

Strategically financing an effective role for the EU in the world:

FIRST REFLECTIONS ON THE NEXT EU BUDGET

MFF

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

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SUMMARY

This paper provides a first set of reflections on how to strategically finance an effective role for the European Union (EU) in the world beyond 2020. To this end, this paper first looks at the broader picture of the global and European context shaping the EU's external action. Evidence suggests that the EU is still confronted with major internal and external challenges of an existential nature. Fundamental reforms are called for, though there is much confusion on the agenda and the most effective pathways to change. Section 2 reflects on the nexus between external and internal EU policies, observing a blurring of the lines between both types of expenditures. Building on these analyses, the paper then zooms in on two particularly thorny questions:

- (i) the preparation of a next Multiannual Financial Framework (MFF) that provides more flexibility as well as suitable external financing instruments (EFIs) beyond 2020 (section 3);
- (ii) the place and weight of 'values' in future partnerships between EU and countries/regions across the globe (section 4).

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Section 1: A volatile global and European environment: Implications for EU external action

Times of uncertainty and existential crisis

1. 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'**¹ **driven by internal and external factors**, and is in danger of jeopardising the continuation of the European project in its current format.
2. 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 crisis** 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 slow 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.
3. At **national level**, European identities remain primarily national and a majority (53%) of citizens feel their identity is threatened by globalisation.² However, the last Eurobarometer (2017) reveals that more than half of Europeans (56%) are optimistic about the future of the EU³ and a majority (64%) of young Europeans born after 1980, see themselves as European citizens,⁴ 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.
4. 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

¹ Words used by HRVP Federica Mogherini when presenting the new EU Global Strategy on Foreign and Security Policy, June 2016.

² European Commission. 2017. *Reflection Paper on Harnessing Globalisation*. p.9. COM(2017) 240 of 10 May 2017, Brussels. https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-globalisation_en.pdf

³ European Commission. 2017. *Standard Eurobarometer 87*. First Results. p.22 <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/STANDARD/surveyKy/2142>

⁴ European Commission. 2016. *Standard Eurobarometer 85*. Spring 2016. European Citizenship Report. p. 23 <http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/STANDARD/surveyKy/2130>

political power and leverage in a multipolar world with competing models of development and organisation of the polity.

Impact on EU external action

5. 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 partnership⁵ or the post-Cotonou debate.⁶ 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.⁷ 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.
6. 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.⁸ 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 Section 4).
7. 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.⁹ Despite dedicated efforts, the EU response strategy towards

⁵ 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.

⁶ 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 modernize 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.

⁷ Bossuyt, J., Keijzer, N., Medinilla, A., Sherriff, A., Laporte, G., Tollenaere, M. de. 2017. *ACP-EU relations beyond 2020: Engaging the future or perpetuating the past?* Maastricht: ECDPM.

⁸ Federal Ministry for Economic Cooperation and Development. 2017. *Africa and Europe – A new partnership for development, peace and a better future. Cornerstones of a Marshall Plan with Africa.* http://www.bmz.de/en/publications/type_of_publication/information_flyer/information_brochures/Materiale270_africa_marshallplan.pdf

⁹ European Commission. 2017. *The State of the Union 2017: Catching the wind in our sails.* Brussels, 13 September 2017. p.6 -21. https://ec.europa.eu/commission/sites/beta-political/files/state-union-2017-brochure_en.pdf

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.

The crisis provides for new opportunities

8. In spite of this sobering picture, there are also new opportunities. We should not forget that, only 5 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.
9. 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 foresee 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.
10. 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 Communication¹⁰ 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.
11. 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).
12. 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,

¹⁰ Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions: "Review of the European Neighbourhood Policy", JOIN (2015) 50 final, Brussels, 18 November 2015.

though they also raise major challenges in terms of development effectiveness and concerns over unrealistic political expectations that money can deliver complex political solutions.

