draft EPF Council decision, relevant policy documents, academic articles and other analyses, complemented by a number of interviews with key stakeholders from the EEAS, the European Commission, EU member states as well as civil society organisations.

A different set of questions relate to how the EPF could contribute to a stronger EU-AU partnership on peace and security and what lessons could be learned from past experiences gained during the implementation of the African Peace Facility (APF). These questions are beyond the scope of the current chapter but will be discussed in a future additional paper available from ECDPM's website.

Current EU instruments to fund military activities

Currently, the EU has two main instruments that allow it to fund activities in the military and defence domain: the Athena Mechanism and the African Peace Facility (APF). Neither is part of the EU budget due to a long-standing view that the EU Treaties prohibit any "expenditure arising from operations having military or defence implications" (Art. 41(2) of the Treaty on

3 See e.g. European Union (2016a).

4 See Sherriff et al. (2018).

European Union) from being charged to the EU budget. While there is disagreement on the precise scope of the Treaty provision, the practice has been to refrain from using EU budgetary resources for any military or defence-related activities.⁵

Athena Mechanism

Since expenditures for military operations under the EU's CSDP cannot be covered under the EU budget, the Athena Mechanism has been designed to **share part of the common costs for military CSDP operations among all EU member states**, enhancing cost-sharing also beyond those countries contributing national capabilities to a given operation. The Athena Mechanism can be used to mobilise funds for certain common operational costs such as transport, infrastructure and accommodation.⁶ The mechanism functions as an intergovernmental system and is replenished according to a key based on the Gross National Income of a member state. EU member states can opt out from the mechanism, whereas non-EU countries may also participate, although they do not have a vote in its decision-making. The management of the mechanism is under the authority of the member states, which convene in a Special Committee. This 'Athena committee' is managed by an administrator appointed by the EU Council.⁷ The Athena Mechanism is currently financing military CSDP operations such as the EU training missions (EUTM) in Mali, Somalia and the Central African Republic or the naval anti-piracy operation EUNAVFOR Atalanta. In 2017, an amount of €61 million in commitments was mobilised through the Athena Mechanism, whereas in 2016, the amount was around €70 million. This only covered a small share of total costs of military CSDP operations (5-15%), with the remaining costs being covered by participating member states on a "cost lie where they fall" basis.⁸

African Peace Facility

The APF was created in 2003 to support regional and continental responses to peace and security challenges in Africa, building on the Joint Africa-EU strategy. The APF, funded under the European Development Fund (and hence not part of the EU budget), has channelled a total of €2.7 billion between 2004 and 2017 to financially support the African Union (AU) and regional organisations in Africa, enabling African solutions to African problems in the context of the African Peace and Security Architecture (APSA - see Box 1). The vast majority of this amount (some 91% of total APF funds) was directed towards supporting African-led military peace support operations (PSOs), e.g. to cover payments of daily troop allowances or equipment.⁹

5 Interview with key stakeholder, 8 February 2019.

6 The scope of eligible funding is based on a list of common costs which are financed by all contributing states. It is specified in Annexes I, II, III and IV of Council Decision 2011/871/CFSP.

7 See Council of the EU (2014).

8 See Fiott and Bund (2018).

9 The APF Action Programmes, however, exclude the provision of weapons and their spare parts, ammunition, soldiers' salaries and military training. See e.g. European Commission (2014a).

Especially AMIS (African Union Mission in Sudan) and AMISOM (AU Mission in Somalia) have been major beneficiaries of the APF. The remainder of APF funding contributed to capacity-building and institutional development of the APSA at continental (AU) and regional levels (about 7% of the APF). This has included, for instance, the payment of salaries of staff at the AU Peace and Security Department and support to the development of a continental early warning system. Finally, a small share (1.2%) of the APF has been reserved for an Early Response Mechanism to allow for quick and flexible responses to urgent crises across Africa.¹⁰

Box 1: The African Peace and Security Architecture

The African Peace and Security Architecture (APSA) was created following the establishment of the African Union in 2002. It is an elaborate set of institutions to operationalise the AU's normative shift from non-intervention into AU member states' internal affairs to non-indifference and implement the AU's mandate to promote peace, security and stability on the continent. This includes the AU's right to intervene in a member state under grave circumstances such as genocide, war crimes or crimes against humanity, when the AU Assembly decides so.¹¹

The establishment of the APSA led to the creation of a number of bodies, forming the institutional skeleton of the AU and Regional Economic Communities (RECs) for day-to-day interventions and activities in peace and security.¹² These consist of the Peace and Security Council (PSC) as the AU's main decision-making organ for conflict prevention, management and resolution, and the African Union Commission, which is responsible for the implementation of PSC decisions and operational support. In addition, the APSA also comprises an African Standby Force, a Panel of the Wise as an advisory component, the AU Peace Fund as financial instrument, and a Continental Early Warning System. Through these APSA structures, the AU has engaged in various conflict prevention and crisis management activities in Africa, including Peace Support Operations (PSOs) such as AMISOM or support to mediation activities in Libya.

The eight RECs (e.g. ECOWAS, SADC) and two Regional Mechanisms (e.g. the Eastern Africa Standby Force) that are recognised by the AU have similar sets of structures under the APSA. The relation between the AU and RECs is covered in various legal documents, yet in practice, the overlapping mandates and unclarified questions over subsidiarity and complementarity create institutional challenges for effective coordination and cooperation.¹³

10 See European Commission (2018i).

11 See African Union (2000).

12 See Desmidt and Hauck (2017).

13 Ibid.

Since its establishment, the APSA has been largely reliant on external funding, with an estimated 90% of the total peace and security costs of the AU covered by external partners. The EU, through the APF, has been a major contributor to the operationalisation and implementation of APSA, although the AU has recently sought to reduce its reliance on external donors by mobilising more own resources through the introduction of a 0.2% levy on eligible goods entering Africa.¹⁴

Capacity-Building in support of Security and Development

The EU recently introduced the so-called Capacity-Building in support of Security and Development (CBSD) initiative under the Instrument contributing to Stability and Peace (IcSP), the EU's main financing instrument to finance interventions in the domain of crisis response and conflict prevention. The CBSD initiative was initially proposed by the Commission and the HR/VP as a so-called 'train and equip' programme that would enable the EU to provide training, equipment, infrastructure or advisory support to military actors, thus filling in a gap in the scope of EU military capacity-building. It would notably allow the EU to support the provision of adequate facilities, uniforms or communication equipment for military contingents participating in EU training missions (EUTM) such as those in Somalia or Mali.¹⁵

Yet concerns over both the legality and the political desirability of using EU budgetary resources for military capacity-building led to a reframing of the initiative to a support programme for **capacity-building to military actors for civilian actions with a sustainable development objective**. Concretely, this can comprise post-conflict reconstruction of civil infrastructure, mine clearance, small arms and light weapons programmes, support to border guards or humanitarian aid, as well as certain training activities or communication and transport equipment for military actors. The CBSD initiative was formally introduced through the adoption of an amendment to the IcSP regulation placing such activities under the scope of the instrument, while also topping up the IcSP's budget with €100 million to cover additional expenditures within the scope of CBSD for the period 2018-2020.¹⁶ The CBSD initiative nevertheless explicitly excludes regular military spending, such as lethal equipment or combat training.¹⁷

What seems to set the CBSD initiative apart is its development logic. Still, many concerns were voiced during the decision-making process on CBSD by civil society, researchers and some members of the European Parliament regarding how and under which circumstances investments in military capacity-building might contribute to sustainable development beyond the buzzword of the 'security-development nexus'. They point at limited evidence that

14 Ibid; Apiko and Aggad (2018).

15 European Commission and High Representative of the European Union for Foreign Affairs and Security Policy (2015).

16 See European Commission (2016d).

17 See Fiott and Bund (2018).

the operationalisation would be based on proper risk analysis, do-no-harm strategies and an evidence-based theory of change on how to maximise the potential positive impact on conflict dynamics.¹⁸ While the EU already provided support to military actors for certain reconstruction and development-related activities before,¹⁹ voices within both civil society and the research community warned that CBSD would set a legal precedent for using EU budget resources for financing support to military actors, thus entering a legal grey zone and furthering the ‘securitisation’ of EU development funds.²⁰

The EPF proposal: repackaging or reinventing EU peace and security policy?

Proposed thematic scope of the EPF

The EPF as proposed by the HR/VP in the draft Council decision is designed to equip the EU with a mechanism to fund a range of activities under the Common Foreign and Security Policy (CFSP) outside the EU with military and defence implications. Specifically, the EPF would support four types of actions:

1. contributing to the funding for military operations under the EU CSDP, replacing and enhancing the current Athena Mechanism ;
2. providing military and defence-related capacity-building to third countries, regional and international organisations to address conflicts and resolve international security threats (e.g. equipment support through CSDP operations, complementing their training mandates);
3. providing support to military peace support operations conducted by international, regional or country partners, as currently partially covered by the African Peace Facility (e.g. AMISOM);
4. supporting a broader set of operational actions with a military or defence nature under the CFSP.²¹

While the EPF would partly be a repackaging of existing mechanisms with the purpose of simplifying funding streams, it would also significantly expand and diversify the EU’s ability to engage in military support and capacity-building through new types of assistance currently unavailable to the EU, backed up with significantly boosted financial resources. On the one hand, it would enhance current practices by providing for more flexibility and a widened scope of activities. On the other hand, it would lead EU external action into new directions previously uncharted.

18 See European Peacebuilding Liaison Office (2017) and (2018); Hautala (2017).

19 Interview with key stakeholders, 8 February 2019.

20 See European Peacebuilding Liaison Office (2017); Bergmann (2017).

21 See EEAS (2018).

Four major changes can be identified: First, in contrast to the Athena Mechanism, the EPF would provide a **permanent fund** to not only make **funding for military CSDP operations more predictable** and flexible, but also **enhance the scope of common costs** to include e.g. transport costs to and from operational theatres, force protection for non-executive missions and deployment of the EU Battlegroups. As such, the proposal aims to have 35-45% of total operational costs covered through the EPF, in contrast to the current 5-15% under the Athena Mechanism, thus increasing the percentage of funding to be shared among all EU member states.²²

Second, the EPF aims to **fill in a gap in current EU military support**. The EU is currently able to provide training to third countries' armed forces through its military training missions, but cannot provide them with basic material such as uniforms, communication equipment or sanitation facilities.²³ By adding a component of military capacity-building, the EPF should enable the EU to provide various types of military support, including training, equipment, infrastructure and advice, also as part of a single **'integrated support package'** to complement and support the mandate of a CSDP operation.²⁴ Unlike existing instruments such as the APF or the IcSP, it would be possible to provide lethal support, e.g. in the form of arms, ammunition or combat training. Enabling the EU to provide military equipment is arguably a logical consequence of earlier strategic decisions of the EU to build capacities of armed forces through its military training missions and aims to improve their effectiveness.

Third, the EPF would have a dedicated component to **fund military PSOs**, replacing the current APF and expanding its scope. Contrary to the APF, the EPF would not be geographically limited to the African continent. Moreover, support would no longer be restricted to operations led by the AU or regional organisations, but also enable direct contributions to peace operations led by third states or to international organisations on a global basis,²⁵ including potentially the UN.²⁶ Stated differently, PSO support would no longer be restricted to the formally recognised organisations that make up the APSA. Widening the scope of PSO support would address some shortcomings of the APF, e.g. by enabling direct EU support to Somali armed forces after a potential withdrawal of AMISOM, or by allowing training support to troop-contributing countries in the context of multinational military operations. In addition, the reasoning is that allowing direct funding to individual countries would allow for more flexibility.

²² See EEAS (2018).

²³ European Commission and High Representative of the European Union for Foreign Affairs and Security Policy (2015).

²⁴ See EEAS (2018).

²⁵ Ibid.

²⁶ See EEAS (2019a).

Fourth, the EPF would provide support for **broader actions of a military or defence-related nature** in support of the objectives of the CFSP. While the broad formulation proposed by the HR/VP aims to maximise flexibility of the EPF for new needs yet unforeseen, the vagueness has also met with criticism from some member states, which have asked for further clarifications.²⁷

It is also useful to identify what would **not be included under the EPF**. First, while the APF mainly channels funds in support of PSOs, it also contains a dedicated component for institutional development to the APSA institutions, e.g. for the payments of staff salaries within the AU Commission or the procurement of communication and information equipment. It is foreseen that such support would after 2020 mostly not be funded through the EPF, but through the proposed 'Neighbourhood, Development and International Cooperation Instrument' (NDICI) of the regular EU budget. This follows the argument that such capacity-building programmes do not have direct military dimensions and can easily be justified as development spending under the regular budget.²⁸ A few forms of capacity-building, e.g. support to military training or to Command and Control systems, as previously funded under the APF, would nevertheless likely be within the scope of the future EPF. Also quick responses to crises to prepare for a PSO, as currently funded under the APF's Early Response Mechanism, would continue to be funded under the EPF, in contrast to mediation and preventive diplomacy activities, which would be within the scope of the NDICI.²⁹ In addition, support under the APF has in some cases also contained funding for the civilian components of PSOs, supporting e.g. policing capacities or human rights observers. It needs to be clarified whether the military focus of the EPF would also allow for civilian support to a PSO, or whether such support would need to be covered by other EU budgetary resources.

Second, the current CBSD initiative introduced under the IcSP would not be integrated in the EPF but remain under the EU budget as part of the NDICI. Although CBSD support does involve military actors, the development rationale of the initiative motivates its inclusion in the budget - and hence its exclusion from the EPF, which comprises actions beyond the restrictions of the EU's development policy rationale.³⁰ Keeping the CBSD under the NDICI is a specific wish from member states, who would like to keep as much as possible under the budget.

Is a more minimalist scope for the EPF possible?

The viability of the EPF crucially depends on the willingness of member states to support the concept politically and make substantial financial contributions to the Facility, in addition to what they already provide under the EU budget. Generally speaking, member states seem

27 See Tweede Kamer der Staten-Generaal (2018).

28 Interview with key stakeholder, 8 February 2019.

29 Interview with key stakeholder, 22 February 2019.

30 See EEAS (2018).

to be overall supportive of the EPF's underlying ambitions, as it would give the EU a tool to respond to security challenges in a bolder way than is currently possible.³¹

The HR/VP has proposed a financial scope for the EPF of €10.5 billion for the period 2021-2027. As the current APF has disbursed some €2.7 billion in the whole 2004-2018 period, and the Athena Mechanism has in the past years disbursed between €60 and €70 million annually, it is clear that the proposed allocation for the EPF would present a significant increase in current practice. While this can be partly explained by the broadened thematic and geographic scope of the Facility, as well as heightened ambitions in terms of political projection, various member states have expressed concerns that the financial proposals put forward are insufficiently motivated, making it impossible for them to determine what the implications would be on their national budgets.³² Furthermore, the formulation of some of the activities, especially the 'other actions with a military or defence nature under the CFSP', has received criticism for being too vague.³³

In this light, **disagreements exist among member states on what should be the EPF's precise scope.** For instance, the inclusion of equipment support in the form of arms and ammunition remains a controversial issue: While some member states, especially those with a tradition of neutrality, are less keen to support the idea, other member states see the ability to fund lethal support as the essence of the proposal's objective to help enhance the fighting capacity of armed forces. Likewise, differences persist on what level of EU solidarity should be allowed for military CSDP operations. Some member states, especially those less active in military CSDP operations, are happy with the functioning of the current Athena Mechanism and would prefer to keep the current system in place, outside the EPF.³⁴ These disagreements also drive the discussion to a wider debate on the core principles of EU external action, which has traditionally been rooted in a vision of the EU as a peace project, and how this identity can be reconciled with a growingly uncertain geopolitical environment, new conflicts surrounding Europe and the increasing concentration of poverty in fragile and conflict-affected states, as well as growing demands by some for a bolder and more autonomous EU at the global stage.³⁵

Where member states have found more agreement is the **demand that any activities that can be funded under the EU's regular budget should not be covered by the EPF.** This has revamped a discussion on the precise scope of Art 41(2) TEU, which prohibits the use of the EU budget for 'expenditure arising from operations having military or defence implications'. The prevailing legal interpretation and practice until now has been that this Treaty provision restricts using any EU budgetary resources for activities that serve military objectives, including the whole breadth

31 Interview with key stakeholders, 13 February 2019, 27 February 2019; Personal communication with key stakeholders, 12 October 2018.

32 See e.g. Tweede Kamer der Staten-Generaal (2018).

33 Interview with key stakeholders, 13 February 2019, 27 February 2019; Personal communication with key stakeholders, 12 October 2018.

