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Aiming high or falling short?

A BRIEF ANALYSIS OF THE PROPOSED FUTURE EU BUDGET FOR EXTERNAL ACTION

MFF

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Summary

In May and June 2018, the European Commission presented a package of proposals for the upcoming seven-year budget of the European Union, known as the Multiannual Financial Framework (MFF) 2021-2027. The proposals are ambitious, particularly on future funding for external action (Heading 6). They hold the possibility of considerable change ahead, both in the amounts allocated under the EU budget and in the simplification of the EU financing instruments. At the same time, the political narrative supporting Heading 6 has become increasingly interest-driven. The EU appears focused on its own key strategic priorities – geographically, the European neighbourhood and Africa, and thematically, a strong emphasis on security and migration.

This briefing note presents a brief quantitative and qualitative analysis of the main proposed changes to the EU budget and their potential implications. It identifies some of the key strategic choices arising from the proposals, and concludes with outstanding questions for the upcoming negotiations.

To make EU external action more relevant, coherent and responsive, the Commission has made a strong case for increased resources as well as for more flexible and simpler financing. In particular, it seeks to create a new instrument, the Neighbourhood, Development and International Cooperation Instrument (NDICI), and to establish a substantial reserve to allow the EU to respond swiftly to unforeseen circumstances. Within the proposed NDICI, preference would be given to regional approaches over global thematic ones. These proposals are productive and welcome, but they raise a number of questions, particularly regarding the distribution of resources for specific geographic and thematic priorities.

While the overall mandate for EU external action is expanding and most issues confronting the international community, including the EU, require multidimensional responses, concerns have also arisen about the weighting of different types of priorities – not least, development, peace, the EU neighbourhood and security – within a single instrument. Ambiguity continues to surround the implementation, governance and accountability of the NDICI, and particularly of the proposed reserve. For the NDICI to have any chance to succeed, it will need to balance appropriate oversight with a guarantee of sufficient flexibility while also preserving predictability.

1. Introduction

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

To launch the negotiations of the EU's new budget, the Commission has come forward with bold proposals with potential for a more strategic EU engagement with the rest of the world. Beyond presenting a rationale and plea for a quite substantial increase in the budget for external action, the Commission has proposed a budgetary architecture and instruments under a new 'Heading 6' that portend fundamental changes to the EU financing structure. These are set out in the Commission's 2 May communication, 'A Modern Budget for a Union that Protects, Empowers and Defends' (COM(2018) 321 final), and in legislative proposals for the new Heading 6 related to EU external action (COM(2018) 460 final).

This note[1] analyses the main changes proposed by the Commission and their potential implications for EU external action, in particular for development cooperation. It further identifies some of the key strategic choices arising from the proposals and concludes with outstanding questions for the upcoming negotiations.

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

2.1. A focus on new political priorities

Preparations and negotiations for the MFF 2021-2027 are taking place in a context of unprecedented challenges for the EU, both internal and external. The global situation has evolved rapidly since 2014, when the current MFF went into effect. Attacks on multilateralism from unexpected corners, including the United States, as well as the Brexit process, have triggered a fundamental debate on the EU's future. New dynamics, such as technological innovations, demographic shifts, climate change, geopolitical instability, security threats and migratory pressures, are putting the EU's response and adjustment capability to test after test. Against this backdrop, the Commission has aligned its proposals for the MFF 2021-2027 with the Union's post-2020 political priorities and put a clear emphasis on European added value.[2]