13. Wider reflections on **“what next for Europe”** are also proliferating. Thus, the March 2017 Juncker paper sets out different scenarios for the future,¹¹ 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.¹² 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.¹³

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 is 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 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.”¹⁴ 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*”.¹⁵ 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.¹⁶ Michel Barnier – the EU chief negotiator – mentioned in August that “the UK does not feel legally obliged to honour these

¹¹ European Commission. 2017. *White Paper on the Future of Europe. Reflections and scenarios for the EU27 by 2025*, COM(2017) 2025 of 1 March 2017. https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf

¹² European Commission. 2017. *The State of the Union 2017: Catching the wind in our sails*. Brussels, 13 September 2017. p.6 -21. https://ec.europa.eu/commission/sites/beta-political/files/state-union-2017-brochure_en.pdf

¹³ European Commission, 2017, *Reflection Paper on the Future of EU Finances*, COM(2017) 358 of 28 June 2017, Brussels. https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

¹⁴ <https://www.gov.uk/government/speeches/pms-florence-speech-a-new-era-of-cooperation-and-partnership-between-the-uk-and-the-eu>, 22nd of September 2017

¹⁵ UK. HM Government, 2017, *Foreign policy, defence and development. A future partnership paper*. p.18 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/643924/Foreign_policy_defence_and_development_paper.pdf

¹⁶ Sherriff, A. Vanvolsem, H. 2017. *Hard Brexit proposed for EU development*. ECDPM Talking Points Blog, 18 September 2017. <http://ecdpm.org/talking-points/hard-brexit-eu-development/>

obligations [to contribute to the EDF] after departure”,¹⁷ while the UK recently published ‘*Foreign policy, defence and development: a future partnership paper*’ that considers that “continued close working with European partners will form an important part of the UK’s future international development strategy”¹⁸. 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.

15. 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’.¹⁹ In fact, the Lisbon Treaty (Article 42) allows for the establishment of a European Defence Union.²⁰ 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.²¹ 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

16. 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.)

¹⁷ Speech by Michel Barnier at the press conference following the third round of Article 50 negotiations with the United Kingdom. Brussels, 31 August 2017. http://europa.eu/rapid/press-release_SPEECH-17-3043_en.htm

¹⁸ UK. HM Government, 2017, Foreign policy, defence and development. A future partnership paper. p.21

¹⁹ European Commission. 2017. *The State of the Union 2017: Catching the wind in our sails*. Brussels, 13 September 2017. p.17. https://ec.europa.eu/commission/sites/beta-political/files/state-union-2017-brochure_en.pdf

²⁰ European Commission. 2017. Reflection Paper on the Future of European Defence, COM(2017) 315 of 7 June 2017. https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-defence_en.pdf

²¹ EEAS. *Permanent Structured Cooperation on defence could be launched by the end 2017*. 8 September 2017. https://eeas.europa.eu/headquarters/headquarters-homepage/31832/permanent-structured-cooperation-defence-could-be-launched-end-2017_en

17. 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. 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 in 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.
18. 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.
19. 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 & 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).

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

20. 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.
21. 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 available also 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.”²² 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?

22. 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 EU narrow 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.²³ Here, clear questions arise whether it is justifiable allocated funds - envisaged for or communicated as ‘external’ development spending - in fact remain within Europe.

23. 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.”²⁴ 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

²² European Commission, 2017, *Reflection Paper on the Future of EU Finances*, COM(2017) 358 of 28 June 2017, Brussels. https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

²³ Anna Knoll and Andrew Sherriff. 2017. *Making Waves: Implications of the irregular migration and refugee situation on Official Development Assistance spending and practices in Europe*. Maastricht: EBA & ECDPM. <http://ecdpm.org/publications/making-waves->

²⁴ Wolfgang Ischinger, 2017. *Broadening the 2 per cent debate*, Munich Security Conference, 24th of May, <<https://www.securityconference.de/en/discussion/monthly-mind/single-view/article/monthly-mind-may-2017-broadening-the-two-percent-debate/>>

synergies and greater external coherence with appropriate safeguards, yet these are not fully exploited.²⁵

24. 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.²⁶ **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.
25. 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.
26. 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.