34 Interview with key stakeholder, 13 February 2019; interview with key stakeholder, 22 February 2019.

35 See Sherriff et al. (2018b).

of CFSP and development budgets. This interpretation has in particular been pushed by the European Commission as the institution responsible for the implementation of the EU budget. Yet some favour a more limited interpretation of the provision, arguing that the prohibition does not apply to the EU's development instruments, which have their legal basis outside Art. 41 TEU. Even more specifically, it is argued by some that the term 'operations' in the Treaty should be interpreted more narrowly as 'military CSDP operations'.³⁶ The legal services of the European Commission, the EEAS and the Council are in disagreement as to whether a more narrow or a broader interpretation of the Treaties should be pursued.

If the narrower interpretation is pursued (i.e. that Art. 41(2) only applies to military CSDP operations, but not to other CFSP activities), this would leave scope for keeping the assistance and capacity-building measures under the regular EU budget (the CFSP budget line more specifically), since they are not linked to military operations. The consequence would be that the EPF's **scope would be significantly reduced** to only the common costs of military CSDP operations, whereas the military assistance measures (including PSO support) would be subject to the rules and procedures currently applied to all CFSP measures.³⁷ As various member states are also doubtful over the need to change the current Athena Mechanism, that raises questions over whether the concept of the EPF is the right to do at all.

Yet, an alternative scenario that keeps military support under the EU budget could prove particularly problematic for two reasons. First, any funding for activities with military and defence implications under the EU budget would likely reopen a legal debate on the interpretations of the EU Treaties every time when lethal support or other forms of politically contested assistance are on the table. Second, it would require a U-turn from the Commission, which has consistently applied the broader restriction on the use of the EU budget for military and defence-related activities since its introduction by the Amsterdam Treaty of 1999.

Consequently, while a more limited EPF may be theoretically possible, the likelihood of such a scenario is low, and member states may ultimately agree with a broader EPF if a few other concessions are made (e.g. on the budgetary ceilings). In any case, the precise scope of the EPF would need to be clarified at the political level in an overarching agreement before further details are to be agreed upon.

Would the EPF contribute to or hamper a more integrated approach?

The EPF's aim as proposed would be to contribute to the overall policy objective of preventing conflict, preserving peace and strengthening international security, as laid out in the EU Treaties.³⁸ At the same time, the EPF is explicitly put forward as a facility that would only cover

³⁶ See Tardy (2015).

³⁷ Interview with key stakeholder, 13 February 2019.

³⁸ See EEAS (2018).

military and defence-related expenditures in as far as they cannot be covered by the EU budget, building on the principles of subsidiarity and complementarity. This raises various questions as to how the EPF would effectively contribute to the wider peace and security commitments.

Enabling military actors in conflict situations comes with risks

The nature of the world's conflicts has undergone several changes in recent decades, as many conflicts are protracted and transnational or cross-border in nature, often characterised by non-conventional and asymmetric warfare with a growing involvement of non-state armed groups or governments with limited control or legitimacy. That **such conflicts require a broad set of responses beyond purely military action** has been recognised by the EU in various strategies and policy documents. In this context, the 2016 EU Global Strategy introduced the Union's ambitions to realise an integrated approach to conflicts and crises by using all available policies and instruments of the EU in a coordinated way throughout the various phases of conflicts and involving the local, national, regional and global levels.³⁹ More specific political directions were formulated in the January 2018 Council Conclusions on the integrated approach. These notably include the importance of facilitating civil-military coordination, as well as the need to promote conflict-sensitive responses with respect for human rights, international humanitarian law and protection of civilians.⁴⁰

It is important to see the EPF concept through the lens of these wider EU ambitions. In this context, **military capacity-building in countries that face domestic conflict bring various dilemmas**, especially because many of these countries have (semi-)authoritarian regimes and/or a poor track record on human rights and good governance. For instance, a recent report described how the conduct of Malian government troops, often marked by ethnic stigmatisation, retaliatory executions of civilians after the death of soldiers and other forms of abuse, was an important reason for young people in Mali to join non-state armed groups. The inability of the state to provide basic security and services in parts of the country caused a lack of trust from the population in security forces and proved a source of division and insecurity itself.⁴¹ Similarly, other experts have pointed out how attempts to train and equip armed forces in Somalia have led to several defections and put arms in the wrong hands in the absence of proper civilian oversight structures and monitoring systems.⁴² There are also various other examples of military training and equipment provided that were used to suppress civilian protests or ended up on the black market.⁴³ In such contexts, helping third countries build functional armed forces may be counterproductive for the EU's and local interests if it does not encourage broader reforms of the security sector and initiatives to build trust and resilience and provide mechanisms for peaceful conflict resolution through civilian means as well.

39 See European Union (2016a).

40 See Council of the EU (2018c).

41 See Raineri (2018).

42 See Attree and Street (2018).

43 See e.g. Human Rights Watch (2013), p. 17-18; Winter (2016).

By the same logic, training and equipping national armies of countries contributing troops to a multinational peace operation (e.g. under UN or AU flag) **may undermine the effectiveness and legitimacy of the operation** when aspects of troop behaviour, human rights and civil-military relations are not duly addressed and troop-contributing countries have a poor track record in these domains.⁴⁴ There have also been instances where externally supported train-and-equip programmes in post-conflict countries shifted attention away from supporting security sector reform to getting the troops of that country ready for deployment in other conflicts abroad.⁴⁵ In addition, experts have also pointed out that military capacity-building for governments that are party to the conflict or whose legitimacy is contested may reduce room for engagement with non-state actors and reduce the willingness of the host government to seek political settlements or invest in basic services.⁴⁶

Yet this is not to say that the EU has in the past ignored questions of human rights. Quite the contrary, the EU already currently finds itself often supporting military actors on ‘softer’ topics such as human rights or protection of civilians (e.g. as part of the EU Training Missions), yet is often not able to provide them with military training or equipment preparing them for combat. Indeed, overcoming this shortcoming is precisely the purpose of the EPF.

The real question therefore is how the EU can reconcile its ambition to improve military performance of its partners while also ensuring that questions of accountability, human rights and civil-military relations are duly integrated in its support programmes. The EU already has various tools to do so, yet they need to be further developed in light of its broader ambitions, especially for cases that would involve lethal equipment support through the EPF.

The current proposal is to apply national arms trade rules to implementing partners under the EPF on the basis of mutual recognition (i.e. a company would need clearance for the delivery of equipment according to national procedures), although the EU may add additional checks or requirements in terms of auditing, monitoring and verification of compliance.⁴⁷ The **need for safeguards** such as risk assessments, monitoring systems, verifications on compliance with human rights obligations and mechanisms for withdrawing support in case of violations or abuses is briefly touched upon in the EPF proposal, but would need more concrete ideas on how it would be implemented going forward. Lessons could in this context not only be learned from the APF experience, but also from the train-and-equip programmes of EU member states and other countries, such as France, the US and Germany.

Linking EU instruments in a conflict-sensitive way

While the awareness of the need for more integrated responses is clearly reflected in various

44 See Willén (2018).

45 Ibid.

46 See de Coning (2018).

47 Interview with key stakeholder, 8 February 2019.

policy documents, the practice still lags behind. For instance, the recent evaluation of the APF pointed at the limited efforts from troop-contributing countries (TCCs) within the Multinational Joint Task Force (MNJTF) fighting Boko Haram in the Lake Chad region to operationalise the civilian component as foreseen in its concept of operations. While the operation is mandated to deal with issues of civil protection, human rights and disarmament, demobilisation and reintegration, limited concrete support from the operation's participating countries has hampered the operationalisation of such non-military tools.⁴⁸ A similar pattern emerges with the G5 Sahel Joint Force, which receives substantial support from the EU through the APF to address terrorism and insecurity in the border areas of the G5 Sahel countries.⁴⁹ The Force has seen some small steps in the creation of civilian and police components tasked with monitoring military units, providing trainings on human rights and the rule of law and investigating human rights violations. Yet a report from the UN Secretary-General nevertheless criticised the overall limited efforts from the G5 Sahel countries and international partners alike to take substantive steps beyond purely military solutions, including the provision of basic social services, recovery and development.⁵⁰

How to address such shortcomings may go beyond the scope of the EPF itself. Indeed, **the Facility would not operate in a vacuum**, as the EU has a diverse set of other instruments available, ranging from political dialogue and development assistance to restrictive measures and crisis management operations. The EU also has developed comprehensive strategies for various fragile or conflict-affected regions such as the Horn of Africa or the Sahel that look beyond the traditional instrument focus but rather aim to reconcile various aspects of EU external action, including security and development, under a single framework.

That is why the negotiation on the EPF could not be isolated from wider discussions on the future MFF 2021-2027. Current proposals for the new MFF foresee a significant increase in the CFSP budget from a bit more than €2 billion (current prices) that was foreseen for the 2014-2020 period to €3 billion. This would significantly boost the capacities of the EU to conduct a range of non-military activities such as civilian crisis management, conflict resolution and stabilisation measures, or the deployment of EU Special Representatives. Moreover, MFF proposals foresee the creation of a Neighbourhood, Development and International cooperation Instrument (NDICI) with a proposed total value of €89.2 billion. This NDICI would integrate various existing instruments in the domain of development and international cooperation. While the current IcSP (worth €2.3 billion) would not be retained as a separate instrument under the new MFF, the NDICI would have a dedicated thematic programme on stability and peace (€1 billion). This would be alongside the geographic programmes (totalling €68 billion) where security, stability and peace figure among the five areas of cooperation, although the programming phase will determine where and how much support will be given to this area. In addition, a rapid response pillar of a proposed €4 billion would be foreseen to enable rapid mobilisation of (non-programmable) funds in the domains of stability,

48 See Mackie et al. (2017).

49 See European Commission (2019a).

50 See United Nations Security Council (2018).

conflict prevention, resilience and broader EU foreign policy priorities. The total proposed resources for EU external action under the MFF would entail a 13% increase in real terms (not including the EPF itself) compared to current instruments.⁵¹ Still, some have observed that the NDICI would provide less scope for longer-term conflict prevention and peacebuilding support programmes and place a greater emphasis on the EU's own security concerns, rather than contributing to global security.⁵²

In any case, the key challenge would be to apply available resources **for military capacity-building under the EPF and funds for civilian peace, security and development measures under the EU budget in a coordinated, consistent and complementary way**. This requires proper strategies that make explicit how military capacity-building support would contribute to both short- and long-term security, peace and development efforts and in synergy with funding programmes in the domain of democratic governance, human rights, development and resilience-building. The EU strategies for the Sahel or the Horn of Africa are already providing good examples of such frameworks. What is key is that such a strategy at country or regional level should be rooted in a proper conflict analysis shared across various EU bodies involved. This should be accompanied by functioning coordination mechanisms across relevant EU services, involving both headquarters-level staff and field staff in EU Delegations. Diplomatic tools and political dialogue could also help inform decision-making on the provision of capacity-building by informing EU institutions on partner countries' track records and ambitions in the domains of defence sector transparency and civilian oversight, anti-corruption and sound public financial management, human rights and protection of civilians, and the provision of basic services. EPF programmes should also **make use of the conflict sensitivity methodologies** developed within the EEAS and DG DEVCO over the past years. Such steps would help the EU to make better informed decisions on risks and, to the extent possible, ensure that partners live up to certain standards, not only in military terms but also in wider questions of good governance and commitments to peace and security.

How would the EPF be governed?

Reconciling two governance logics

Important questions around the EPF discussion relate to the legal basis and future governance rules of this new off-budget Facility. The integration of the Athena Mechanism and the APF into a single facility means creative solutions must be found to reconcile two systems of governance. One is rooted in intergovernmental security cooperation and another contains elements of EU development policy governance. The challenge in reconciling both relates to the level of ownership EU member states would have over the EPF. More importantly, it should also be ensured that the EPF's governance is fit for purpose.

⁵¹ See Jones et al. (2018).

⁵² Ibid.

Decision-making procedures: who would oversee the EPF?

Whereas the current European Development Fund (and hence the APF funded under it) was created through an intergovernmental agreement among member states requiring ratification at the national level, the current EPF proposal has opted for a legal basis within the EU's CFSP.⁵³ This has a few consequences. First, member states within the EU Council would have the decision-making power and full control over the activities funded under the EPF. Given the exclusively military focus of the EPF, **every activity would require a unanimous decision**. Second, proposals for actions can be submitted to the Council by member states, as well as by the HR/VP or by the High Representative with the support of the Commission. Proposals for assistance actions can take the form of multiannual action programmes or ad-hoc assistance measures (in addition to CSDP operations or other operational actions under the CFSP). In the case of a multiannual action programme, the Council would authorise the HR/VP to take decisions on specific assistance measures within a clearly defined scope, although prior approval by the Political and Security Committee (convening member states at ambassadorial level) acting by consensus would still be required. This keeps all measures firmly within the member states' control, as the opposition from a single member state to an action would suffice to prevent it from being implemented.

This decision-making structure retains elements from both the APF (especially the multiannual action programmes) and the Athena Mechanism (the unanimity requirement within the Council). It deviates from the current APF, where the right of initiative lies solely with the Commission, and where action programmes require a qualified majority within the COREPER (Committee of Permanent Representatives of the member states). By giving member states both the right to submit proposals and a veto over their approval, individual countries would be more able to push their priorities on the agenda or use their vote within the Council as a bargaining chip. It also builds in an important check when sensitive cases of lethal assistance are on the table. Moreover, the option of adopting ad-hoc measures in addition to multiannual programmes also increases the scope of decision-makers to mobilise EPF resources to formulate responses to the urgent priorities of the day. While this enhances the flexibility of EU responses, it also may come with an increasing share of resources that will be crisis-led and steered by high-level political priorities without necessarily being rooted in a longer-term strategy. Retaining an option for multiannual action programmes is therefore an important tool to continue more sustainable, predictable and strategic forms of collaboration with long-time partners such as the AU.

How to ensure day-to-day management and accountability?

As the EPF would be established under the legal basis of the CFSP, implementation would be entrusted to the HR/VP. The EEAS would support this task and be responsible for the operational management of the Facility, including programming, identification and formulation of actions. The Director of the Service for Foreign Policy Instruments (FPI) of the European Commission

⁵³ Interview with key stakeholder, 8 February 2019.

would be responsible for the day-to-day financial management.⁵⁴ This is a deviation from the current practice, as APF expenditures are currently managed by DG DEVCO, whereas the Athena Mechanism is administered by staff within the General Secretariat of the EU Council. This illustrates a **shift of responsibilities from the European Commission (DG DEVCO in particular) to the EEAS**, which is the result of the change on the legal base and hence the shift in the institutional lead (from the Commission to the Council and the HR/VP).

In addition, an EPF Committee would be established, composed of member state representatives and chaired by a representative of the HR/VP. This committee would be responsible for all management-related decision-making on the EPF, in particular approval of budgets and accounts, as well as drawing up financial rules for the implementation of expenditure.⁵⁵ Who would chair the Committee has at this stage not been clarified, although it would likely be either a representative of the HR/VP or a representative from the member state holding the rotating presidency of the EU Council. In any case, the EPF Committee would be an important body to ensure accountability in the EPF governance structures. As the EPF would be established as an intergovernmental CFSP instrument, the European Parliament would have no formal oversight role. That said, the European Parliament has signalled its wish to be involved, including through regular briefings by the HR/VP, the EPF administrator and the CSDP operation commanders and even to have budgetary discharge powers over the EPF.⁵⁶ This is currently established practice for other intergovernmental or off-budget instruments (e.g. the European Development Fund) and would enhance transparency and accountability of the EPF. Yet, as the EPF would be a CFSP instrument, any involvement of the European Parliament beyond information would lack legal base in the Treaty.

The proposed governance structure aims to significantly enhance consistency and efficiency. In the current situation, the existing instruments (Athena Mechanism, APF, IcSP) are managed by different services, report to different institutions, function according to different procedures and act under different committees. The EPF would simplify this, as a single institution would be responsible for decision-making (the Council), and only two services would be involved in the management of the EPF (EEAS and FPI) under the single political leadership of the HR/VP. With the EPF committee, the Facility would act under only one committee using a single set of procedures. As such, the proposed governance structures would reduce costs and facilitate consistency. At the same time, integrating a wider set of responsibilities and activities in (mostly) existing structures must also ensure that experiences and lessons learned from the past are properly captured.

⁵⁴ See EEAS (2018).

⁵⁵ Ibid p. 4.

⁵⁶ See European Parliament (2018e).

Financing the EPF: How to share the burden?