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

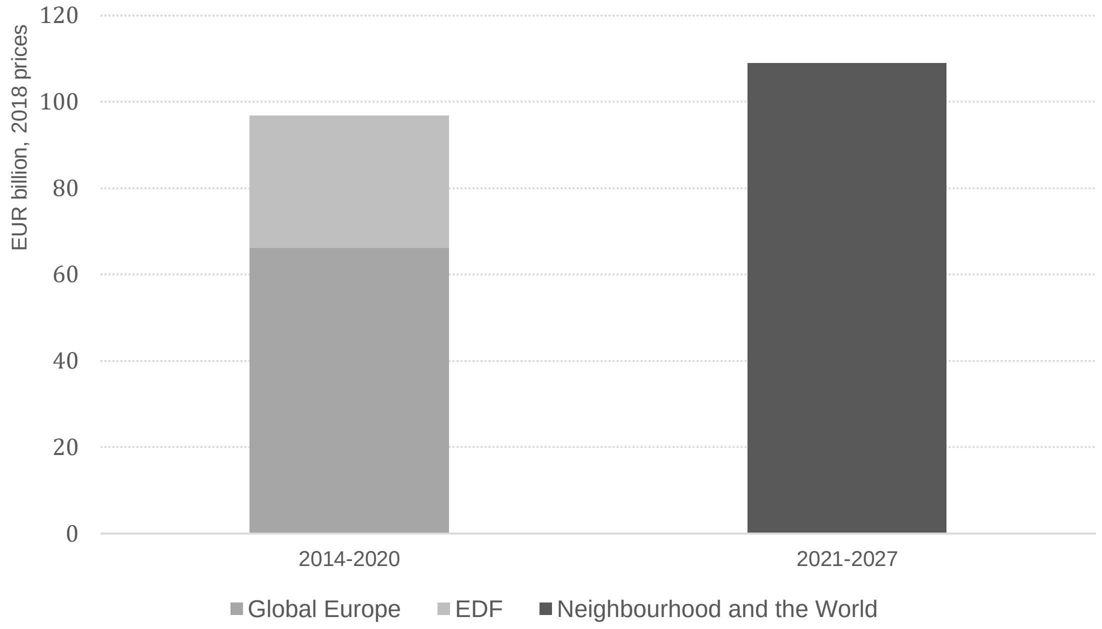
Increased funding for the neighbourhood and the world

The Commission has proposed increased budgetary commitments for EU external action under a new and financially larger 'Heading 6' called 'Neighbourhood and the World'. This heading would include €123 billion in nominal terms (€108.9 billion in real terms), plus an off-budget European Peace Facility and the Emergency Aid Reserve. This is a bold proposal, entailing a 13% increase in real terms (€12.14 billion) in resources for external action compared to the existing framework, if only on-budget resources are included. If the European Peace Facility and Emergency Aid Reserve are also taken into account, the increase rises to 24% in real terms (Figure 1).

[1] This paper represents a quick analysis by ECDPM. It builds on an earlier internal paper for the Belgium Ministry of Foreign Affairs. For more general background analysis and ongoing ECDPM work on the MFF, see <http://ecdpm.org/dossiers/multiannual-financial-framework-mff/>

[2] For these priorities, see the roadmap presented in the Bratislava Declaration of September 2016 (www.consilium.europa.eu/media/21250/160916-bratislava-declaration-and-roadmapen16.pdf) as well as the Rome Declaration of March 2017 (http://www.consilium.europa.eu/en/press/press-releases/2017/03/25/rome-declaration/pdf).

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

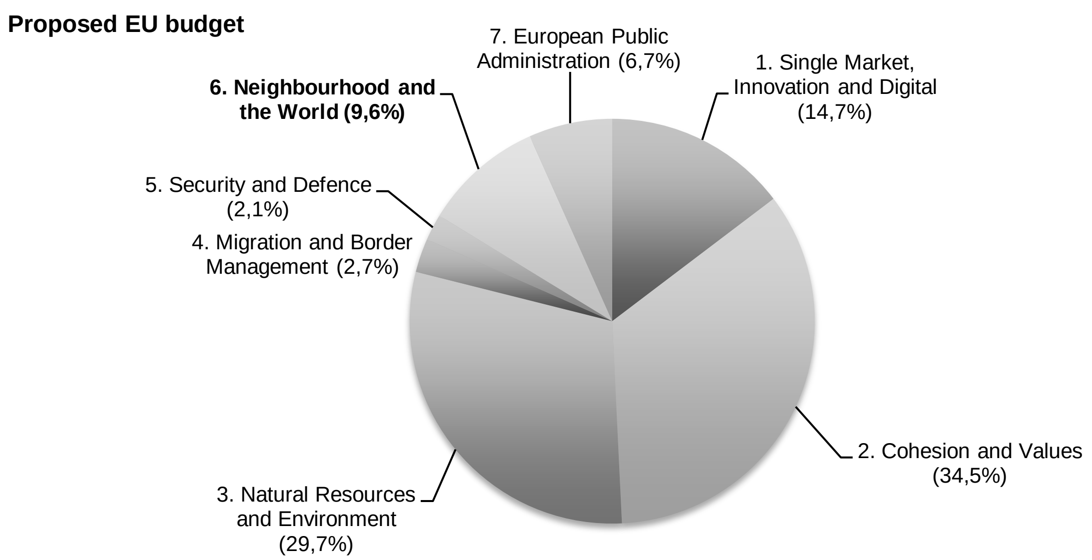


Source: ECDPM calculations based on European Commission data. Figures do not include the off-budget European Peace Facility and the Emergency Aid Reserve.

