



## Financing EU external action

### *understanding member state priorities*

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### KEY MESSAGES

- The negotiations on the next EU Multi-Annual Financial Framework (MFF) 2020-2027 are moving slowly. Despite the European Commission's desire for swift progress it now seems unlikely that a deal will be reached before the European Parliament (EP) elections in May 2019.
- A key feature of the proposed MFF is an ambitious budget for EU external action – Heading 6 – and a new single 'Neighbourhood, Development and International Cooperation Instrument' (NDICI). This would merge a large number of stand-alone EU external financing instruments into one.
- At this stage it is not clear whether the ambitious size of Heading 6 or the new single instrument will survive the negotiations. Financial resources for EU external action will in large part be determined by battles over other elements of the budget, notably agriculture and regional policy, as they have in the past. And the single instrument has yet to gain support from key Member States (MS) such as France and Poland.



## KEY MESSAGES (CONTD.)

- In addition to the unresolved debate on a new single instrument, the negotiations are currently dominated by outstanding issues on:
  - Migration – The need to show results to domestic constituencies is likely to require visibility of migration funds in the EU budget, either in the form of earmarking or with separate instruments or future trust funds.
  - Security – MS largely agree on the importance of a stronger focus on security in the next budget, yet hold different views on precisely what activities should be funded and the potential implications for EU ODA reporting.
  - Sustainable Development Goals (SDGs) and Paris – There has not yet been a comprehensive debate on how to integrate the SDGs and Paris Agreement into the MFF, and what this would mean for the budget framework. Engagement from all MS is required if the EU is to demonstrate global leadership on sustainable development and climate change.
  - Geography – MS historic and geopolitical ties with third countries, regions and neighbours continue to influence the wrangling over the geographical spread of funding. The relative absence of the UK in these negotiations may tip the balance towards a greater focus on middle income countries.
  - Accountability – mechanisms for reporting and scrutiny of spending have not yet been aligned with the SDGs or caught up with the proliferation of blending operations and EU-managed trust funds. A more convincing accountability framework will need to be set out to satisfy both MS and the EP.
- We are a long way from consensus on the proposed single NDICI and these challenges. Progress will be difficult to achieve without clearer direction at the political level. Therefore, the Commission and External Action Service must work closely with the Rotating Council Presidency to convene informed ministerial meetings - with EP leadership participation - at which informal discussion can take place to address the current strategic deficit. This should result in a coherent vision and road map for EU external action that consolidates the various initiatives of recent years to provide a convincing new direction.



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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 budget<sup>1</sup> - the logic of 'net balance' continues to dominate 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.<sup>2</sup> 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.

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."*<sup>3</sup>

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 6, 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.



Tensions between ambition and caution continue to dominate the debate on the next EU budget.



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1. These include the common consolidated corporate tax base (CCCTB), the carbon market and the tax on non-recycled plastics.
  2. Page 27: [http://ec.europa.eu/budget/mff/hlgor/library/highlights/hlgor-studies-external-studyonfinancingofeu-budget-june-2016\\_en.pdf](http://ec.europa.eu/budget/mff/hlgor/library/highlights/hlgor-studies-external-studyonfinancingofeu-budget-june-2016_en.pdf)
  3. <https://www.consilium.europa.eu/nl/press/press-releases/2018/10/24/report-by-president-donald-tusk-to-the-european-parliament-on-october-european-council-meetings/>

### 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](https://ec.europa.eu/commission/publications/neighbourhood-and-world_en)

Since the summer of 2018 detailed technical negotiations have been conducted on the proposed NDICI, which represents the lion's share of the Heading 6 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.<sup>4</sup>

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 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.

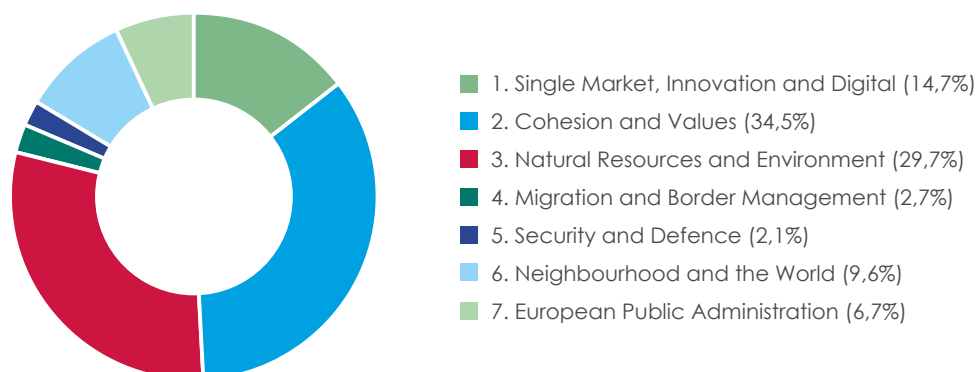


The European Commission proposal aims to undertake a major restructuring of the EU's external action instruments to ensure "... greater coherence, benefit from effective cooperation, simplify procedures and achieve economies of scale"



4. 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: [https://www.parlament.gv.at/PAKT/EU/XXVI/EU/04/44/EU\\_44405/imfname\\_10859588.pdf](https://www.parlament.gv.at/PAKT/EU/XXVI/EU/04/44/EU_44405/imfname_10859588.pdf)

**Figure 1 - The weight of external action in the proposed MFF**



Source: Adapted from <http://ecdpm.org/publications/aiming-high-falling-short-analysis-proposed-eu-budget-external-action/>

This paper assesses the potential for a well-positioned and ambitious Heading 6 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 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.