Similar to the Athena Mechanism, the APF would be financed by contributions of EU member states, following a GNI-based distribution key. While the EPF would be outside the EU budget, it would nevertheless function in parallel to the EU's MFF according to the same time span (i.e. 2021-2027). This would allow member states to determine an overall amount the EPF would be able to spend for a seven-year period, while also agreeing on annual ceilings.⁵⁷ By linking the EPF to the MFF negotiations, member states can decide on EPF financial allocations as part of a broader debate on how much they wish to spend on EU external action more broadly, and what share activities in the military or defence sphere should occupy within this framework. Yet, as the EPF would operate according to a largely intergovernmental logic, individual member states may decide to not participate in the Fund or in specific actions funded under it. By the same logic, non-EU countries could also voluntarily contribute to the Facility, albeit subject to prior approval from the Council. Such contributions can be earmarked for specific actions or operations.⁵⁸ This creates opportunities, for instance, for the UK to continue participating in EU military activities post-Brexit. In an explanatory memorandum, the UK already stated that it is considering contributing to the EPF as a non-member state, either to the Facility as a whole or to specific components of it, as part of a special security partnership with the EU.⁵⁹ At the same time, the proposal would still exclude the UK from voting within the Council as well as within the EPF Committee, even when it concerns operations to which it contributes financially or in kind.

EU institutional capacities: bridging siloes and mindsets

The evolution of EU instruments for peace and security has over time led to a fragmented EU financing architecture for peace and security that spreads policy responsibility among several bodies such as DG DEVCO, FPI, the EEAS, and the Council.⁶⁰ The EPF partly aims to address this problem by **harmonising existing instruments with military dimensions** and therefore giving opportunities for more coherence and flexibility under the single authority of the HR/VP.⁶¹ At the same time, it would arguably contribute to a further institutional entrenchment of military activities on the one hand, and civilian means of security, crisis management, conflict prevention and development, which would be subject to different decision-making and institutional management systems. One point of view is that keeping separate financial instruments for military action and civilian types of EU engagement would help balance the EU's approach to the security-development nexus, as it **would set stricter limitations**

57 See EEAS (2018).

58 Ibid.

59 DFID (2018).

60 See Furness and Bergmann (2018).

61 Interview with key stakeholder, 8 February 2019.

concerning the use of development funds for (military) security purposes and maintain more budgetary space for civilian measures.⁶² At the same time, keeping military and civilian instruments institutionally separate **risks maintaining siloes and path dependencies**. In light of the EU's ambitions to strengthen civil-military cooperation as part of its integrated approach to external conflict, much of the success of the EPF in contributing to sustainable peace and conflict prevention will depend on the extent to which it will be integrated in a broader peace and security vision within the EU institutions. That will require not only functioning mechanisms to share information, thematic expertise, context analysis and situational awareness across responsible EU services, but also joint strategies and action plans, under a unified political leadership.

The current proposal foresees a role for FPI in the financial management of the Facility, whereas the EEAS would be responsible for drafting proposals for action. As regards the management of assistance measures, this would represent a shift in responsibility from DG DEVCO - currently managing the APF - to the EEAS and FPI. This would make sense, as the FPI has experience with financially administering the CFSP budget line, including civilian CSDP missions, whereas the EEAS has in-house expertise on military affairs. Still, considering the higher ambitions of the EPF compared to current instruments (also in financial terms), this would require substantially strengthened capacities for both the EEAS and FPI.

This should go beyond just increasing human resources numbers. Shifting responsibilities to new bodies is also a **matter of bridging institutional mindsets**. DEVCO staff tend to be socialised in developmental approaches, characterised by long-term programming, decentralised management by partner authorities, a fair degree of autonomous decision-making for the European Commission and a strong tradition of regular monitoring and evaluation of support programmes. In contrast, the EEAS and FPI have a different working culture, marked by more centralised, intergovernmental, and politically steered decision-making.⁶³ Designing an EPF that aspires to be both an instrument for flexible security responses and longer-term capacity-building programmes therefore also requires reconciling different organisational cultures in a way that maximally builds on the experience and expertise built up over the years with the management of the APF. It should also ensure proper linkages to expertise on conflict analysis, conflict sensitivity, security sector governance and reform, gender and human rights, both within the structures of the EEAS and at the level of EU Delegations, who can play an essential role in monitoring and feeding local knowledge, provided the right capacities and expertise are put in place. In addition, foreseeing an obligation for regular evaluation of the EPF (individual measures as well as the Facility as a whole) would help in building a more results-oriented orientation into the facility's design. The current proposal offers little insight on how such considerations would inform decision-making and strategic orientations of the EPF.

⁶² See Furness and Bergmann (2018).

⁶³ Interview with key stakeholder, 22 February 2019.

Concluding remarks

The EPF as proposed by the High Representative would be more than just a repackaging of existing instruments - it would lead EU peace and security policy in uncharted territory. By endowing the EU with a new tool to more flexibly deploy military operations and significantly step up options for military capacity-building assistance to partners, it may further shift away from the EU's traditional focus on non-military soft power tools. Given the shortcomings of current EU military training activities, and given the increasingly uncertain and volatile geopolitical environment in which the EU finds itself, the choice to create an EPF would make political, strategic and operational sense.

At the same time, it raises several important challenges and dilemmas that should be carefully considered when designing and operationalising the EPF if the Facility is to contribute to its stated objectives of peacebuilding and conflict prevention. This includes careful consideration on the potential risks of military capacity-building in terms of potential misuse. Negotiations on the EPF should therefore ensure the necessary safeguards and monitoring systems to avoid that military assistance would strengthen, rather than alleviate conflict dynamics. Likewise, the ultimate impact of the EPF as an EU instrument to sustainably address violent conflict and insecurity will depend on the extent to which it will be used in a coherent way with other EU activities in the domain of civilian crisis management, peacebuilding, development and resilience-building. Such questions are closely related to the governance design of the EPF, including decision-making procedures, institutional embedding, interaction with other instruments and EU services and how the balance will be drawn between responding to EU high-level political priorities and addressing local realities and conflict dynamics.

Little discussion has taken place on these issues so far. The negotiation process among member states is still in its very early stages and many member states do not have an official position on the proposal yet as they need to coordinate between many different ministries within their capitals. The aim is to have a legal act adopted under the Finnish presidency of the Council of the EU (which takes over on 1st July 2019 for a period of six months), although this will likely require an intensification of the current process.⁶⁴

Debates are currently taking place with the Working Party of Foreign Relations Counsellors (RELEX Working Party) of the Council of the EU. While RELEX is responsible for all legal, financial and institutional of the CFSP, including e.g. EU Special Representatives, sanctions or EU crisis management operations, the group's members are usually less familiar with the working methods of the APF. The eventual success of the EPF in addressing some of the burning dilemmas and issues discussed in this chapter will therefore depend on the extent to which the debate draws on experiences, expertise, best practices and lessons learned from decision-makers

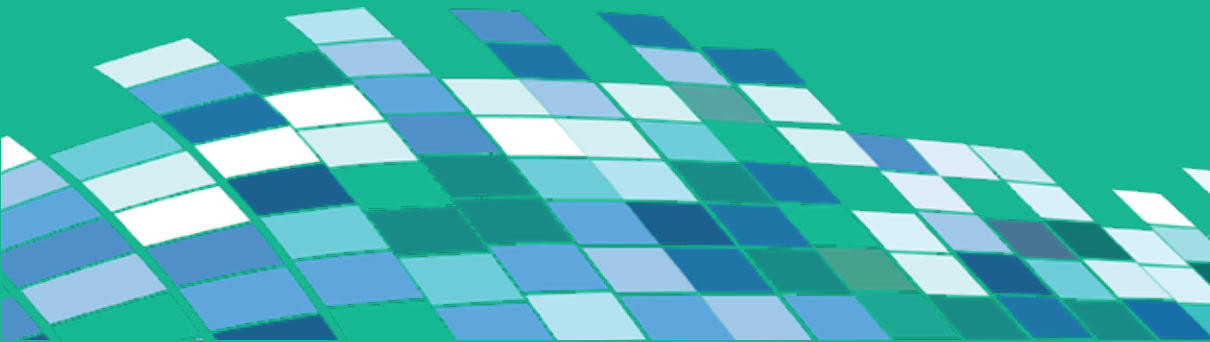
64 Interview with key stakeholders, 4 February 2019, 22 February 2019, 26 February 2019

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and officials responsible for the APF and dialogue with experts inside and outside the EU institutions with knowledge on wider questions on conflict prevention, good governance, human rights and development.

Section IV

Next steps: the strategic programming of EU external action 2021-2027



How to spend €89.2 billion: early developments in international cooperation programming¹

Alisa Herrero, with Andrew Sherriff, Mariella di Ciommo and Sanne Thijssen

Introduction

The European Commission envisages a major restructuring of its external financial architecture in its proposal for a Multiannual Financial Framework for 2021-2027 (MFF 2021-2027). As global challenges grow in complexity and intensity, the case for modernising the EU's external action - making it simpler, more efficient and flexible, and better aligned with the EU's interests and values - has become more compelling than ever.² One of the main findings of the final report on the Mid-Term Review (MTR) of the External Financing Instruments (EFIs) is that there is a need to 'adapt the way the instruments are implemented, notably through a more strategic and overarching programming and ensuring coherent interactions at the operational level in the renewed international context'.³ Programming is an essential decision-making process through which the European Commission, together with the EEAS, EU Member states, and the partner countries and regions, define what are the EU's international and development cooperation strategies, priorities and funding allocations.⁴

As part of the future MFF package, the European Commission is proposing to raise the overall budget for EU external action by 13% in real terms, under a new 'Neighbourhood and the World' heading. The big innovation here is the proposed creation of a Neighbourhood, Development and International Cooperation Instrument (NDICI). The NDICI proposal comes with a proposed financial envelope of €89.2 billion⁵ and streamlines various external financing instruments

Chapter

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2 For further discussion and ECDPM analysis on this see Jones et al. (2018).

3 See European Commission (2017i).

4 See European Commission website – Programming.

5 All figures are in current prices.

(EFIs).⁶ The benefits of such a macro-instrument would be to:

- simplify the management and supervision of the EU's external expenditure;
- improve coherence and complementarity between thematic and geographic interventions, reducing fragmentation and overlaps between programmes; and
- increase financial flexibility in order to better face emerging challenges.

The NDICI's geographic component is intended to support political cooperation with partner countries and regions, and absorbs 75% of the NDICI's overall financial envelope. Financial allocations to different regions are still in brackets, but reflect the EU's geostrategic interests. 80% of the geographic envelope is intended for:

- a. the Neighbourhood (i.e. at least €22 billion); and
- b. sub-Saharan Africa (i.e. at least €32 billion).

The remaining regions will in principle receive:

- a. Asia and the Pacific: €10 billion;
- b. the Americas and the Caribbean: €4 billion.
- c. Some of the funds from the geographical envelope are also to be channelled through a revised version of the European Fund for Sustainable Development (EFSD+) and the external action guarantee, with the aim of leveraging significant additional public and private investments.

It is understood that formal programming will start only once the new European Commission takes office in November 2019. As a high-ranking official put it, *'anything that we do now has a political deadline. (...) The next Commission will decide on country allocations and priorities and the current Commissioner is very cautious about not overstepping the future Commission's agenda'*. But we also know that programming will need to be finalised by 1 January 2021, which is when the new MFF becomes operational. An agreement on the MFF (and the creation of the NDICI) is due to be reached in May 2019, before the elections for the European Parliament. Even if many observers believe that the deadline will not be met, the programming process will have to begin regardless.

6 A total of eight regulations and one decision would be merged. These are the Development Cooperation Instrument (DCI), the European Neighbourhood Instrument (ENI), the Partnership Instrument for Cooperation with Third Countries (PI), the European Instrument for Democracy and Human Rights (EIDHR), the Instrument contributing to Stability and Peace (IcSP), the European Fund for Sustainable Development (EFSD), the External Lending Mandate (ELM), the Guarantee Fund for External Action, and the extra-budgetary European Development Fund (EDF), including the EDF's Africa, Caribbean and Pacific countries (ACP) investment facility.

Programming an external financial instrument of almost €90 billion, covering nearly every country and region in the world,⁷ will be an unprecedented political, policy and administrative challenge. Although the final parameters of programming are still unknown, the EU is ramping up for NDICI programming.

About this chapter

This chapter is an initial analysis of how the EEAS and the European Commission (who are jointly responsible for programming the NDICI) are currently preparing for the next programming process (2021-2027). It focuses on current trends and dynamics, and discusses the potential policy-to-practice gap and how this could be addressed early on in the programming process. The aim is to constructively inform debates between the European Commission's Directorate-General for International Cooperation and Development (DG DEVCO), the Directorate-General for European Neighbourhood Policy and Enlargement Negotiations (DG NEAR), the EEAS, the Service for Foreign Policy Instruments (FPI), the European Parliament, and member states. It is designed to give other interested observers from partner states and civil society an early insight into deliberations.

The chapter is structured around four key questions that will require attention from EU stakeholders in the run-up to formal programming. Although the programming process is not due to start until the new European Commission is in place in November 2019, strategic decisions will be taken in the coming months, by choice or by default, that will shape the programming process and spending priorities. These decisions will influence the EU's ability to fulfil its commitment to deliver more efficient and coherent EU external action that fosters peace, security, sustainable development and poverty reduction. The four key questions are:

1. How can the EU prepare for an interest-driven international cooperation that also captures the spirit of Agenda 2030?
2. What role does DG DEVCO want to play?
3. How can complementarity between the geographic and thematic components of the NDICI be maximised?
4. How to prepare for the possible cascade effects of the NDICI on the EU's external action architecture?

The final section contains a number of concluding remarks. Annex 1 provides an infographic with our interpretation of the programming process and timeline, based on the information gathered in our interviews. The timeline should by no means be considered as an official timeline and will likely be subject to evolution. It is important to note that the NDICI

7 Although the NDICI will also cover industrialised countries, it is highly unlikely that it will be used for significant cooperation with countries such as Japan, the US, Canada, Australia and New Zealand. However, such cooperation has not yet been ruled out from the current MFF negotiations. Interview on 24 October 2018.

programming planning takes place in a highly volatile context whereby member states and the EU institutions more broadly still need to decide on many important issues, including on the budgetisation of the EDF, the inclusion of the ENI in the NDICI and the role of the European Parliament in the governance of the NDICI.⁸ Ongoing MFF negotiations could be protracted and delay the programming process.

Our main findings

The EEAS is currently devising ‘strategic framework documents’ to frame the EU’s international cooperation under the NDICI. These documents will spell out the EU’s interests in a given country or region (in the long term) and clarify how different strands of EU external action (i.e. on climate, energy, migration, security, and economic development) ought to work in different countries and regions. There is no blueprint for these strategic framework documents and it remains unclear when various European Commission services with an external dimension in their mandates will be involved in the process, and how different inputs and visions of the EU’s strategic interests will be consolidated. Although this exercise is the main responsibility of the EEAS (and represents the latter’s added value), DG DEVCO will have to step up its game to ensure that policy coherence for development is not an afterthought in designing these documents. The current MFF discussions have focused until now on the very architecture of the proposed instrument, and will most likely crystallise on the NDICI’s governance structure. The EU member states and the European Parliament would like to increase their role in the political management of the new instrument. The outcome of negotiations may need to be factored into the process of drafting the strategic framework documents and the programming process (for example, through delegated acts).

The EU institutions are also reflecting on how to adapt the resource allocation formula to better reflect the EU’s desire for an interest-driven external action. The draft NDICI Regulation cites partner countries’ capacity and commitment to promoting shared interests and EU values as criteria that are to be taken into account in allocating resources. This suggests that the political (i.e. qualitative adjustment) factor applied in the final allocations will probably be more important than in the past. The resource allocation formula will also need to better reflect the EU’s commitment to Agenda 2030. Although the EU has maintained its commitment to concentrating its resources on least developed countries (LDCs), fragile and conflict-ridden countries, it has also opened up the possibility for bilateral cooperation with graduated countries⁹. This will require a careful assessment of:

- how EU ODA can bring added value to countries with fewer gaps in development finance;
- how innovative forms of cooperation can effectively promote EU values and interests and

⁸ For the perspective on some member states positions on these issues see Castillejo et. al. (2018b).

⁹ ‘Graduation’ refers to countries being removed from the DAC list of countries eligible to receive official development assistance.

- address global challenges; and
- how issues of equity and poverty can be addressed through political and economic cooperation between the EU and Middle-Income Countries (MICs) and Most Advanced Developing Countries (MADCs).