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

27. The divergent political positions on the future course of the Union (Section 1) and competing demands arising from internal and external policy priorities (Section 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.²⁷ 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

²⁵ Große-Puppendahl, S., Byiers, B., Bilal, S. 2016. *Blurred lines: Cases of EU development and commercial instruments for matchmaking*. (Discussion Paper 188). Maastricht: ECDPM.

²⁶ European Commission, 2017, *Reflection Paper on the Future of EU Finances*, COM (2017) 358 of 28 June 2017, Brussels. https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

²⁷ 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.

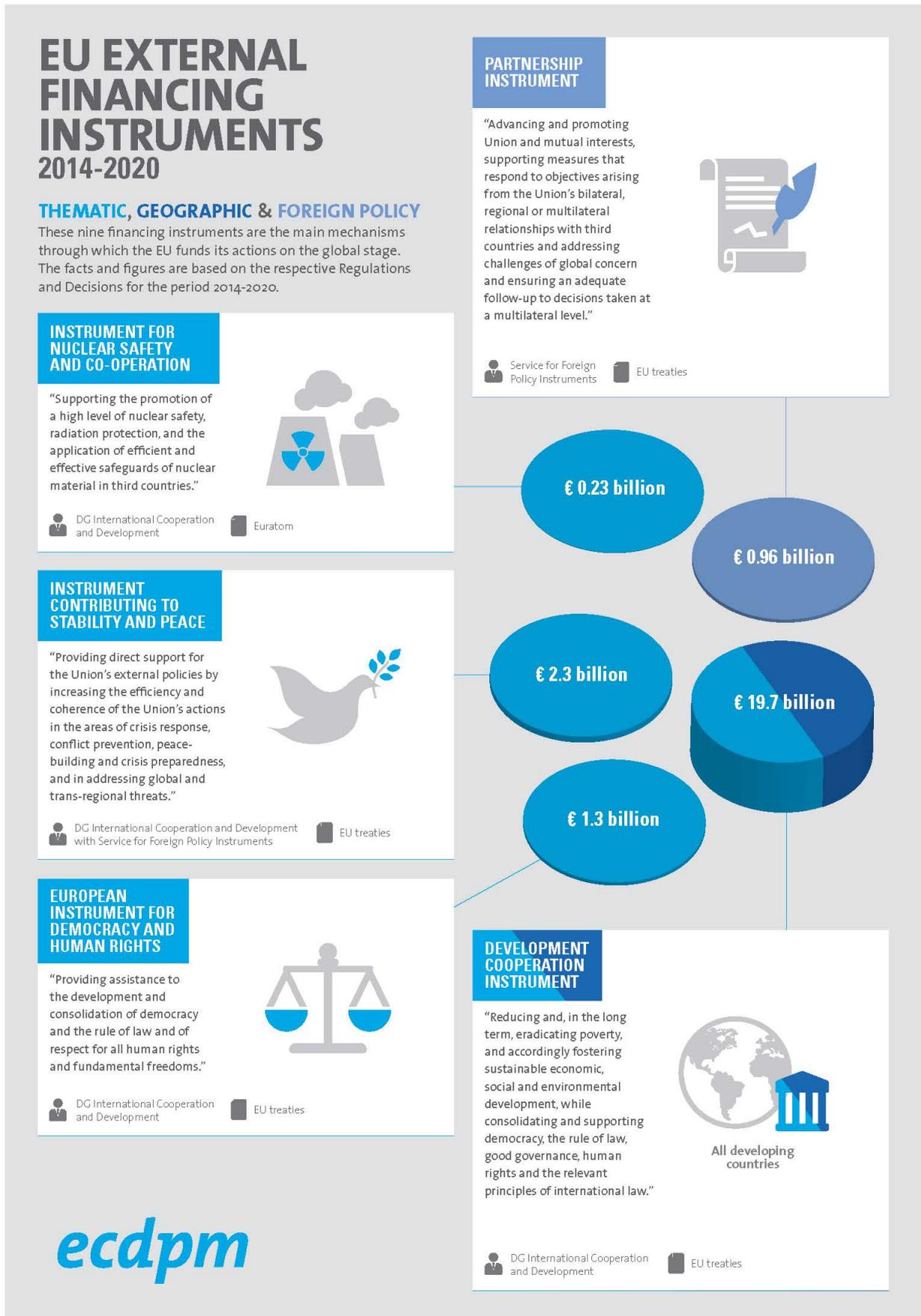
and Security (EUGS) will need to be fully factored in the review of External Financial Instruments (EFIs) as well as the implications of the growing popularity of EU Trust Funds as an alternative mechanism for delivering support.