The proposed increase underlines the traction that external action has gained, from a European perspective, as a necessary area of cooperation and EU added value. The main driver of the increase is clearly the EU's urgency to safeguard its own interests in regard to instability, security threats and geopolitical changes in its neighbourhood and around the world. In particular, the framing of Heading 6 reflects a need to focus on new strategic priorities, both geographical (the European neighbourhood, Africa and the Western Balkans) and thematic (security, migration, climate change and human rights).

Despite this substantial increase, external action's share of the overall budget would rise only slightly, from 8.7% to 9.6%, when including the off-budget European Development Fund (EDF). And the increase proposed remains less than European gross national income (GNI) growth (Figure 2). Thus, resources for EU external action would actually be reduced as a share of the whole EU economy without the United Kingdom.[3]

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



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

3 http://bruegel.org/2018/05/the-commissions-proposal-for-the-next-mff-a-glass-half-full/

A new European Peace Facility

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

2.2. A single instrument for development, the neighbourhood and international cooperation

The Commission proposals pursue a more streamlined and transparent budget throughout the MFF, grouping programmes into policy clusters and reducing the number of financial instruments. This would drastically cut the number of thematic and geographic instruments and programmes for EU external action. Most current mechanisms would be replaced by a new broader instrument, the Neighbourhood, Development and International Cooperation Instrument (NDICI).

The NDICI would absorb by far the largest share of funds (72.5%) under Heading 6 and incorporate eleven of the current instruments and programmes. Due to their specific focus or legal basis, some instruments would remain self-standing, including the Instrument for Pre-Accession Assistance (IPA), the humanitarian aid instrument, the Common Foreign and Security Policy (CFSP) and other smaller components. The IPA and humanitarian assistance would receive, respectively, 11.8% and 8.9%. Table 1 lists the instruments under the MFF 2014-2020 alongside those proposed for the MFF 2021-2027.

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

<table>
<tr><th>Instruments 2014-2020 (Heading 4)</th><th>Proposed Instruments 2021-2027 (Heading 6)</th></tr>
<tr><td colspan="2">New Heading 6: Neighbourhood and the World (Heading 4 in MFF 2014-2020)</td></tr>
<tr><td colspan="2">External Action</td></tr>
<tr><td>Development Cooperation Instrument (DCI)</td><td rowspan="11">Neighbourhood, Development and International Cooperation Instrument (NDICI) together with the European Instrument for Nuclear Safety Cooperation on the basis of the Euratom Treaty</td></tr>
<tr><td>European Neighbourhood Instrument (ENI)</td></tr>
<tr><td>Partnership Instrument for Cooperation with Third Countries (PI)</td></tr>
<tr><td>European Instrument for Democracy and Human Rights (EIDHR)</td></tr>
<tr><td>Instrument contributing to Stability and Peace (IcSP)</td></tr>
<tr><td>European Development Fund (EDF), including ACP Investment Facility and excluding the African Peace Facility (APF)</td></tr>
<tr><td>Instrument for Nuclear Safety Cooperation (INSC)</td></tr>
<tr><td>European Fund for Sustainable Development (EFSD)</td></tr>
<tr><td>External Lending Mandate (ELM)</td></tr>
<tr><td>Guarantee Fund for External Action</td></tr>
<tr><td>Macro-Financial Assistance (MFA)</td></tr>
<tr><td>Overseas Countries and Territories</td><td></td></tr>
</table>

Cooperation with Greenland	Cooperation with Greenland, Overseas Countries and Territories
Humanitarian Aid	Humanitarian Aid
Common Foreign and Security Policy	Common Foreign and Security Policy
Support to Turkish Cypriot Community	Support to Turkish Cypriot Community
Pre-Accession Assistance	
Instrument for Pre-Accession Assistance (IPA)	Instrument for Pre-Accession Assistance (IPA)
Instruments Outside the MFF headings	
Emergency Aid Reserve	Emergency Aid Reserve (internal and external)
Off-Budget	
Common Foreign and Security Policy operations with defence implications (Athena Mechanism)	European Peace Facility (EPF)
European Development Fund, including the African Peace Facility (APF)	

Source: Adapted from European Commission, Impact Assessment Accompanying the Proposal for a Regulation of the European Parliament and of the Council Establishing the Neighbourhood, Development and International Cooperation Instrument, 14/6/2018, SWD(2018) 337 final.