Our research shows that DG DEVCO is investing significant resources into broadening its analytical base for programming, notably through ‘SDG dialogues profiles,’ which list the challenges and opportunities for supporting partner country efforts to deliver on Agenda 2030. The ultimate aim is to pursue a joint EU-UN dialogue with partner countries on how to help them implement Agenda 2030, and also to find synergies between EU (joint) programming and UN programming, in line with recent commitments made by the High Representative Federica Mogherini at the UN General Assembly. Although it is certainly good to see the EU making a genuine effort to translate its commitment to multilateralism into practice, it seems perhaps a little premature to have the objective of a joint EU-UN dialogue on the SDGs preceding a more strategic reflection on what the EU wants to achieve with its ODA. There is also some scepticism as to whether the Sustainable Development Goals (SDGs) provide a useful entry point for the EU to engage in a dialogue with MICs and MADCs, as the 2030 Agenda is still associated with the development cooperation. The EU’s credibility and ability to convene SDG dialogues would certainly increase if the EU showed leadership in implementing Agenda 2030 within its own borders and effectively mainstreamed the SDGs across different EU policy areas.

Although it is also encouraging to see that Brussels is taking a more analytical approach to the programming process, desk-based efforts should not preclude the use of more sophisticated types of analysis (such as political economy analysis, conflict analysis, etc.), notably of the power dynamics that influence partner countries’ ability to effectively pursue pro-poor, sustainable development-oriented reforms and which determine external actors’ ability to influence country-led change processes. In this regard, the European Commission HQ should engage with EU Delegations during the strategic assessment phase and invest in tried and tested diagnostic tools that could guide EU programming choices and EU-UN dialogues on the SDGs. The programming instructions should also ensure that Multiannual Indicative Programmes (MIPs) are based on coherent theories of change, starting from the analyses described above.

A further point to bear in mind is that DG DEVCO and DG NEAR are approaching the programming process from different angles. While DG NEAR’s focus is on ensuring that the specificities of the European Neighbourhood Instrument (ENI) are safeguarded in the new instrument, DG DEVCO is gearing up to ensure that Agenda 2030 forms the common framework for action and dialogue between the EU institutions, the EU member states, the UN and the partner countries. Unlike in the 2014-2020 programming period, the EU no longer has its programming priorities in a straightjacket. The draft NDICI Regulation contains a wide menu of options reflecting the contents of Agenda 2030 on sustainable development and indicating a move away from narrow sector concentration to multi-sectoral or sector-wide,

result-oriented approaches to programming. Although this is a most welcome development, translating it into practice will prove easier said than done. Programming choices will need to reflect the priority areas of existing or future regional cooperation frameworks.

The European Commission and the EEAS will play a key role in ensuring policy compliance with the EU's strategic interests and policy commitments. However, the exercise is likely to be much more complex than in the previous programming process, where the main focus was on ensuring policy compliance with sector concentration on limited key sectors where the EU thought it would have more impact. There will now be many dimensions to monitor for compliance:

- alignment with the EU's strategic foreign policy priorities;
- observance of guiding principles (i.e. leave no-one behind, resilience approach, rights-based approach, results-based approach, conflict sensitivity, inclusive partnerships, aid effectiveness, etc.);
- benchmarking targets (for climate, social inclusion and development, and addressing the root causes of migration), while ensuring that thematic priorities are effectively addressed in the geographic component and that country programming does not neglect any of the three pillars for the transformation to sustainable development, i.e. equity, ecology and economy;
- ensuring that investment operations are compatible with the 'leave no-one behind' principle,
- assessing whether there are enough good reasons for EU Delegations not to use joint programming as their preferred approach.

To maximise policy compliance, it is important that the programming instructions provide EU Delegations with specific operational guidance, and that Headquarters devise the right incentives and effective monitoring systems.

Box 1: What are the interinstitutional arrangements for NDICI geographic programming

Under the Lisbon Treaty and the 2012 Interinstitutional Agreement,¹⁰ the EEAS and the European Commission (now DG NEAR and DG DEVCO) share responsibility for the strategic programming of EU external aid. Together, they prepare the European Commission's

10 Working Arrangements between Commission Services and the European External Action Service (EEAS) in relation to external relations issues, SEC(2012) 48 (10 January 2012) (unpublished SEC-document). Signed by the Secretary-General of the European Commission and the Chief Operating Officer of the EEAS on 13 January 2012.

decisions on country and regional financial allocations. Both the High Representative/Vice-President (HR/VP) and the Commissioners at DG NEAR and DG DEVCO have to sign the programming documents and submit them jointly to the College of Commissioners for adoption.

The EEAS is responsible for injecting a strategic vision and for ensuring co-leadership and interinstitutional coordination of EU external action. Despite this, the newly established EEAS had only a minimal influence over the previous geographic programming process in 2014-2020. The European Commission takes the lead in designing and implementing programming documents and annual action plans, and in financial management.

The EEAS and the European Commission are jointly responsible for drafting the programming instructions, which spell out the overarching policies and principles that govern the programming for the period in question, and for preparing a timetable. These instructions are prepared with limited engagement on the part of EU member states and civil-society organisations. They are required to be politically validated by both the EEAS and the European Commission.

The EU Delegations are responsible for conducting analyses and in-country multi-stakeholder consultations, for coordinating activities with the member states, including joint programming exercises, and for leading the programming dialogue with partner countries. The process of drafting the MIPs is iterative, and requires intense dialogue (and sometimes fierce negotiation) between the European Commission and the EU Delegations.

With regard to the geographic and thematic components of the NDICI, the draft Regulation assumes that specific funding decisions would be taken by the European Commission in the form of implementing acts based on multi-annual programmes and action plans. These would need to be approved by a qualified majority of member states, in a committee of technical experts (known as the NDICI Committee). Currently, the draft NDICI Regulation does not envision a specific mechanism for European Parliament involvement in strategic choices on priorities and funding.¹¹ It is still unclear whether the strategic dialogue with the European Parliament will continue in its current form (although it is likely to do so) or whether the European Parliament will manage to get more out of the negotiations than last time.¹²

¹¹ See European Parliament (2018c).

¹² See European Commission (2017m), p.23. For a wider discussion of NDICI governance issues, see Jones, De Groof and Kahiluoto (2018).

Methodology

Our analysis draws on a limited amount of publicly available written information and on interviews with 24 informed stakeholders in the EEAS, the EU Delegations, DG DEVCO, DG NEAR, the FPI, the European Parliament and five member states, at the very early stages of a highly dynamic, political and also extremely technical process. We conducted a total of 16 interviews between 9 October 2018 and 9 November 2018. Inevitably in such a dynamic process, at such an early stage, and with so many variables that are subject to change, there are distinct limitations on how firm the foundations of our policy research can be. Nevertheless, given the high stakes, potential resources involved, and keen interest from ECDPM stakeholders we felt it worthwhile to embark on some first reflections.

Some of the information provided is analytical, while other information is more speculative, based on existing knowledge and a European Centre for Development Policy Management (ECDPM) analysis of previous programming processes.¹³

This chapter is part of a broader ECDPM workstream on the MFF and the governance of the NDICI instrument and ECDPM will follow inevitable changes and evolutions that will occur over the next two years.¹⁴

How can the EU prepare for an interest-driven international cooperation that captures the spirit of Agenda 2030?

Strategic framing of the EU's international political cooperation

The NDICI reflects the EU's ambition to bring about more strategic, political and interest-driven external action agenda in partner countries, where international cooperation and aid are part and parcel of the EU's broader foreign policy strategy. The EC's proposal assumes that the EU's international cooperation is based on (among other things) a 'framework document laying down the Union policy towards the concerned partner or partners, including a joint document between the Union and member states.'¹⁵ These 'strategic framework documents' will be instrumental in defining the EU's interests in a given country or region. They will look at the different strands of EU external action, (i.e. climate, energy, migration, security, and economic development) and will clarify what the EU wants to achieve with its different EFIs and ODA in a given country.

¹³ See Görtz and Keijzer (2012); Herrero et al. (2015), and Herrero and Gregersen (2016).

¹⁴ Further details available at: <http://ecdpm.org/dossiers/multiannual-financial-framework-mff/>

¹⁵ And on other documents too, including 'a national or regional strategy in the form of a development plan or a similar document accepted by the Commission as a basis for the corresponding multiannual indicative programme, at the time of adoption of the latter document' and 'a joint document between the Union and the concerned partner or partners setting out common priorities.' (NDICI draft Regulation, Article 12).

Current EEAS thinking, as captured by our interviews, is that ‘strategic framework documents’ would need to be flexible and fluid instruments, allowing them to evolve with changing circumstances and shifting EU priorities. In principle, they would not be negotiated or shared with partner countries. Nor would they be bound by the programming cycle or subject to comitology¹⁶ (although in principle, and according to our sources, EU member states would be consulted at some stage, probably at the country level).

The EEAS leads on interinstitutional cooperation during the programming process. The Commissioners’ Group on External Action facilitates inter-service coordination, and country-team meetings also offer opportunities for different line DGs with an external dimension to their mandate to discuss EU external action in specific countries. At the time of writing, inter-service discussions on the strategic framework documents had not yet started and key decisions were still pending: Will the EEAS involve different Commission services (beyond DG DEVCO and DG NEAR) in the drafting of these strategic documents, and if so, when and how? And how will different inputs and views on the EU’s strategic interests be consolidated?

There does not seem to be a blueprint for these strategic framework documents at present. We identified the following potential approaches (although there may be others):

1. **Looking back:** The EEAS is systematically screening the plethora of ‘strategic documents’ that already exist in different countries. These include Association Agreements and Partnership Priorities (in the case of ENI countries), country strategies, joint framework documents, human rights strategies, civil-society road maps and joint programming documents.¹⁷ This type of screening will allow the EEAS to identify countries where new consolidated documents are needed, as well as those countries where existing strategic documents are deemed to be sufficient.
2. **Looking forward:** Certain EEAS directorates are investing in bottom-up processes with EU Delegations, with the aim of building a shared understanding of long-term challenges affecting partner countries, as well as a shared vision of what the EU wants to achieve in the long run and how it can respond in the short term. The rationale explained by a high-ranking official is that, *‘if you don’t understand the long-term challenges in the regions*

16 The European Commission is explicitly empowered by the European Parliament and/or the Council to adopt acts to implement EU law in many areas. These acts are called Implementing acts. Member states can control the implementing power of the European Commission through “comitology”. This means that the European Commission submits the draft implementing act to a Committee composed of representatives from all member states, who vote through qualified majority. If there is a positive outcome, the Commission must adopt the act; if there is a negative outcome, the Commission cannot adopt the act, and if there is no qualified majority for, nor against, the Commission may adopt the act.

17 While some documents are negotiated with partner countries, others are unilateral EU documents. Some strategies require formal adoption by the Council, whereas others do not have any legal status.

where you intervene, you can't define your interests. Then we need to customise this vision to each country, and focus our interventions on how to address these challenges.' Although these bottom-up exercises had not yet been launched at the time of writing, they should be closely monitored, as they offer good potential for ensuring a 'corporate' buy-in of the EEAS's strategic documents by front-line actors who know the country best.

- 3. Status quo:** According to our sources, the current Association Agreements or Partnership Agreements (negotiated with neighbourhood partner countries and reflecting shared priorities) are considered to be valid strategic documents that are well-suited for framing and informing post-2020 programming choices in the Neighbourhood.¹⁸ We found little appetite for revisiting the existing strategic framework in the Neighbourhood, and the relevance of the reviewed European Neighbourhood Policy (ENP) was not questioned. As one interviewee put it, *'we are advocating for the ENI programming approach to be maintained – otherwise it would be a step back.'*

Defining strategic framework documents will require a powerful political impetus and operational guidance, and also some critical reflection on why such political documents have been so difficult to produce and agree on in the past.¹⁹ To a large extent, the real decision-making power still lies with the European Commission (who manage the money) and the member states (who ultimately control the foreign policy agenda on certain countries and regions).

Several of our interviewees were concerned that EU's short-term self-interests rub off on its strategic frameworks and programming choices. Indeed, the short-term interests of migration and security have in recent years increasingly dominated – some would say contaminated – EU foreign policy and to a certain extent its development policy agenda. Although the vast majority of EC programming is not focused on either security or migration issues, the tensions between EU values and short-term interests have been clearly reflected in the MFF negotiations. The tensions remain uneased, several interviewees noted: *'we speak about our values as key drivers, but then also about principled pragmatism'* and *'this raises concerns that the NDICI will be a piggy bank for migration and security.'*

To prevent this from happening it is important that the strategic frameworks are assessed against how much they reflect EU's ultimate goal (as enshrined in the Lisbon Treaty) of more efficient and coherent EU external action, geared to attaining the overall objectives of peace, security, sustainable development and poverty reduction.

¹⁸ This is reflected by article 7 in European Commission (2018f).

¹⁹ The Partner Instrument (2014-2020) stated that programming would be embedded in Joint Framework Documents, i.e. strategic documents integrating all aspects of EU external action and outlining the broad range of EU interests and priorities in specific countries or regions. This early expectation did not materialise in practice.

The NDICI recognises, rhetorically, that policy coherence for development (PCD) will be a crucial element of the strategy for achieving sustainable development. It stresses the need to take account of the impact of EU policies on sustainable development at all levels. DG DEVCO (as the institutional leader on PCD in accordance with Article 208 of the Treaty on European Union) needs to quickly step up its game to make sure that PCD is not just an afterthought in drafting these strategic frameworks and ranking strategic priorities. As a traditional supporter of PCD, the European Parliament is also keen to play a role in ensuring that PCD aspects are not lost in the programming, including by commenting on strategic decisions put forward by the European Commission before the final decisions are taken.

Most current MFF discussions have focused until now on the structure and architecture of the proposed NDICI, which has been received with mixed reactions by the member states and the Parliament. The governance set-up and role division between the institutions in steering and managing the instrument will also certainly be one of the main contentious issues in the upcoming inter-institutional negotiations. While member states and many MEPs agree with the principle of more interest-driven and integrated EU external action, they also insist on being more closely involved in the political steering of the instrument at an early stage. Senior EU officials consulted were still unclear as to whether the EU's strategic framework documents for programming would be discussed with the member states and the European Parliament before being approved by management. As a representative from a member state pointed out,

'The Commission's opinion is that comitology and the programming phase will both be important, but what will be decided at what level remains vague (for example, when the subdivision of funds will happen and what role the Commission will play). But we have not yet reached the stage at which we are discussing the programming in detail.'

Similarly, the European Parliament regretted in its latest opinion that 'NDICI (...) contain(s) virtually no such provisions on governance aspects, and that no specific mechanism is envisaged for the European Parliament's involvement in strategic choices on priorities and funding.'²⁰

A resource allocation formula that matches EU ambitions and commitments

Deciding on the resource allocation formula (i.e. criteria based on a limited set of internationally recognised quantitative indicators, according to which countries and regions will be allocated certain amounts) that will apply to the next MFF cooperation instrument(s) is a highly political matter that is clouded in secrecy. We were told that the EU will assess the relevance of the

²⁰ See European Parliament (2018c).

existing resource allocation model,²¹ and consider whether new indicators should be included in the formula. The way the NDICI draft Regulation has been formulated suggests that there could be a central resource allocation model accommodating the specificities of the Neighbourhood, including the European Neighbourhood Policy's 'performance-based approach'.²² Various considerations can help us to understand the covenants that could influence the design of the next resource allocation formula.

Differentiation

Beyond the Neighbourhood and in line with the European Consensus on Development, the NDICI draft Regulation indicates that the EU will continue to give priority to the LDCs, low-income, crisis, post-crisis, fragile and vulnerable countries, including Small Island Development States (SIDS), and will take account of the special needs of fragile, crisis and post-crisis countries.²³ In line with the European Consensus on development, the draft regulation sets a collective target to reach 0.20% of ODA as a share of EU gross national income going to LDCs.²⁴ This suggests that differentiation²⁵ will continue to apply, and that no major overhaul of the model is likely to occur. The EU will most probably design a formula based on a limited set of internationally acknowledged quantitative indicators relating to needs, capacity and performance. It will then apply a qualitative adjustment to account for political dimensions that are not easily captured in quantitative terms (such as absorption capacity, a country's political situation, commitment to reform processes, or its willingness to embrace an EU value-driven agenda). However, the EU needs to factor in the fact that the whole world is basically graduating from LDCs to low MICs and HICs.

21 The current allocation formula uses a geometric model, meaning that there is no arithmetic weighing of the different indicators. This makes it more difficult to understand how the various indicators influence the allocation relative to each other, and what is the weight of the 'political adjustment factor' applied (as compared with an arithmetic model).

22 The NDICI includes a number of specific provisions on Neighbourhood, including the performance-based approach, according to which indicatively 10% of the financial envelope is set aside to supplement country financial allocations for those countries that make annual progress towards democracy, human rights, rule of law, cooperation on migration and economic governance and reforms.