28. 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 instrument²⁸ and of the Common Implementation Regulation (CIR). An independent 'Coherence Report' has been produced on behalf of the EU,²⁹ 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 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.

²⁸ 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.

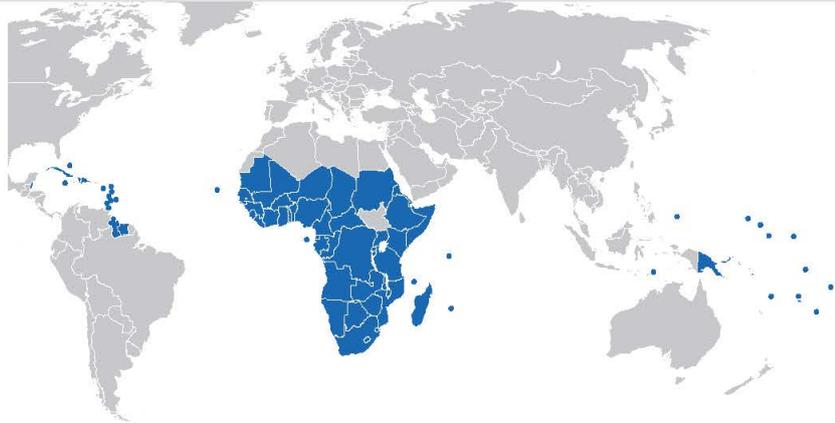
²⁹ Bossuyt, J., with Caputo, E., Schwarz, J. 2017. 2017. *Coherence Report – Insights from the External Evaluation of the External Financial Instruments. Final Report for European Commission July 2017* - https://ec.europa.eu/europeaid/coherence-report-insights-external-evaluation-external-financing-instruments_en

Figure 1: EU External Financing Instruments



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."



DG International Cooperation and Development
 Cotonou Partnership Agreement



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."



DG 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."



DG 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."



DG Neighbourhood and Enlargement Negotiations
 EU treaties

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.

Source: Bossuyt, J., with Caputo, E., Schwarz, J. 2017. 2017. *Coherence Report – Insights from the External Evaluation of the External Financial Instruments*. Final Report for European Commission July 2017.

29. 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 strategic³⁰ and result-oriented global player in a volatile world.
30. In this section, **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?

31. 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

³⁰ The EU has often been criticized for being “instrument-led” rather than “strategy-driven”.

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 below:

Table 1: Key evaluation findings per instrument and levels of flexibility

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 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.
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.

Source: Bossuyt, J., with Caputo, E., Schwarz, J. 2017. *Coherence Report – Insights from the External Evaluation of the External Financial Instruments*. Final Report for European Commission July 2017.

32. 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.

33. The MFF 2014-2020 introduced new measures allowing for shifting available margins between headings ('vertical' flexibility) and years ('horizontal' flexibility).³¹ In 2014 and 2015, the budget shifted headings and mobilised over €12 billion for unexpected needs in an unprecedented manner.³² Recently, **new developments can be observed in the 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).
34. However, it has become evident that these measures may not guarantee the levels of coherence, effectiveness and efficiency required³³ (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?
35. 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).