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

More flexible and simpler financing

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

These arguments are backed by the mid-term review of the external financing instruments,[4] which points to shortcomings in the current architecture. The review particularly notes the fragmented nature and different legal bases of the current instruments and their lack of coherent political steering.[5] The 'Coherence Report',[6] observes that though they are still relevant to the EU's objectives, the external financing instruments have struggled to adapt to current challenges and agendas,[7] and they are lacking in complementarity. It concludes that a 'major rethinking of the overall package of instruments and related division of labour' is required, as well as more agility and flexibility. It also calls for clearer distinctions between instruments oriented towards development cooperation and those addressing global challenges (e.g., the 2030 Agenda) or pursuing the EU's own priorities.

Although some streamlining of the instruments would be welcome, there is a risk that the geographic and thematic specificities of the current external financing instruments could be lost. The Coherence Report also points to risks posed by the securitisation of cooperation and increasing use of development funds to address migration flows. These tendencies have diluted the EU's values agenda to some extent. The political

4 https://ec.europa.eu/europeaid/sites/devco/files/mid-term-review-report_en.pdf
5 https://ec.europa.eu/europeaid/sites/devco/files/cir-final-report-vol-i-main-report_en_0.pdf
6 Bossuyt, J., with Caputo, E., Schwarz, J. (2017), 'Coherence Report – Insights from the External Evaluation of the External Financial Instruments'. Final Report for the EC http://ecdpm.org/wp-content/uploads/Coherence-Report-EFI-EC-July-2017.pdf
7 https://ec.europa.eu/europeaid/sites/devco/files/coherence-report-main-report-170717_en_0.pdf

narrative supporting Heading 6, with its expanded mandate for EU external action, brings similar challenges in terms of reconciling EU development objectives with domestic and foreign policy priorities.

Another perceived risk is that bringing together multiple instruments with different objectives might reduce the resources available for development, particularly for least developed countries (LDCs) and sub-Saharan Africa, unless safeguards are clearly spelt out. A related concern is that the use of development resources could become skewed towards other priorities while remaining formally categorised as official development assistance (ODA). Whether and how these risks will materialise depends greatly on how the narrative underlying an eventual Heading 6 filters down the lines through programming and the degree of ring-fencing of funds for specific purposes.

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

2.3. A reserve for unforeseen circumstances

An important aspect of the proposal is its integration of the current extra-budgetary European Development Fund (EDF) into the EU budget. The Commission has argued that bringing the EDF into the budget will increase transparency and democratic scrutiny by the European Parliament. Given the size of the EDF (€30.5 billion for the 2014-2020 period), its incorporation into the NDICI would appear a condition sine qua non for the success of the proposed broad instrument. But the Commission is also keen to import the flexibility features of the EDF, especially its unallocated envelope. The NDICI as designed would include an Emerging Challenges and Priorities Cushion that transposes this unallocated envelope into the budget. In addition, the Commission would like to see the 'multi-annuality principle' of the EDF applied to on-budget external resources. This would mean that unused funds could be carried over across years, and uncommitted funds could be allocated to priorities other than the original ones.[8]

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

Under Heading 6, the 'Emerging Challenges and Priorities Cushion' would be created, composed of non-programmable funds, allowing the Commission to move resources between pillars to respond to migratory pressures, unforeseen circumstances, new needs or emerging challenges, and new Union-led or international initiatives. The cushion would amount to €10.2 billion in current prices, corresponding to about 11% of the instrument. This is considerably more than all but the geographic pillar of the NDICI.[9]

A flexible reserve would allow the EU to respond more efficiently and rapidly to unforeseen circumstances and be an agile player post-2020. The Commission's proposals go some way towards this end. The proposals would also allow for more predictability in other allocations, as there would be less need to renegotiate and reallocate from other areas. In this sense, it is a welcome innovation. Yet, ambiguity remains regarding the implementation, governance and accountability of the reserve. The proposed cushion is quantitatively substantial, considering its flexible and un-earmarked nature. Questions are justified regarding the criteria and procedures for tapping into it and what it could be spent on beyond migration. What other emerging priorities would the reserve cover, and how would allocations be decided? How would funds be shared between different geographic or thematic priorities? Who will decide? What role would member states

8 Commission Staff Working Document (2018) Impact Assessment SWD(2016)337 final http://ec.europa.eu/transparency/regdoc/rep/10102/2,018/EN/SWD-2018-337-F1-EN-MAIN-PART-1.PDF

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

and the European Parliament play? While the EU undoubtedly needs greater flexibility, it must also ensure a relative clarity and predictability of longer-term funds to geographic and thematic areas. Also, appropriate governance and oversight methods must accompany any mechanisms for swift allocations.