23 In 2017, EU institutional aid to MICs was more than double the amount of aid provided to LDCs, mainly due to rising allocations to certain Neighbourhood countries. See Di Ciommo and Sayós Monràs (2018).

24 Note that the wording in the NDICI draft Regulation is currently incorrect.

25 Differentiation takes into account the growing disparity of the profiles of partner countries, and defines criteria to decide i) whether a country is eligible or not to access aid (based on the graduation principle); ii) the levels of EU aid; and iii) the use of an optimum mix of policies and instruments adapted to countries' development situation. The differentiation principle was reinforced in the 2014-2020 programming period, with the aim to significantly reducing bilateral aid to upper MICs, and large emerging economies, and instead targeting least developed countries, low income countries and countries in crisis, post-crisis, fragile and vulnerable situations. The allocation formula resulted in a consistent transfer of resources from upper MICs, to least developed countries, and lower-income countries.

The EU's geostrategic interests

The draft NDICI Regulation adds a new criterion (compared with the criteria which applied to resource allocation in the 11th European Development Fund (EDF)) to the list: (e) capacity and commitment to promote shared interests and values. This has triggered concerns that some aid allocations will be dependent on migration deals. The Regulation is unclear as to whether the performance-based approach will apply to countries beyond the Neighbourhood, and member states continue to be divided on this matter.

It is worth bearing in mind that the 11th EDF performance-based mechanism, which was intended to top up allocations for good performers, did not materialise in the end, as the EU member states could not agree on it. It is also unclear how the changing geographic weight of the EU's interests post-Brexit (notably with regard to Anglophone Africa, where the UK has generally played a strong role in influencing the EU's interests; France's influence in shaping EU's external action may become even stronger in the UK's absence) will be informally factored in. As one of our interviewees said, *'there will always be an arbitrary side to the allocation formula, subject to political choice, and this discretionary power will vary from one country to another.'*

Reflecting Agenda 2030

The EU's past differentiation policy of concentrating resources where they are most needed, and the subsequent phasing out of aid in countries that graduated from the list of LDCs, resulted in a big gap in terms of the EU's ability to work with MICs in addressing poverty and inequalities. Aligning with Agenda 2030 on sustainable development may require some fine-tuning of the allocation formula. For instance, including disaggregated indicators that take account of inequalities at the sub-national level, or indicators that reveal the country's capacity to raise domestic resources, and complement the GNI per capita indicator.²⁶ Country income classification should not be the only criterion determining whether a country is eligible for EU bilateral cooperation instruments. MICs are host to large, hard-to-reach poverty pockets, and some MICs may find it difficult to afford the tax burden for income redistribution.²⁷ It is also true that there are only limited opportunities for raising ODA resources to MICs without moving further away from commitments to LDCs or the Neighbourhood.²⁸ A decision on whether the NDICI will include small bilateral cooperation envelopes for MICs and MADCs has not yet been taken as part of the current debate on how to integrate a 'development-in-transition' dimension into the future NDICI. A key question will be to define the EU's ODA niche in these countries and to ensure that it addresses global challenges, including poverty and inequalities, through innovative forms of cooperation.

²⁶ See Herrero et al. (2015).

²⁷ Ibid.

²⁸ See Di Ciommo and Sayós Monràs (2018).

Regional envelopes

The draft NDICI Regulation suggests that envelopes for regional programming will also increase, as they will absorb some of the activities previously financed by the thematic programmes. An important change that has emerged from our discussions with the EEAS and DG DEVCO is that regional cooperation will focus less on regional organisations' capacity-building. Instead, priority will be given to supporting regional integration dynamics more broadly, including by giving national actors access to the regional envelope (like in the 11th EDF regional programming). This could mean that regional organisations' absorption capacity and budgets, and partner countries' contributions to regional organisations would weigh less in the new formula. In line with EU interests, some thematic priorities will probably enjoy higher levels of funding through regional envelopes (for example, security and stability, in line with the EU's security-induced foreign policy).

1.3. Still missing: a strategic policy framework on cooperation with MICs and MADCs

The NDICI draft Regulation states that cooperation with industrialised countries will focus on the promotion of EU values and shared interests. However, the EU's strategic policy framework currently contains very little guidance on long-term engagement strategies with MICs and MADCs.²⁹ Building on the achievements and knowledge acquired through the Partnership Instrument (PI),³⁰ the EU should not miss an opportunity to address this policy gap before the next MFF programming process reaches cruising speed. In 20 years' time, the EU's political cooperation will revolve mostly around MICs (lower and higher), and the EU's political cooperation with MICs and MADCs will require a nuanced strategic reflection on many different issues.

First, the EU needs to have a clearer view of what it wants to achieve, in the long run, with its political cooperation with MICs and MADCs. This means, for example, taking account of Chinese competition and the rise of illiberal democracies, as well as the sheer diversity of MICs and MADCs. As a senior official pointed out,

'You need to find a niche market in MICs and HICs [High Income Countries]. One is to invest in the minds of people: to create space for debate and preserve space for debates, particularly where you have illiberal tendencies.'

Second, the EU needs to undertake a much more detailed reflection on how innovative ways of cooperation (i.e. research and innovation, cultural cooperation, knowledge-sharing and

²⁹ Ibid.

³⁰ The PI (established in 2014) responded to the EU's ambition to engage with strategic partners and graduated countries on the basis of EU interests and EU-driven agendas, breaking away from the development aid logic. The evaluation of the PI was positive, although it also revealed certain limitations (e.g. short-term and little or no pro-poor focus).

peer-to-peer learning) can effectively promote EU values and interests, while at the same time addressing global challenges such as poverty and inequality. NDICI programming in MICs and MADCs should also target outcomes in poverty and inequality reduction (for example, in setting standards for decent work in EU economic diplomacy efforts and EU trade dialogues).³¹ It is important in this regard for the EU to ensure that poverty alleviation, the reduction of inequalities, and social justice feature systematically in the EU's political dialogue, trade deals, and knowledge-sharing with these countries.³² There is certainly scope for increasing knowledge-sharing on the EU's successful experience with its social model, and in promoting social cohesion for regional integration.³³ The EU will also need to analyse the wider incentives and constraints (in the EU and partner countries) for it to be able to successfully engage in 'innovative' forms collaboration geared to delivering on global public goods.³⁴

Finally, there is some scepticism about whether the SDGs provide a useful entry point for the EU to engage in a dialogue with MICs and MADCs, and in ENI countries. Although Agenda 2030 is universal in scope, it is still associated with development cooperation. In the words of a high-ranking official, 'Agenda 2030 is relevant for everybody, but maybe more relevant for sub-Saharan Africa than for our Neighbourhood partners, Agenda 2030 is not a key reference document for them.' The EU's credibility and ability to persuade countries to engage in SDG dialogues would certainly be raised if it showed leadership in implementing Agenda 2030 within its own borders and if it effectively mainstreamed SDGs across different EU policy areas and the entire budget.

What role does DG DEVCO want to play?

DG DEVCO will play a key role in defining the EU's cooperation priorities in all countries except in the Neighbourhood countries (where DG NEAR will take the lead). It will also play an important role in clarifying how EU ODA can best pursue EU's interests, promote EU values, and support partner countries' transition to sustainable development. Another vital role will be in ensuring that programming complies with policy commitments and guiding principles. The exercise is likely to be much more complex than in the past programming process, where the focus was on ensuring compliance with sector concentration in key policy areas where the EU thought it would have more impact.

There will now be many dimensions to monitor for compliance:

- alignment with the EU's strategic foreign policy priorities and high-level policy framework;
- observance of the guiding principles for EU programming, i.e. leave no-one behind,

31 See European Think Tanks Group (2014).

32 Ibid.

33 Ibid.

34 See Di Ciommo, Thijssen and Sayós Monrás (2018).

resilience, rights-based, results-based, conflict sensitivity, inclusive partnerships, aid effectiveness, etc.;

- benchmarking targets on climate, social inclusion and development;
- addressing the root causes of migration;
- ensuring that investment operations are compatible with Agenda 2030 and aid effectiveness principles;
- encouraging member states and EU Delegations to adopt joint programming as their preferred approach.

This is a tall order, not only because the EU has a limited track record in terms of translating multiple principles into coherent practice, but also because the programming process could become unmanageable as a result. This could easily happen if EU Delegations do not have the right programming instructions and operational guidance on how to translate guiding principles into practice throughout programming, and if the right monitoring systems and incentives to guide the programming process are not in place at EU headquarters.

This section looks in more detail into how DG DEVCO is preparing for the herculean task ahead, and points to some areas where attention is needed to avoid a policy-to-practice gap.

Build a programming narrative around Agenda 2030 and the SDGs

The NDICI draft Regulation is closely aligned with the new European Consensus on Development, which sets out a shared vision and framework for the EU's external action on the implementation of Agenda 2030. This will be in support of the five priorities established by the EU Global Strategy,³⁵ and largely geared to global public goods.

The general consensus at DG DEVCO is that Agenda 2030 is the shared framework for action and dialogue between the EU, its member states, the UN, and its partner countries, including during the programming process. Agenda 2030 is indeed a common agenda already agreed with partner countries. It is perceived as 'a good tool to start talking and debating with the countries, compared to previous programming exercises (...). *One of the advantages is that Agenda 2030 will hopefully be mainstreamed in the national development budget. It will then be easier to use that for programming.*'

So DG DEVCO's plan is as follows: 'Together with member states, we are trying to understand how partner countries are planning to adapt Agenda 2030 into their national fiscal budgetary policies and instruments. Once we have an idea about this, the EU and its member states as the world's' largest providers of ODA will collectively synchronise with Agenda 2030 in

³⁵ Namely: 1) the security of the EU, 2) state and societal resilience to our East and South; 3) an integrated approach to conflicts; 4) cooperative regional orders; and 5) global governance based on international law.

accordance with our partner countries' national plans.' That said, there is no reason to assume that, because Agenda 2030 is a 'shared' agenda, external actors will have more leverage over domestic political processes and change dynamics.

DG DEVCO has invested significant resources in order to align its results framework with the SDGs. It wants to push for 'a joint results framework between the Union and the member states that we can publish so that we can tell the SDG story in a consolidated manner.' The NDICI draft Regulation proposes ten indicators in Annex VII,³⁶ in accordance with the horizontal philosophy of a 'results-oriented budget' put forward by the EC. Several of our interviewees raised concerns about the evident mismatch between the current indicators in the Regulation (which are output-oriented), and the existing results framework (which is based on SDG indicators). To quote a high-ranking official, *'we still need to find out how we will define impact for such a big instrument. We will need to reconcile the macro level with regional, country and thematic levels. There are still many missing middles.'*

The same issue was also raised by another interviewee, who said that the NDICI's list of indicators was *'a disgrace, completely disconnected from Agenda 2030 and indicative of the importance that the European Commission attaches to impact. The current indicators are only about outcomes. They only care about figures that can easily be counted.'* This could result in programming (and interventions) focusing on the delivery of outputs rather than on policy transformation processes.

Create co-benefits and meet multiple objectives

In previous research on the 11th EDF programming, the ECDPM argued that sector concentration was perhaps not the best strategy for achieving high-impact aid, because the quality and impact of an intervention do not depend on the financial volume. The ideal volume of assistance to sectors (and the optimum level of donor presence in those sectors) depends on the particularities of the sector and the country in question. We argued that donor graduation policy combined with sector concentration was leading to a number of perverse effects, including the fact that large volumes of aid in fragile countries were directed at sectors with limited absorption capacity, leading to overcrowding, sector saturation, aid inefficiency and limited opportunity costs. We also found that using national development strategies as a benchmark for assessing sector aid allocations had important drawbacks, as they sometimes omitted very urgent needs or painted a distorted picture of national priorities in order to reflect donor priorities.³⁷

³⁶ See European Commission (2018c).

³⁷ See Herrero et al. (2015).

The European Consensus says nothing about sector concentration. The NDICI draft Regulation states that ‘Programmes and actions (...) shall mainstream climate change, environmental protection and gender equality and shall address interlinkages between Sustainable Development Goals (SDGs), to promote integrated actions that can create co-benefits and meet multiple objectives in a coherent way’. This suggests a move away from the Agenda for Change sector concentration principle (in a narrow interpretation), towards an increasingly integrated multi-sector and sector-wide approach to programming. The underlying assumption here is that it is necessary to make contributions in several sectors in order to achieve the desired results. This positive development would also put climate fragility and poverty and inequality reduction at the heart of EU external action.³⁸

However, there could be a policy-to-practice gap if the following issues are not addressed by the NDICI Regulation and/or the programming instructions:

1. First, EU Delegations should build on the ‘strategic framework documents’ framing the EU’s overall foreign policy in the country and should make use of solid, tested, diagnostic tools to refine their ‘strategic context’ analysis. This would enable the EU to better understand the underlying causes of poverty (after all, according to the Lisbon Treaty, the eradication of poverty continues to be the overall objective of EU external action), inequalities and violent conflict in those countries where it operates. This, in turn, could help refine the EU’s targeting (in line with the ‘leave no-one behind’ principle) and identify priority areas of intervention where EU aid has a clear added value over other donors, and other financial flows. The challenge will be that to make sure that the use of diagnostic tools does not become a routine ‘paper exercise’ but effectively informs programming choices and intervention design, based on coherent theories of change.
2. Geographic cooperation is by essence long-term and subject to multi-annual programming. Its predictability has consistently been noted in evaluations as part of the added value of the EU institutions’ aid. Predictability ensures that political cooperation can focus on long-term structural challenges. However, and without losing the continuity and predictability of EU support, allowing some flexibility in long-term programming could allow the EU to swiftly adapt to emerging needs. The lessons learned from the evaluation of the ENI are particularly interesting in this connection. Although policy dialogue (an inherent feature of the ENP framework) ensured that the ENI upstream strategy and programming documents were closely aligned to the partner countries’ reform agenda and focused on agreed shared

³⁸ Eastern and Southern Africa EU Delegations have organised a regional seminar on food and nutrition security coordination (5-9 November 2018) to ‘capitalise on experiences and lessons learned and look forward to the next programming cycle’. One of the key sessions builds on the lessons learned since 2014 in terms of programming approaches (multi-sectoral, multidimensional, transformative?), in view of the need to incorporate new policies and policy changes.

priorities, the programming documents did not contain a proper analysis of change agents, risk assessment and conflict sensitivity.³⁹ This meant that EU cooperation was not able to anticipate change. As the ENI evaluation points out: 'Forecasting multiple scenarios would seem necessary in unstable/complex environments (and require the relevant strategic analysis capacity) so that programming could be adjusted.'⁴⁰ Having said this, a sequenced approach to programming that reflects the EU's long-term vision on countries' transition to sustainable development, beyond the EU budgetary and programming cycle, would also be necessary.

3. Third, ring-fencing for social development and climate change (the current NDICI proposal sets a 20% spending target for social inclusion and human development, and 25% for climate action) places a focus on EU spending priorities at an aggregated level. This could create negative incentives for NDICI geographic programming to articulate coherent country support strategies around the three pillars of sustainability, i.e. economy, equity and ecology. We feel that EU geographic (country) programming should systematically address the 5Ps, i.e. people, prosperity, planet, peace and partnership, in line with partner countries' SDG strategies. At the same time, aid effectiveness principles should of course be respected.
4. Lumping gender and women's empowerment together with social inclusion and human development in the overall spending target may not form a sufficiently strong incentive to ensure that gender actions are mainstreamed in geographic programmes. It would be wise to align the NDICI Regulation with the Gender Action Plan (GAP) II commitment to mainstream gender actions across at least 85% of all interventions – alternatively, a reference to the GAP could be included in the programming instructions. Gender equality could also be a 'programming guiding principle', and gender-responsive budgeting should not be restricted to the social sectors.⁴¹
5. The proposed target of ring-fencing 25% of the NDICI financial envelope for supporting climate objectives may not be ambitious enough (with the European Parliament and some member states calling for an increase of up to 50%). If the ring-fencing target is not increased, then other complementary measures could be taken, such as including an obligation in NDICI programming instructions to ensure that 100% of MIPs are climate-proof and climate-resilient, informed by climate impact assessments, and do not contradict any of the legal obligations under the Paris Agreement on Climate Change. Bilateral cooperation could also identify and earmark specific spending, both quantitatively on the basis of the 25% climate target and qualitatively for climate change mitigation and adaptation.⁴²

39 See European Commission (2017m), p. 17.

40 See European Commission (2017n).

41 Plan and Care commentary on the NDICI.

42 Climate Action Network commentary on the NDICI.

6. The proposed NDICI Regulation is expected to dedicate at least 10%⁴³ of its financial envelope to 'addressing the root causes of irregular migration and forced displacement and to supporting migration management and governance, including the protection of refugees and migrants' rights'.⁴⁴ Although this benchmark target should be read in conjunction with the '92% DAC-ability' rule,⁴⁵ it reflects the current state of mind in the European Council (and is in line with current spending), but seems oblivious of the growing evidence⁴⁶ that, in the short to medium term, development leads to more, not less, international migration. As the Food and Agriculture Organisation (FAO) pointed out in a recent report, 'the capacity of development assistance to deter migration is limited at best and [...] successful development in almost all formerly-poor countries has resulted in increased emigration'.⁴⁷ The EU should also remind itself of the links between migration and its broader goals of eradicating poverty and fighting inequality. The pre-programming phase offers a golden opportunity to capitalise on existing knowledge and to conduct targeted assessments in countries with different profiles (for example, in fragile and conflict-ridden states facing youth unemployment challenges, states with some development momentum to absorb youth labour market entrants, and states with economic momentum, advanced urbanisation, and demographic transitions).⁴⁸ The object would be to refine the EU's understanding of how development aid could be used to shape migration for the mutual benefit of all concerned.