³¹ European Commission. Commission Staff Working Document, SWD(2016) 299 final, September 2016. http://ec.europa.eu/budget/mff/lib/COM-2016-603/SWD-2016-299_en.pdf

³² Núñez Ferrer, J., Le Cacheux, J., Benedetto, G. and Saunier M. 2016. June, *Study on the potential and limitations of reforming the financing of the EU Budget* <http://ec.europa.eu/budget/mff/hlgor/library/highlights/hlgor-studies-external-studyonfinancingofeu-budget-june-2016_en.pdf>

³³ 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.

36. 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.
37. A similar analysis can be made regarding the flexibility provided by EU Trust Funds or blending facilities, as illustrated in Table 2 below:

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 <i>additionality</i> and the measurement of development impact.

Trade-offs and consequences of increased flexibility

38. 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 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.
39. 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

40. 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.
41. 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 below)

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.

<p>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)</p>	<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, J., with Caputo, E., Schwarz, J. 2017. *Coherence Report – Insights from the External Evaluation of the External Financial Instruments. Final Report for European Commission July 2017.*

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

42. 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 built over the last two decades 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).
43. 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 about³⁴ 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.³⁵
44. 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.³⁶ 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.
45. The remainder of this section 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 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.

³⁴ European Parliament. 2014. Study carried out by ECDPM on the "Political Dialogue on human rights under the Article 8 of the Cotonou Partnership Agreement (CPA)".

³⁵ Carothers T and S. Brechenmacher. 2014. *Closing Space: Democracy and Human Rights Support under Fire*. Carnegie Endowment for International Peace

³⁶ Carothers, T and R. Youngs. 2015. *The Complexities of Global Protests*. Carnegie Endowment for International Peace.

The growing gap between policy and practice

46. 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 issue³⁷ 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.
47. The **regulations underpinning the various external financing instruments** (EFIs), as defined in 2014, make detailed reference to the need of 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 of 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.³⁸
48. 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 pursue 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.
49. 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**

³⁷ 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.

³⁸ Bossuyt, J., Keijzer, N., Medinilla, A., Sherriff, A., Laporte, G., Tollenaere, M.de. 2017. *ACP-EU relations beyond 2020: Engaging the future or perpetuating the past?* Maastricht: ECDPM.

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.

50. 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.
51. 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.³⁹
52. 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'**,⁴⁰ 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

53. 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.

³⁹ Grabbe, H. and Lehne, S. 2017. *'Defending EU Values in Poland and Hungary'*. Carnegie Europe. 2017.

⁴⁰ 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: <http://www.politico.com/blogs/ben-smith/2009/12/principled-pragmatism-on-human-rights-023486>.

54. 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**.⁴¹ 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.
55. 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.
56. 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 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.
57. 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 Nussbaum⁴² 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. Carothers⁴³ 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

⁴¹ Sebastian Strangio, Welcome to the Post-Human Rights World, Foreign Policy, 7 March 2017.

⁴² Martha Nussbaum, Creating Capabilities. The Human Development Approach, Harvard UP, 2011.

⁴³ Thomas Carothers, Democracy Assistance: Political vs. Developmental? Journal of Democracy, Vol 20, no.1, January 2009, pp. 5-19.

“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.⁴⁴ 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?

58. 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

59. 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

⁴⁴ James G. March, A Primer on Decision-Making: How Decisions Happen, Free Press, 1994.

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. This means taking local realities as the starting point for elaborating a context-sensitive, realistic, inclusive reform and prioritized agenda.⁴⁵ 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,⁴⁶ actors involved, institutional channels used or time perspective?

⁴⁵ This could also contribute to elaborate more targeted and feasible EU human rights strategies at country level.

⁴⁶ 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.