## APPROACH AND STRUCTURE

The paper reflects analysis by researchers from the nine MS listed above, including European Think Tank Group (ETTG) researchers. Each of the them provided 1-2 pages of analysis based on four standard questions that were jointly formulated at the start of the process.<sup>5</sup> These background notes underpin the comparative analysis presented in this paper. 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 paper 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.

The paper 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.

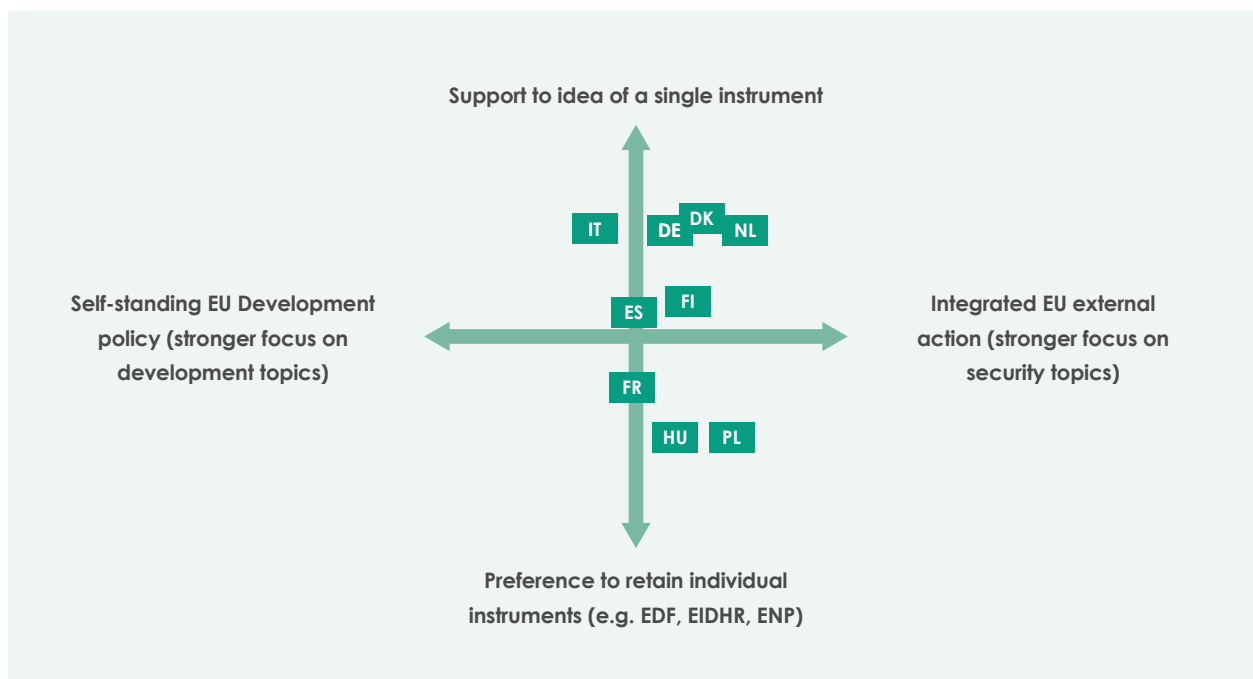
## COMPARATIVE ANALYSIS

### Main priorities

A glance at the emerging priorities for Heading 6 among the nine MS reveals alignment in some areas and divergence in others, which will be discussed below. The following figure 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.

5. 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 6 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?

Figure 2 - Overview of MS emerging views on key issues related to Heading 6




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 6. 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 6 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 6. 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.<sup>6</sup> 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 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 6. 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 6 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 6 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 6. 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 GNI<sup>7</sup> 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 6 is subordinate to the demand for a reduced budget.

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.

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6. The Valletta Summit was held in November 2015 and was a conference where European and African leaders discussed migration issue: <https://www.consilium.europa.eu/en/meetings/international-summit/2015/11/11-12/>

7. The Government of Sweden earlier argued for the same ceiling in a position paper published early 2018: <http://regionvarmland.se/wp-content/uploads/2018/02/Swedish-position-paper-on-the-future-MFF.pdf>

### 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.



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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 (CSBD)<sup>8</sup> 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 CSBD, 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 or 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 the current APF is), but should enable greater EU engagement with the AU 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 & 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 6. 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.

8. Capacity building in support of security and development Enabling partners to prevent and manage crises

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 one of the defining issues of the EU as a global player and one where there the EU could assume a global leadership role.



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.<sup>9</sup> 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

9. <http://www.ipcc.ch/report/sr15/>



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.

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 6 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.




Such a wide range of positions highlights the scale of the challenge to reach agreement on the current Heading 6 proposals.



#### Structure of Heading 6

It is perhaps in the structure of Heading 6 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 proposal 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.<sup>10</sup> 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.<sup>11</sup> 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 6 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 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.

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

11. 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.



## 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 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.




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### 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 6 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



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.



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 6. 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% ceiling<sup>12</sup> – then Heading 6 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 6. 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 6 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 6, 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<sup>13</sup>, yet this

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

13. [https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/how-do-we-offer-funding\\_en](https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/how-do-we-offer-funding_en)



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 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.<sup>14</sup> 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.



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#### 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.<sup>15</sup> 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 6. 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 6 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.

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 6 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.

14. [https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-investment-outside-eu-communication-644\\_en\\_0.pdf](https://ec.europa.eu/commission/sites/beta-political/files/soteu2018-investment-outside-eu-communication-644_en_0.pdf)

15. [https://ec.europa.eu/commission/sites/beta-political/files/communication-new-modern-multiannual-financial-framework\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/communication-new-modern-multiannual-financial-framework_en.pdf)

## 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 6 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 6 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.

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