7. Finally, with regard to the EU's political cooperation in Africa, the EU has assumed that the 'increased firepower of the External Action Guarantee of €60 billion globally',⁴⁹ combined with the EFSD+, will improve the leverage of EU political cooperation to effectively encourage partner countries to spend more on education and the development of skills to match the needs of the labour market (action 5 of the EU-Africa Alliance). The assumption is also that this will strengthen EU dialogue, cooperation and support in relation to the investment and business climate (action 6 of the EU-Africa Alliance). Whether this materialises in practice remains to be seen, however. Much will depend on how well the EU uses its economic dialogue to promote EU values and the SDG agenda. It will be important to ensure that the governance structure for the NDICI and the programming

43 Some member states have called for an increase in this figure, while others are against a specific ring-fencing target for migration, arguing that it would be more effective to include migration in the geographic pillar.

44 See European Commission (2018f). Recital (30).

45 At least 92% of the funding under the NDICI regulation should contribute to actions designed in a way that fulfils the criteria for Official Development Assistance as established by the Development Assistance Committee of the Organisation for Economic Cooperation and Development.

46 See Castillejo et al. (2018a).

47 See FAO (2018).

48 Ibid.

49 See European Commission (2018i).

process are designed to maximise synergies between the EFSD+ and the programming of geographic cooperation, while ensuring at the same time that no-one is left behind. The EU may also need to clarify how aid effectiveness principles will apply to External Action Guarantees.

NDICI benchmarking targets reflect the EU's political priorities and commitments, and current spending levels. But having the numbers add up at an aggregate level should not preclude the EU from undertaking a strategic reflection on how it can ensure that bilateral cooperation reflects coherent engagement strategies at country level that integrate the three pillars of sustainable development, i.e. equity, economy and ecology, and systematically address the EU's thematic priorities.

Broaden the analytical base of programming

In preparation for the programming phase, DG DEVCO is also investing resources in refining its strategic assessment of different countries and the role that ODA could play. Our research identified two main initiatives taken by DG DEVCO to broaden its analytical base:

1. 'SDG dialogue profiles', aimed at better understanding how the EU can help partner countries achieve the SDGs (see Box 2);
2. 'Jobs and Growth Compacts', aimed at identifying promising value chains for job creation in sub-Saharan Africa (see Box 3).

Although both these initiatives are not officially part of the programming process, they are likely to inform the position adopted by the EC.

The fact that DG DEVCO has adopted an increasingly analytical and reflective approach to programming is certainly welcome. However, DG DEVCO should not overestimate the usefulness of HQ-driven, and rather static desk-based initiatives. The SDG dialogue profiles can of course be useful to consolidate existing knowledge in a snappy and concise manner, but they should in no event be a substitute for (more costly) diagnostic tools used at country level, nor should they be considered as providing sufficient evidence to justify overruling programming choices informed by in-country multi-stakeholder consultations or analyses led by EU Delegations, at a later stage in programming. There could also be greater clarity as to how and when the outcomes of these 'SDG dialogue profiles' will be consolidated with broader EEAS efforts to define the EU's interests and foreign policy strategies in partner countries.

Box 2: SDG dialogue profiles

Senior management at DG DEVCO recently launched a pilot exercise⁵⁰ in order to gain a better understanding of how to help the partner countries achieve the SDGs. The exercise is designed to:

- 1.. establish the state of the art with regard to the implementation of SDGs in various partner countries, including elements of political and economic analysis conducted jointly with the UN;
2. define the EU's interests and cooperation agendas in the various countries (in relation to the SDGs, climate change, the interests of the EU private sector, etc.);
3. identify points of convergence and opportunities to build shared agendas in the long term with the partner countries in support of the SDGs;
4. identify the most promising platforms for dialogue at national and regional levels, and opportunities for the EU to engage in multi-stakeholder dialogue;
5. clarify the most appropriate modality mix for responding to the challenges identified and driving the shared agendas forward.

The SDG dialogue profiles should be short and snappy. Once a template has been tested and refined, the plan is to roll out the exercise to all countries by the end of 2018. Feedback from EU Delegations will also be sought at a later stage, to test whether the tool is relevant to their work (in terms of both engaging with partner countries on the SDGs and of the programming exercise). This seems a particularly good idea that should not be delayed. Finally, the SDG dialogue profiles are also intended to inform a joint EU-UN policy dialogue and consultation with partner countries on the implementation of their national SDG strategies (see last section for more details).

All the EFI evaluations insist on the importance of using specific analytical tools at country level (e.g. political economy analysis, conflict sensitivity analysis and risk assessments) to inform

⁵⁰ At the time of writing, six pilot profiles had been drafted (three for Africa, and three for Latin America and Asia) and comments from management were expected soon.

programming choices. Given the EC's very limited track record in this regard,⁵¹ EU Delegations should be specifically instructed to use certain diagnostic tools during the programming process (and in accordance with the strategic framework documents). They should also undertake to update the analysis every three or four years,⁵² and to adjust programming if necessary. In this regard, the MTR often comes too early to allow the EU to assess the shortcomings of programming: 'it would be better to avoid having a fixed date for the MTR.'

It would also be a good idea to incorporate a system for comparing EC-led HQ analyses with analyses performed by EU Delegations and EU member states. Sufficient time and funding should be made available for these analyses, which should make use of diagnostic tools. In order to gain some time, EU Delegations could perhaps start their own diagnostics before the start of programming. However, it would be preferable to do this once the EEAS has prepared its strategic framework documents, so as to tailor the analysis to the EU's interests and strategic priorities.

Box 3: Jobs and Growth Compacts (in sub-Saharan Africa)

In his 2018 State of the Union speech, European Commission President Juncker announced with much fanfare that a new Alliance for Sustainable Investment and Jobs had been launched to take 'the EU-AU Partnership to the next level'.⁵³ He said that, building on the External Investment Plan, blending and guarantee mechanisms would be scaled up in EU external financing with the aim of boosting trade and creating jobs. The Alliance has been given the highest political priority. Dedicated sectoral task forces led by line DGs, with the support of the EEAS and DG DEVCO, have been formed for four key sectors: agriculture, the digital economy, energy and transport. Their aim will be to mobilise expertise and promote high-level policy dialogue. A number of line DGs have been put under considerable pressure to deliver concrete results. All EU Delegations in Africa have been asked to analyse the prospects for supporting job creation in areas of shared EU-AU interest. This analysis will be presented in the form of 'Jobs and Growth Compacts'. According to the sources consulted, the Compacts are not intended as prescriptive programming tools, but as a means of identifying synergies between investment operations and bilateral cooperation.

51 According to the ENI evaluation, geostrategic analysis was used only sporadically, and strategy and programming documents did not usually include a risk analysis beyond projects and sectors. This restricted the ability of the EEAS and DG NEAR to capture the complexity of crisis prevention in ENI programming. PEA was not a key driver in programming decisions on the European Development Fund and the Development Cooperation Instrument.

52 The capacity of EU Delegations to conduct this type of analysis should also not be overestimated.

53 See European Commission (2018j).

As a senior official said, *'the challenge is to make sure that our programming pursues the SDGs and delivers on joint programming, while at the same time entering a wider political framework set by the EEAS and including a large component (EFSD+) that does not lend itself easily to programming. Parts of the answers will be found in the 'jobs and growth compacts'.*

It is too early to give an opinion on how NDICI funds will be spread over different thematic priorities, i.e. which ones will attract more funds, how this will be reflected in the geographic and thematic components, and how all of this can be done in an effective manner. But based on the available information, it seems clear that the European Commission will play an important coordinating role and that the new European Commission will play a key role in defining the EU's priorities for international cooperation in each region and country - in line with the political priorities.

Define the EU's cooperation priorities

Even if the approach to NDICI programming effectively moves away from sector concentration, and MIPs are programmed in accordance with a multi-sectoral approach, this does not mean that EU programming and spending will be spread out. It is clear that the EU will continue to apply some degree of 'thematic concentration'. As one of our interviewees said, *'we will not open Pandora's box, because we need to keep coherence and efficiency'*. But the fact that the European Consensus does not mention sector concentration is a clear sign that it may not be a firm (i.e. constraining) guiding principle.

In the absence of a 'straitjacket' like the Agenda for Change,⁵⁴ the programming process will probably be less normative and hopefully tailored to different country specificities (see below). Indeed, Annex II of the draft NDICI Regulation offers a very wide menu of possible areas of intervention. These are aligned with the 5 Ps (i.e. people, prosperity, peace, planet and partnership) and are formulated in a result-oriented manner. According to a senior official, *'the NDICI contains a very wide definition of areas where we could intervene. Now the question is to find priorities among the priorities and to define where we, as the EU, have added value to step in among these priorities.'* To a certain extent, the answer lies in aligning programming choices with EU regional cooperation frameworks.

Table 1 summarises the different priority areas in the draft NDICI Regulation (Annex II) and the various frameworks for regional cooperation.

⁵⁴ The EU's overarching policy document framing programming choices for development cooperation under the last MFF. It identified key priority areas that had to be applied in equal measure to every country and region, with little account taken of context specificities.

One interviewee said:

'It would be very difficult to maintain two or three sectors only in one country. If you have to accommodate the possibility for the private sector to get funding and cover their risks in their sectors of choice, will you only limit private-sector involvement to energy, and have nothing on water?'

The sectors identified as priority sectors by the EU-Africa Alliance for Sustainable Investment and Jobs (see Box 3) could indeed play a major role in influencing programming choices in Africa. This would mean giving priority to agriculture (including agribusiness), transport, energy and connectivity, and education and vocational training. This could result in the 'comeback' of the transport sector in EU bilateral cooperation, as well as in spending on human development being targeted mainly at education at a geographic level.⁵⁵

55 See Herrero et al. (2015).

Table 1: Priority areas in the draft NDICI Regulation and regional strategic frameworks

Annex II of the draft NDICI	For ENI countries	ACP countries (based on the negotiating mandate) ⁵⁶
<p>1. Good governance, democracy, the rule of law, and human rights.</p> <p>2. Poverty eradication, fight against inequalities and human development.</p> <p>3. Migration and mobility.</p> <p>4. Environment and climate change.</p> <p>5. Inclusive and sustainable economic growth and decent employment.</p> <p>6. Security, stability and peace.</p>	<p>1. Promoting enhanced political cooperation.</p> <p>2. Supporting the implementation of association agreements, partnership priorities or equivalent documents;</p> <p>3. Promoting a strengthened partnership with societies between the Union and the partner countries, including through people-to-people contacts.</p> <p>4. Enhancing regional cooperation, in particular in the framework of the Eastern Partnership, the Union for the Mediterranean, and European Neighbourhood-wide collaboration as well as cross-border cooperation.</p> <p>5. Achieving progressive integration into the Union's internal market and enhanced sectoral and cross-sectoral cooperation.</p>	<p>Africa: in line with EU-Africa partnership priorities, and notably the EU-Africa Alliance on sustainable investment for jobs and growth:</p> <ul style="list-style-type: none"> • Peace and security; • Human rights, fundamental freedoms, democracy, rule of law and good governance; • Human development and dignity; • Inclusive sustainable economic development; • Mobility and migration; • Environmental sustainability, climate change and sustainable management of natural resources. <p>Caribbean: in line with the forthcoming EU strategic policy on Latin America and the Caribbean.⁵⁷</p> <ul style="list-style-type: none"> • Environmental sustainability, climate change and sustainable management of natural resources; • Inclusive and sustainable economic development; • Human security, human rights, and good governance; • Human development and social cohesion. <p>Pacific:</p> <ul style="list-style-type: none"> • Environmental sustainability, climate change and sustainable management of natural resources; • Inclusive and sustainable economic development; • Security, human rights and good governance; • Human development and social cohesion.

⁵⁶ See Council of the European Union (2018c).

⁵⁷ Expected to be approved by the current EC.

Another viewpoint claims that leaving open areas for intervention allows more room of manoeuvre for EFSD+ investment operations.

The political make-up of the new European Commission (and perhaps also of the member states and the European Parliament, depending on the outcomes of the MFF negotiations and the resultant governance structure for the NDICI) will certainly influence final allocations to countries and to different sectors. At the end of the day, it is the new European Commission that will place its stamp on the resource allocation formula, which will apply the 'political factor' to fix country and regional envelopes, and which will determine the thematic priorities on which the EU wishes to concentrate its resources over the next seven years. The 'big bargain' on how funds are allocated to different thematic priorities will be more complex and thus harder to manage than in the past, as more European Commission services will be involved in the programming process and as their involvement in NDICI implementation is expected to increase. The new HR/VP and the new European Commission President may well exert more influence in deciding how to allocate funds to different thematic priorities than they did in the past. And DG DEVCO will need to show political leadership to ensure that PCD is not forgotten in the negotiations.

Enforce policy compliance

The European Commission has an important role to play in defining the EU's interests and strategic priorities, and in ensuring that NDICI programming is closely aligned with these. DG DEVCO (together with the EEAS) will need to ensure that, overall, NDICI programming meets the political benchmark targets:

- 20% for social inclusion and human development;
- 25% for climate objectives;
- 10% for addressing the root causes of migration,⁵⁸ with an overall target of at least 92% of funding to be ODA-DAC;
- ensuring complementarity between different instruments and between components within instruments;
- ensuring that different countries' MIPs (based on shared agendas) reflect the EU's interests and are SDG result-oriented.

It is worth recalling that, during the last programming exercise (2014-2020), DG DEVCO management tightly controlled the choice of priority sectors so as to ensure policy compliance with the Agenda for Change. Differentiation and a narrow understanding of strong sector concentration led to an extremely top-down programming process, in which Brussels overruled recommendations made by EU Delegations and partner country priorities, thus undermining

⁵⁸ One of the issues to be resolved during the MFF negotiations on the NDICI is whether spending targets should be legally binding.

the key principles of the development effectiveness agenda and de facto removing the incentives for an evidence-based, context-specific form of programming.⁵⁹

ECDPM research has shown how important it is for EU Delegations (who take the lead in organising multi-stakeholder consultations, promoting joint EU action and conducting policy dialogues with partner countries) are not discredited by Brussels, as this could undermine their credibility among partner governments, civil-society organisations and EU member states. This is particularly the case in situations in which joint programming efforts have gained traction. Discussing the risk of political interference and of Brussels taking a heavy-handed approach, one of our interviewees noted that *'a good thing about joint programming is that you have many countries agreeing on the sectors of intervention at country level, so it becomes more difficult to change the sectors afterwards (...) It would disturb the balance that was reached in-country. Of course, there is always the problem of interference by HQ, but it would be more difficult to interfere.'*

The European Commission and the EEAS should not forget that the credibility of the EU's external action is also tied up with compliance with the NDICI's guiding principles. These are largely inspired by the development effectiveness agenda, but are also enshrined in Agenda 2030 and the European Consensus. Complying with all programming guiding principles may be difficult, particularly bearing in mind EU institutions' limited track record in terms of translating development effectiveness principles into effective and well-balanced practice. There is a need to look carefully at a number of issues in this connection:

- EU Delegations will need to be given clear instructions on how to operationalise the guiding principles (i.e. leave no-one behind, conflict sensitivity, the resilience approach, the rights-based approach and the results-oriented approach), and Brussels will need to ensure that incentives, access to reliable and disaggregated data, and robust monitoring mechanisms are put in place to ensure compliance.
- Although the draft NDICI Regulation states that programming will follow an inclusive partnership approach and will be based on multi-stakeholder consultations (notably with civil-society organisations and local authorities), it also states that these consultations will be held 'where relevant'. Worrying though this qualification is, it can also be read as the European Commission trying to be less hypocritical about participatory development. The EU has a limited track record in terms of ensuring that multi-stakeholder consultations go beyond the sharing of basic information on programming and have a significant influence on final programming decisions.⁶⁰

59 See Herrero et al. (2015) and the EDF/DCI evaluations.

60 See Herrero et al. (2015).

DG DEVCO should also be mindful of assuming that ‘shared agendas’ and ‘partnerships between equals’ will ensure that the principle of ownership is respected. Spending priorities will continue to be heavily influenced by the asymmetrical relationship between the EU as a donor and investor and its partners as aid recipients. This applies particularly if Brussels adopts a prescriptive approach to programming, based on the outcomes of its ‘strategic assessments’ conducted before the start of official programming. In this regard, it is worth looking at the experience of the ENI. Launched in 2004, the ENP was reviewed after the Arab Spring in 2011, and then again in 2015. The new ENP is based on ‘differentiation and greater mutual ownership.’⁶¹ In addition to embodying a relative re-prioritisation of policy objectives,⁶² the new ENP focuses specifically on ‘meeting the goals agreed with partners.’⁶³ Stepping away from the incentive-based ‘more-for-more approach’, the ENP gives precedence to interventions in areas where there is tangible political commitment in the partner countries.⁶⁴

Ensuring that programming choices are framed by ‘strategic framework documents’ will entail taking a different approach to the EU’s dialogue with partner countries on programming decisions:

‘In the past, programming was more about looking at what we did in the past, what we do well, in continuity - a development portfolio. Now, we look at what are the areas of intervention where the EU can most effectively respond to the challenges identified. If you have this harmonised strategic political framework, the results of the programming will be significantly different, also in the way we engage with our partners.’