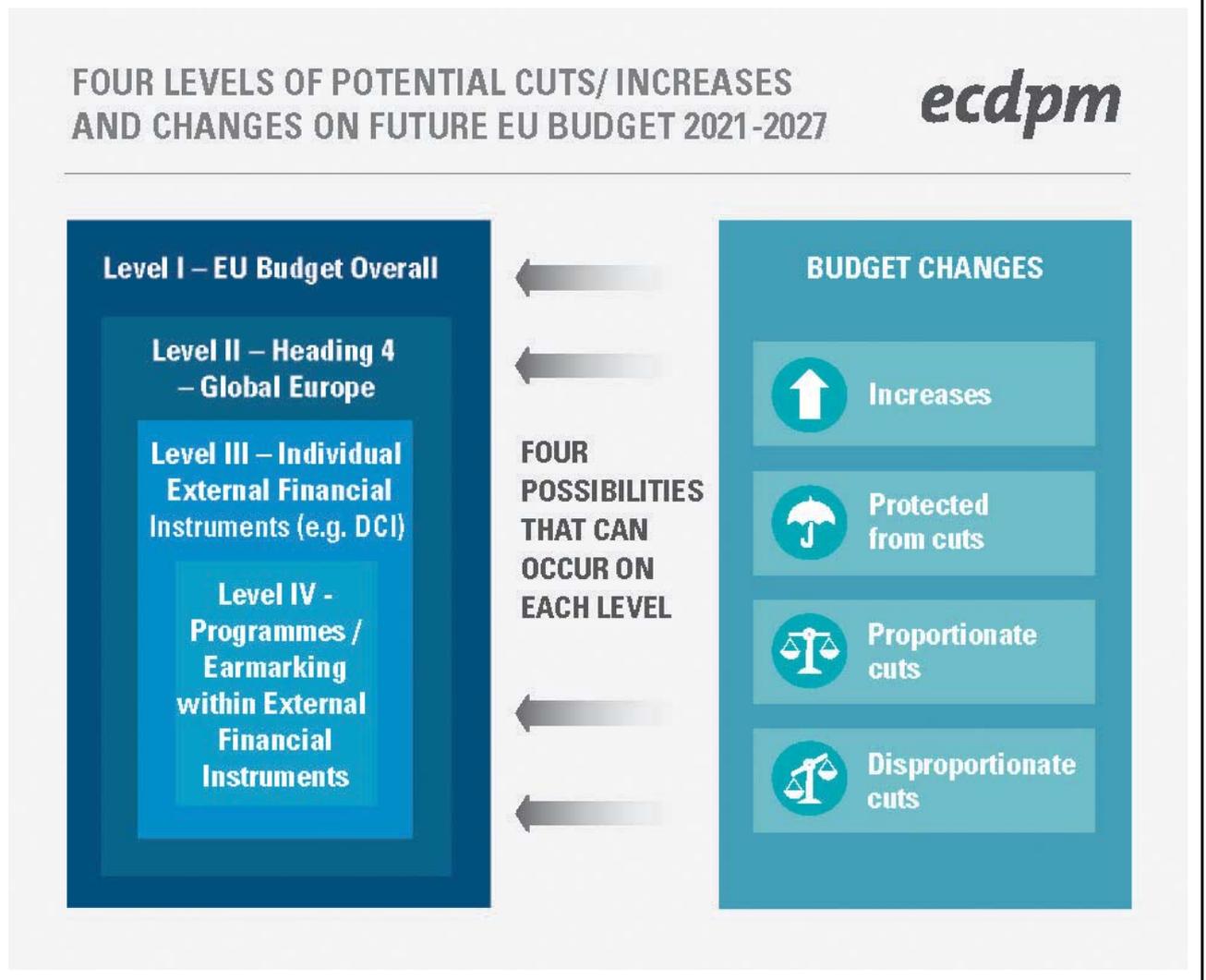
Annexes

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?



Annex 2: Basic Facts on MFF 2014-2020 (as originally agreed to in 2013)⁴⁷

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%	

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

Maximum appropriations	Total 2014-2020 (in 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 Fund⁴⁸	26 984

⁴⁷ EU Bookshop (2013). Multiannual financial framework 2014-2020 and EU budget 2014, The figures, <<http://bookshop.europa.eu/en/multiannual-financial-framework-2014-2020-and-eu-budget-2014-pbKV0413055/?pgid=GSPefJMEtXBSR0dT6jbGakZD0000dNzclU22;sid=Tfbz3hF1CKrz70mseazteXNQ7zWPjIwWU4Q=?CatalogCategoryID=mpgKABstFogAAAEjblUY4e5K>>

⁴⁸ The EDF is not funded by the EU budget.