As one senior official said, reflecting on how programming would be different once the strategic framework documents were in place,

‘It is better to have a political discussion at the start of the programming – based on an (EU-interest-driven) analysis of the long-term challenges facing a country, that you can share to a certain extent with your partner country. Your discussion will be more focused and less hypocritical on the real political and policy issues. Our comparative advantage lies in our ability to engage in policy dialogue – focused on the political reform process.’

61 See European Commission (2015a).

62 Strengthening security sector and economies for the local population; comprehensively address sources of instability across sectors; promotion of democratic, accountable and good governance, and justice reform, where there is a shared commitment to the rule of law, and fundamental rights. Open markets and growth, inclusive economic development, and in particular the prospects for youth.

63 See European Commission (2015a), p. 5.

64 See De Groof and Bossuyt (2019).

Encourage joint programming⁶⁵

The EU's high-level policy framework recognises the key role played by joint programming. The Council conclusions on stepping up joint programming, released in May 2016, claimed that joint programming is a means by which 'the EU and its member states collectively contribute to implementing the policy commitments made at global and EU level'. The document called for joint programming to expand its focus in conflict-affected and fragile contexts and in low-income and middle-income countries. The EU Global Strategy calls for more joint programming, while the new European Consensus on Development sees joint programming as a key approach, enabling the EU and its member states to work better together to implement the 2030 Agenda for Sustainable Development.

Unsurprisingly, the proposed NDICI Regulation states that joint programming is the preferred programming approach, taking account of the specificities of each context (and the fact that joint programming remains a voluntary exercise for member states). As a senior official explained, *'the question is whether joint programming does or does not work in a particular country. As joint programming is made the norm, in case of any deviation, the Delegations will have to explain the compelling reasons for not doing so.'* Programming instructions will draw largely from joint programming guidance, and programming documents will be largely aligned with joint programming documents.

In preparing for the programming process, DG DEVCO is making a big effort to improve its own capacity to document knowledge and to promote and facilitate joint programming at country level. In July 2018, DG DEVCO released new operational guidance for EU Delegations, which contained a number of options for enhancing joint programming at country level. Several studies are currently underway (and should be completed in 2018), including a collection of interesting stories from the field, a review of how joint programming can be relevant to MICs, a study of how SDGs can be integrated in joint programming documents, and a review of how like-minded partners participate in joint programming processes. Courses have been organised and online knowledge-sharing platforms created and nourished. A team of consultants was recently recruited to assist EU Delegations on a demand-driven basis with a range of issues. These include:

- diagnostics (donor fragmentation, division of labour, etc.);
- the preparation of key joint programming documents (such as road maps, donor mapping, results frameworks, communication strategies and so forth);
- the facilitation of EU workshops on how to enhance joint programming, improve policy dialogue with partner countries, organise relevant courses, etc.

⁶⁵ Joint programming has emerged as a core element of the EU's common aid effectiveness agenda. Joint programming involves the joint planning of development cooperation and external action by EU development partners and external action partners working in a partner country.

The contract with the team of consultants also contains clauses on the provision of support to Brussels, notably in implementing DG DEVCO's global communication strategy on joint programming.

Hopefully, all these efforts will come together and allow DG DEVCO to effectively stimulate joint programming and implementation (in the best of cases) and joint EU action (such as joint analysis and joint declarations) as much as possible. As a member state representative interviewed for this study said, *'joint programming is a piece of paper and the real collaboration occurs when you do joint implementation on the ground,'* although some would say that *'it is easier to do joint implementation with the UN than with EU member states.'* But DG DEVCO should remain realistic about what external consultants can achieve in practice. Joint programming remains a voluntary exercise, and its success depends partly on EU leadership both in Brussels and at the EU Delegations. However, it depends most of all on member states' buy-in and political interest in joint programming, and on whether the specific country context is conducive to joint programming. As one of our interviewees said,

'There is certainly a new push for joint programming, but this will not be taken up by the member states. It is too politically sensitive, and the fact that the European Commission is pushing for so much flexibility and then combining this with more joint programming really creates the impression that the European Commission wants to exert even more influence on funding from member states. In an ideal world, we would stop bilateral cooperation between member states and partner countries and have one coherent EU-wide approach, achieve economies of scale, and so forth. In reality, however, we are a long way from achieving this.'

A pragmatic approach to joint programming, i.e. one that focuses on the process, on the function of joint programming, but that it is not necessarily formalised, may be more appropriate if traction from member states proves to be insufficient.

Enhance EU-UN partnership and build synergies between EU and UN programming

The EU and the UN recently renewed their partnership, pledging to join forces to enhance joint policy dialogue and consultation with partner countries and to find EU-UN synergies to support partner countries' efforts to integrate Agenda 2030 into their national strategies and priorities. This reflects the EU's efforts to support multilateralism and the reform of the UN. The joint EU-UN communiqué of 27th September says:

'We intend to enhance joint policy dialogue and consultation with partner countries to identify opportunities for collaboration and possible areas of support including synergies between EU programming (including joint programming) and the UN Development Assistance Frameworks (UNDAFs). Where possible, this should be done through existing platforms rather than creating new layers, and by making use of the Joint Fund for the 2030 Agenda to the extent possible. We

should also, where appropriate, promote coordination between the UN Resident Coordinators, UN Country Teams and EU Delegations to strengthen synergies and development impact.’⁶⁶

Through our interviews, significant parts of DG DEVCO’s hierarchy appeared to be eager to start ‘SDG dialogues’ with partner countries jointly with the UN, and to use these dialogues to identify shared agendas that could serve as a basis for programming choices. A senior official explained it as follows:

‘The way we intend to do it is to start a policy dialogue with countries. This phase should start soon, before the formal programming starts. The aim is to try to determine, together with countries, the broad policy areas where we could work together. This is meant to be done in cooperation with the UN. It is part of our Agenda 2030 and our support for the reform of the UN (...) The UN will support our efforts in SDG-ing partner countries’ development policies.’

However, there seemed to be some disagreement within DG DEVCO management as to the extent to which the renewed EU-UN partnership should guide the EU’s programming approach in the post-2020 period. There are many good reasons why the EU should want to improve cooperation with the UN and build synergies in partner countries in support of the SDGs. But, indeed there are several reasons why it may be a little premature to do so at full speed before official EU programming starts.

1. The EU has not yet clarified its strategic foreign policy interests in partner countries, nor has it invested in refining its understanding of the different contexts in which it will operate.
2. The draft NDICI Regulation also states that ‘the Union and the member states shall consult each other at an early stage of and throughout the programming process in order to promote coherence, complementarity and consistency among their cooperation activities. Joint programming shall be the preferred approach for country programming. Joint programming shall be open to other donors where relevant.’ If this is the ambition, the European Commission and the EEAS should concentrate on consulting member states before reaching out to the UN. This is particularly the case if EU joint programming is to be the preferred approach. At the time of writing, it was still unclear whether the EU member states would be involved upstream in these SDG dialogues or whether they would only be informed about the outcomes at a later stage.
3. The UN plans for a reinvigorated Resident Coordinator (RC) system are at the heart of the UN reform strategy, and intended to help streamline work across UN agencies, improving transparency and overall coordination: the position of RC would no longer be filled by UNDP officials, but have independent offices reporting directly to the UN Secretary General. But

⁶⁶ See United Nations Secretary-General (2018a).

the UN reform is also in the very early stages, and short-term and medium-term measures are expected to be rolled-out over the next 18-24 months.⁶⁷ Against this backdrop, it may be wiser to wait until the revamped RC system is functioning at the country level, before DG DEVCO steps up efforts to implement the EU's political commitment to an enhanced EU-UN partnership.

4. Engaging in 'SDG dialogues' just before official programming starts could create confusion, overstretch EUD capacities at a critical moment, generate frustration among member states and possibly induce a sense of fatigue among all stakeholders when the real programming process starts. Programming is already seen by many, EU stakeholders and partner countries alike, as excessively long and cumbersome.

Tailor programming to different contexts

The EU Global Strategy stresses the need to promote European foreign policy interests through enhanced cooperation with countries across the globe, notably through 'tailored approaches' and 'tailored partnerships'. The European Consensus states that cooperation with partner countries should be undertaken in 'an increasingly diversified and tailored manner.'⁶⁸ The draft NDICI Regulation states that:

'Programming of geographic programmes shall provide a specific, tailor-made framework for cooperation based on:

- the partners' needs, established on the basis of specific criteria, taking into account the population, poverty, inequality, human development, economic and environmental vulnerability, and state and societal resilience;
- the partners' capacities to generate and access financial resources, and their absorption capacities;
- the partners' commitments and performance, established on the basis of criteria such as political reform and economic and social development;
- the potential impact of Union funding in partner countries and regions; the partners' capacity and commitment to promote shared interests and values, and to support common goals and multilateral alliances, as well as the advancement of Union priorities.'

⁶⁹

This undoubtedly means that programming will be more complicated than in the past. As a senior official pointed out, 'It's a good thing to have a global instrument, for coordination and flexibility, but we will need to find a way to cater to different specificities and aspects.' In

⁶⁷ See United Nations Secretary-General (2018b).

⁶⁸ See Directorate-General for International Cooperation and Development (2018a), p. 43.

⁶⁹ See European Commission (2018f).

our view, ensuring that programming reflects a tailored approach will mean customising EU's intervention strategies, not only to the aspects listed in the draft NDICI Regulation, but also to:

1. outcomes of diagnostic tools adapted to the specificities of each particular context (e.g. resilience assessments, conflict-sensitive analysis, political economy analysis, risk assessment and climate assessments);
2. a coherent theory of change underpinning EU MIPs and planned interventions, and an analysis of multiple scenarios (informed by in-depth knowledge of the state of fragility, social and political change dynamics, including the likelihood of natural disasters occurring or any other external factor that could affect implementation);
3. financial and technical partners' coordination and division of labour in the country (including an assessment of EU joint programming dynamics);
4. the added value of EU ODA in relation to other forms of development finance;⁷⁰
5. potential impact, based on a realistic assessment of the EU's ability to influence political, social, and economic change, conflict dynamics, etc. in the country or region in question;
6. an adequate time-frame (shorter programming periods may be better for some countries, such as those in the European Neighbourhood, but also for other fragile countries).

The programming instructions are a key instrument for translating the tailoring principle into practice. It would be useful if they provided EU Delegations with concrete operational guidance on how to tailor the programming process and guiding principles (see article 11) to their specific contexts. Brussels could also allow for certain adjustments to be made in specific situations (for instance, by providing extra time for multi-donor coordination in fragile countries).

At the time of writing, the current thinking on programming instructions was that they would contain common guiding principles applicable to every region and country, plus a number of specific provisions for each different region. The latter would be customised to fit the EU's priorities in different regional cooperation frameworks (e.g. the Neighbourhood, Africa, the Caribbean and the Americas, Asia and the Pacific). It was still unclear whether the programming instructions would be customised to different types of country (such as LDCs, low-income countries, fragile countries, countries in conflict, post-conflict countries and vulnerable countries, as well as MICs and MADCs). With the previous programming exercise in mind, it would be useful if Brussels made sure that the instructions were complete from the onset, rather than making additional programming-related requests to EU Delegations once the programming process had been launched. This was found to generate confusion and frustration, and gave the impression that the process was unwieldy.⁷¹

70 Recent decades have seen a huge increase in external financial flows to developing countries, including development finance from non-traditional sources (commercial flows, Southern and non-DAC providers, climate finance funds, social impact investors, philanthropists, and global funds as well as other less concessional flows. See Castillejo et al. (2015).

71 See Herrero et al. (2015).

How can complementarity between the geographic and thematic components of the NDICI be maximised?

The draft NDICI Regulation operationalises the principles of complementarity and subsidiarity more systematically than in the past.

First, the **increase in the geographic envelopes implies that thematic priorities will be integrated in bilateral and regional envelopes**. This would avoid parallel programming exercises and foster more strategic (political and policy) dialogues with partner countries on a number of thematic issues. As the explanatory memorandum says, ‘instead of focusing on multiple programming processes, debates would be more focused on political objectives and engagement with external partners’ (NDICI proposal, p.10). From a results-oriented perspective, addressing thematic priorities within geographic programming will, in principle, help support partner countries’ sustainable development agenda in a more integrated, coherent, manner (see above).

Second, the NDICI’s thematic envelope (with a proposed financial envelope of €7 billion in current prices) would complement the geographic programmes with four thematic programmes covering a wide range of issues.⁷² The thematic multi-annual indicative programme would be aligned with EU strategy and priorities, and reviewed if necessary following substantive policy changes. The **thematic programme for global challenges** would, in principle, focus on supporting global or interregional cooperation through multilateral and transregional activities. International organisations could well be the preferred aid channels, although international networks and alliances of local authorities could in theory also apply for funding. The **thematic programmes for human rights and democracy** (€1.5 billion), and civil-society organisations (€1.5 billion) would not require the endorsement of partner governments and would be used mainly in situations where the partner country is unwilling to integrate these issues in bilateral cooperation. The **thematic programme on stability and peace** (€1 billion) would be used to fund activities currently financed through the Instrument contributing to Stability and Peace (IcSP), including capacity-building of military actors in support of development and security for development (CBSD), longer-term capacity-building for conflict prevention, mediation, etc.

Third, a **rapid-response component** (with a proposed financial envelope of €4 billion) would be the main funding channel, allowing for the continuation of activities currently financed under the IcSP and for support to be provided for political initiatives, including some currently covered by the PI. This would allow the European Commission and the EEAS to have relatively

⁷² According to the draft NDICI Regulation, these include health, education and training, women and children, decent work and social protection, culture, migration, environment and climate change, sustainable and inclusive growth, and local authorities.

small, flexible sums available to meet core foreign policy concerns swiftly (including in response to crises and emergencies). It would require no programming. Exceptional assistance measures and action plans would ensure implementation. The strategic framework documents will identify potential areas of rapid intervention, and decisions will be based on political discussions and EU demands. One interviewee pointed out that *'we expect most of the cooperation and actions with industrialised countries to be done in the rapid-response pillar, which should have more or less the same amount of money as we do now (under the PI).'*

Finally, the three components, i.e. geographic, thematic and rapid-response, would be complemented by a flexible, cross-cutting **'Emerging Challenges and Priorities Cushion'** (worth €10.2 billion in current prices). Funding from this envelope would be used in unforeseen circumstances and in order to respond to emerging challenges and priorities. This non-allocated budget would not be subject to multi-annual programming, but would instead be used to complement the other three pillars. In principle, the non-allocated envelope would be used to:

- i. top up the rapid-response component in the event of a crisis in a particular country or region;
- ii. support global initiatives;
- iii. increase the geographic envelopes if funds dry up;
- iv. top up ring-fenced priorities.

Based on the information we gathered from our interviews and our analysis of the Regulation, several issues still need to be clarified to maximise complementarity between the various NDICI pillars:

- The 'geographisation of thematic priorities' has raised concerns that local councils and authorities will no longer have secured access to funding at country level. The draft NDICI Regulation does not make provision for a dedicated instrument for local authorities (as was previously the case with the Civil Society Organisations – Local Authorities (CSO-LA) thematic programme), although the important role played by local authorities is recognised in many of the proposed areas of intervention put forward in Annex II of the draft Regulation. Much will depend on partner governments' willingness to adopt a territorial approach to development and to prioritise efficient decentralisation and state restructuring processes in their bilateral cooperation. In this regard, the systematic use of the Local Economic Development diagnostic tool currently being developed by DG DEVCO will help to inform the dialogue with partner countries during the programming process, and the design of multi-annual programmes and interventions.
- The draft NDICI Regulation does not provide much detail on how it will create synergies between regional and bilateral programming. It will be important to reflect on the linkages between the EU's strategic visions for different regions and countries, thereby ensuring

that the two programming processes do not take place in parallel with each other, but in close coordination. Despite many warm words and promising commitments, the EU has found this very difficult to achieve in practice.

- Regarding the EU's support for peace and security under the NDICI, the EEAS will need to clarify how it plans to achieve coherence, complementarity and synergies between interventions financed under bilateral and regional envelopes, the dedicated thematic programme, the rapid-response component and other instruments, notably the new off-budget European Peace Facility and the Trust Funds. Trust Funds will continue to exist within the financial regulation and although the NDICI could in theory satisfy their *'raison d'être'*, migration-oriented Trust Funds are likely to remain active, so as to allow the EU to mobilise additional resources from member states. The proposed structure may require an even more intensive and less fragmented form of interinstitutional coordination than that which already exists, including one that prioritises prevention and peace-building over crisis response.
- There are still concerns about the ability of the rapid-response component to safeguard the FPI's client- and event-driven approach, particularly if DG DEVCO takes control. FPI actions can be put in place at record speed precisely *'because there is no huge procedural apparatus'*, as one of our interviewees put it. The PI caters for EU Delegations, line DGs, and often member states and their organisations. It is generally mobilised when there is a breakthrough on the diplomatic front or in international negotiations that needs a quick follow-up. The Stability Instrument is also very reactive, responding to requests for interventions from member states, the EEAS, the HR/VP and EU Delegations. As a senior official said, *'this modus operandi will need to be protected in the rapid-response component.'*
- The draft NDICI Regulation does not clearly spell out how emerging challenges will be periodically assessed. Although decisions will be taken in accordance with the comitology procedure, member states and the European Parliament are eager to become involved at an earlier stage of the political decision-making process in relation to the proposed €10.2 billion 'cushion', rather than simply rubber-stamping the deployment of resources. Although the 'reserve cushion' will create more flexibility, a number of vital questions remain unanswered according to one of our sources: *'How it is going to be mobilised? Who will pull the strings? And how quickly you can do it? This is particularly important if you want to respond to a major political crisis.'* Civil-society organisations have also stressed that efforts to make EU external action more flexible should not only cater to changing political priorities in Europe.

How to prepare for the possible cascade effects of the NDICI on the EU's external action architecture?

The draft NDICI Regulation represents a major overhaul of the financial architecture for EU external action. As such, it will require some institutional adjustments on the part of both the European Commission and the EEAS. Currently, MFF discussions centre on the governance of the NDICI. The extent to which member states and the European Parliament will be involved in the strategic coordination of the instrument will affect the length and management of the programming exercise. For this reason, a compromise will need to be found between the various constituencies and their main interests of flexibility, greater scrutiny and political management. This chapter does not go into the details of the governance of the NDICI, as this is covered in chapter 5. However, we do point to some of the potential implications of the NDICI for the EU's interinstitutional dynamics, which the current management may already want to start thinking about (without prejudice to the decisions taken by the new European Commission).

Institutional adjustments to match NDICI ambitions

Given the global focus of the NDICI, some institutional adaptations or even deeper restructurations may be needed to ensure that the EU's external action funded through the NDICI goes beyond the realm of development and encompass broader political cooperation. A merger between DG DEVCO, DG NEAR and the FPI seems unlikely, a number of interviewees stressed the need to safeguard the specificities of each of these communities, including the specific cooperation approach developed for the Neighbourhood, DG DEVCO's 'pro-poor development focus', and the FPI's swift procedures.

Although DG DEVCO thematic directorates will manage significantly less funds in the future (given the geographisation of thematic priorities), they will still need to deliver thematic support to EU Delegations and will play a key role in ensuring that 'thematic priorities', including mainstreamed priorities such as gender, the environment and climate, as well as cross-cutting priorities such as human rights, civil society, decentralisation, local governance and territorial development, are closely integrated within the geographic programming. It is worth reminding that DG DEVCO's thematic expertise was largely curtailed when it was transferred to geographic units (back in 2010 in response to the Lisbon Treaty and the creation of the EEAS). This was mainly because thematic units were absorbed by the management of thematic programmes, to the detriment of providing thematic support to both geographic directorates and EU Delegations. Senior management would do well to reflect on the possibility of resuscitating the function of EuropeAid Directorate E, which was scrapped following the creation of DG DEVCO and which used to be responsible for providing quality sector support, based on strong, specialised, thematic expertise.⁷³

73 See Herrero and Keijzer (2011).

It would seem reasonable to expect the working arrangements between the EEAS and the European Commission to be revised, in a way that reflects the increased involvement of line DGs with a strong external component (such as DG ENER, DG CLIMA, DG GROW and DG HOME), as well as the Joint Research Centre, DG RESEARCH, and others, in delivering effective, coherent EU external action. The future President of the European Commission will need to strengthen the ‘international mandate’ of these line DGs. This will need to reflect their operational capacity to prioritise and engage efficiently in the political management of the NDICI, from programming to implementation.

Complementarity between NDICI components, and between the NDICI and other EFIs, may not be straightforward. The NDICI brings together three communities that do not often talk to each other: those of the ENI, the EDF/DCI and the FPI. There will be a need for much more coordination than there is now. The EEAS will need to have a clear helicopter view of all interventions in each country and avoid any overlaps. *‘Perhaps an innovation could be to have a regional quality board, involving the EEAS, DG DEVCO, DG NEAR and the FPI.’*

As a further point, interinstitutional relations will need to be managed with greater sophistication. The new HR/VP will need to show political leadership and strengthen EEAS’ geographic departments. Although the European Commission will continue to manage funds, the EEAS should continue to play a strategic coordinating role, ensuring that the EU’s political cooperation remains tuned to the strategic frameworks, throughout implementation. The new President of the European Commission will need to put pressure on his (or her) troops, beyond DG DEVCO and DG NEAR, to deliver on EU external action.

Redesign EU Delegations

The EU Delegations will need to have a more balanced structure, fed by all the relevant line DGs. The operational sections of EU Delegations are currently dominated by DG DEVCO staff. But if DG DEVCO wants to shift its emphasis through EFSD+ and dramatically step up its investment operations, it will have to accept the consequences and allow EU Delegation staff to be released to other DGs, such as DG ENV, DG CLIMA, and DG TRADE. In other words, the staffing of the Operations section and the Economic and Political sections will need to be rebalanced. A solution will need to be found to the unhelpful division of responsibilities, with the EEAS responsible for political dialogue and DG DEVCO responsible for policy dialogue. This means taking a holistic approach.

The EU Delegations will have to manage envelopes that are growing bigger and bigger (due to the geographisation of thematic priorities), while at the same time they will be also called upon to engage in a more political form of cooperation, i.e. one which recognises that EU ODA plays a major role in promoting policy dialogue for political reforms, and manage investment operations. Plenty of alarm bells have been ringing about the need for the European Commission to speed up the process of raising its capacity (in terms of both numbers and competencies)

to deliver, report on and coordinate (including with member states) the investment operations, both in Brussels and at the EU Delegations. The EU Delegations will need to be staffed by people who are not only capable of managing European Commission funds effectively, but also possess the technical expertise and political shrewdness that are needed to engage in and facilitate a policy dialogue touching on political reforms. They will also need to be given the right incentives (including time) to accompany country-led change processes. Given that it is simply impossible for the European Commission to carry out a massive staff reorganisation ensuring that staff profiles match their new roles, it will need to adopt an internal theory of change in order to switch the staff focus from ‘aid management’ to ‘political change management’. As a senior official pointed out, *‘this change is a complicated one. Micro-managing a project is easy. Engaging with government in policy dialogue is frustrating, time-consuming and complex. So it’s a whole shift in mentality.’*

Concluding remarks

The NDICI’s ambitions of fostering a more strategic, coherent, effective and flexible form of external can be translated into reality only if the fundamental assumptions underlying the draft Regulation are met:

1. the EU formulates a (shared) long-term vision of the challenges facing the various regions and countries, and its own strategic priorities and interests; and
2. the EU uses ODA in the most efficient manner to enhance political cooperation in pursuit of its strategic interests and values, while still satisfying the primary objectives of ODA,⁷⁴ and abiding by aid effectiveness principles.

All of this presupposes that the EU’s interinstitutional coordination and decision-making processes will strike the right balance between its long-term and short-term interests in multiple fields (such as development, climate, environment, energy, trade, peace and security, and migration). Most of all, however, they must strike the right balance between global public goods and the EU’s self-interests (such as attaining energy security, stemming migration and promoting EU private investment).

The EU wishes to ensure that its external action spending reflects its strategic interests and political priorities. This is a legitimate desire. Luckily, EU interests are largely aligned with global public goods. But if the EU wants to concentrate the bulk of the NDICI envelope (€68 billion) on strengthening its political cooperation with partner countries and regions, it should accept that most of its ODA will be used to facilitate and support political and economic change processes in the target countries and regions.

There is evidence that the EU is broadening its strategic and analytical base for informing programming choices. This is very good news, provided that the EU makes systematic use of tried

74 i.e. promoting the economic development and welfare of developing countries. See OECD (2018b).

and tested diagnostic tools during the programming process and translates the outcomes of analyses into coherent theories of change underpinning MIPs and programme implementation.

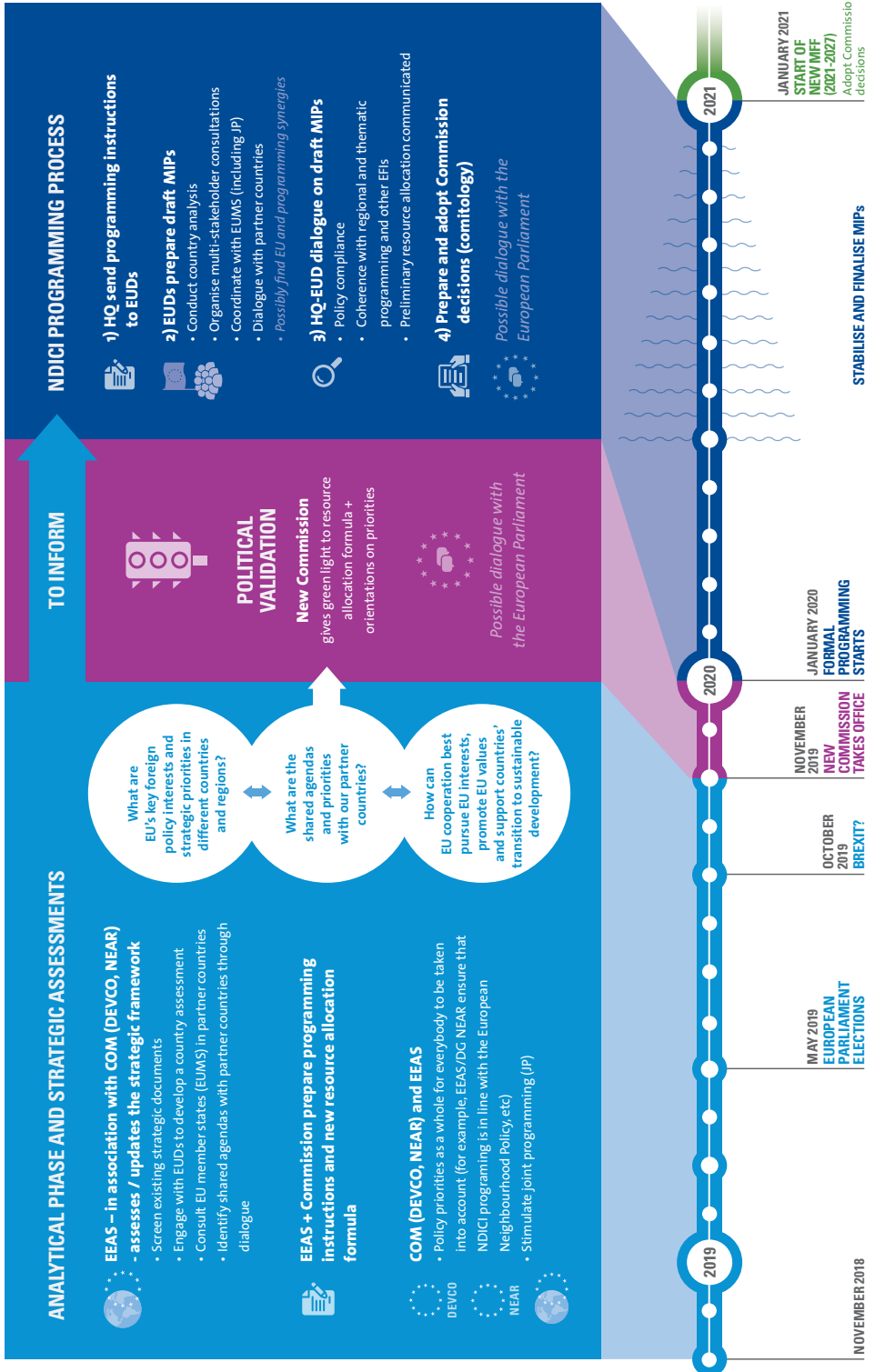
There is also evidence that the EU may adopt a prescriptive approach to programming priorities, based on its own strategic assessments and within the caveats of existing regional cooperation frameworks and the broad Agenda 2030 for sustainable development. In concrete terms, it would be reassuring to see the principle of democratic ownership become the cornerstone of the NDICI's results-oriented approach. This means acknowledging the critical role played by domestic accountability actors in setting policy priorities and in making budget choices. It also means accepting that governance and political reform processes will be at the heart of the EU's approach to international cooperation. It would be good to see the EU looking more at the demand side of the equation. For the moment, democratic ownership is not even mentioned in the draft NDICI Regulation. While there is considerable EU drama, and many European players on the stage are involved in programming, it will be doomed to fail if this is purely an EU story, without appropriate reference and engagement of national and local actors. This is not an aspect of political correctness in applying development effectiveness principles but a hard reality of spending money in the interest of achieving strategic results.

Annex I-Our interpretation of the NDICI bilateral programming timeline



This is not an official timeline. The information provided here is based on our interpretation of the process, based on insights gathered through interviews.

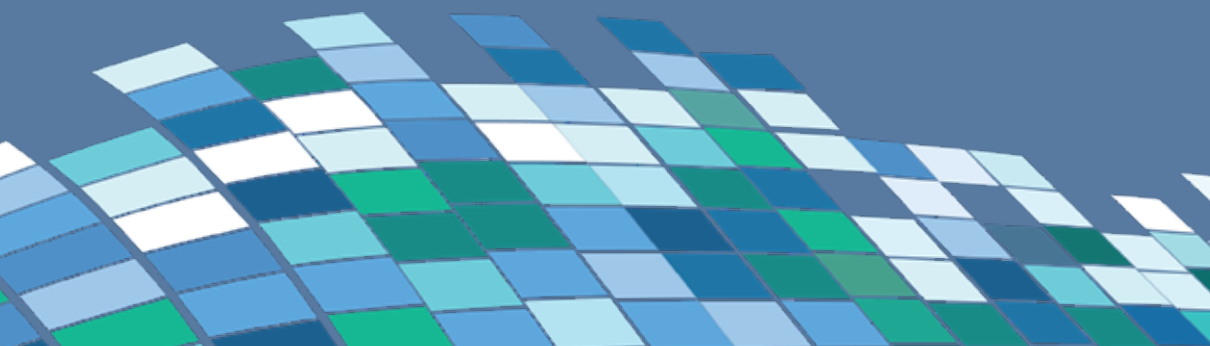
NDICI GEOGRAPHIC (BILATERAL) PROGRAMMING



Chapter

10

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In 2019, a new European Parliament, new European Commission and new President of the European Council will have their hands full with the negotiations of the 2021-2027 budget. They will need to agree on the amount and the focus of billions of euros and on how to distribute these along different political priorities. There is still all to play for and these negotiations may well run late into 2020.

This guide is a consolidated independent reference point for policymakers, analysts and advocates – inside and outside of the negotiating process. It provides non-partisan insight on the key challenges, issues at stake and dynamics driving change.

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