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 above in section 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”.⁴⁹ These funds are good examples of internal instruments that have an external dimension (but still quite small compared 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.⁵⁰ This shows the interlinkages between the EU's internal interests and the values associated to its external engagement. Internal instruments have thus been also used to provide a rapid response in cases of emergency. As underlined by den Hertog,⁵¹ 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.⁵² 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.**”⁵³ 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).⁵⁴

⁴⁹ European Commission. Statement of estimates of the European Commission for the financial year 2016, SEC(2015) 240, May 2015 <http://ec.europa.eu/budget/library/biblio/documents/2016/DB/DB2016_WD0_SoE_final_en.pdf>

⁵⁰ European Commission. Statement of estimates of the European Commission for the financial year 2017, SEC(2016) 280, June 2016 <<http://ec.europa.eu/budget/library/biblio/documents/2017/statement-of-estimates-of-the-european-commission.pdf>>

⁵¹ Den Hertog, L. (2016, May), EU Budgetary Responses to the 'Refugee Crisis', Reconfiguring the Funding Landscape <https://www.ceps.eu/system/files/LSE_No_93_LdH_on_EU_Budgetary_Responses_to_the_Refugee_Crisis.pdf>

⁵² Knoll, A. and Sherriff, A. (2017, January), Making Waves: Implications of the irregular migration and refugee situation on Official Development Assistance spending and practices in Europe. ECDPM and EBA <<http://ecdpm.org/publications/making-waves-irregular-migration-refugee-oda-europe/>>

⁵³ DG Home, Funding Home Affairs, Overview <https://ec.europa.eu/home-affairs/financing/fundings/index_funding_en>

⁵⁴ European Commission, Special Eurobarometer 455 Report, *EU Citizens' views on development, cooperation and aid*, April 2017 <https://ec.europa.eu/europeaid/sites/devco/files/sp455-development-aid-final_en.pdf>

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.⁵⁵ 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.⁵⁶

The trade-offs outlined in Section 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 scrutinized (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.⁵⁷

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 Section 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.

⁵⁵ Den Hertog, L. (2016, May), EU Budgetary Responses to the ‘Refugee Crisis’, Reconfiguring the Funding Landscape <https://www.ceps.eu/system/files/LSE_No_93_LdH_on_EU_Budgetary_Responses_to_the_Refugee_Crisis.pdf>

⁵⁶ Council of the European Union, EU budget for 2017 <<http://www.consilium.europa.eu/en/policies/eu-annual-budget/2017/>>

⁵⁷ 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, Proposal for a regulation of the European Parliament and of the Council, COM(2016) 605 final, 14 September 2016 <http://ec.europa.eu/budget/mff/lib/COM-2016-603/COM-2016-605_en.pdf>

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The European Centre for Development Policy Management (ECDPM) is an independent 'think and do tank' working on international cooperation and development policy in Europe and Africa.

Since 1986 our staff members provide research and analysis, advice and practical support to policymakers and practitioners across Europe and Africa – to make policies work for sustainable and inclusive global development.

Our main areas of work include:

- European external affairs
- African institutions
- Security and resilience
- Migration
- Sustainable food systems
- Finance, trade and investment
- Regional integration
- The private sector

The European Centre for Development Policy Management will be following the negotiations on the next Multi-Annual Financial Framework (MFF) providing analysis and commentary at critical moments.

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HEAD OFFICE
SIÈGE
Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands *Pays Bas*
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE
BUREAU DE BRUXELLES
Rue Archimède 5
1000 Brussels *Bruxelles*
Belgium *Belgique*
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

info@ecdpm.org
www.ecdpm.org
KvK 41077447