2.4. A new external investment framework

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

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

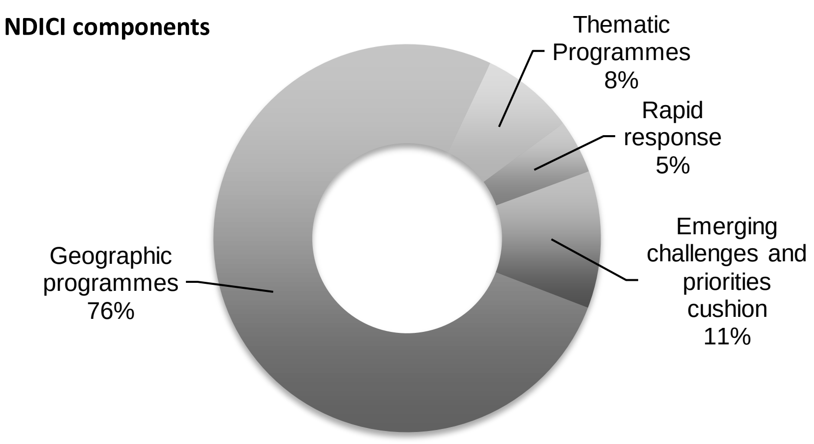
The EFSD Guarantee, the EFSD Guarantee Fund and the External Lending Mandate would be merged and replaced by the External Action Guarantee, under which budgetary guarantees would be provided for all countries covered by the EFSD+ and the Instrument for Pre-Accession Assistance. The External Action Guarantee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

3. Structure and resource allocations of the NDICI

3.1. The NDICI architecture

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

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



Source: ECDPM calculations based on European Commission data.

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

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

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

Table 2 Proposed Heading 6 instruments and their funding (2021-2027)

Heading 6	**Current prices (€ million)**	**Constant 2018 prices (€ million)**
Neighbourhood, Development and International Cooperation Instrument (NDICI)	**89,200**	**78,950**
Pillar 1: Geographic programmes	**68,000**	**60,186**
- Neighbourhood	22,000	19,472
- Sub-Saharan Africa	32,000	28,323
- Asia and the Pacific	10,000	8,851
- The Americas and Caribbean	4,000	3,540
Pillar 2: Thematic programmes	**7,000**	**6,196**
- Human Rights and Democracy	1,500	1,328
- Civil Society Organisations	1,500	1,328
- Stability and Peace	1,000	885
- Global Challenges	3,000	2,655
Pillar 3: Rapid Response Actions	**4,000**	**3,540**
Emerging Challenges and Priorities Cushion	**10,200**	**9,028**
Complementary European Instrument for Nuclear Safety	**300**	**266**
Humanitarian Aid	**11,000**	**9,760**
Common Foreign and Security Policy	**3,000**	**2,649**
Overseas Countries and Territories (including Greenland)	**500**	**444**
Other	**1,070**	**949**
Decentralised Agencies	**149**	**132**
Pre-Accession Assistance	**14,500**	**12,865**
Margin	**3,283**	**2,913**
Total Heading 6	**123,002**	**108,928**
Off-Budget Instruments		
Emergency Aid Reserve	**4,734**	**4,200**
European Peace Facility	**10,500**	**9,223**

Source: Adapted from *European Commission, Communication on A Budget for Europe 2020 - Part II: Policy fiches, 29/6/2011, COM(2011) 500 final, PART II; European Commission, Annex to the Communication on A Modern Budget for a Union that Protects, Empowers and Defends - The Multiannual Financial Framework for 2021-2027, 2/5/2018, COM(2018) 321 final ANNEX. Constant prices discount the inflation from different years and thus allow comparability over time with other quantities expressed in constant prices for that same year.*

3.2. Distribution of resources for thematic and geographic priorities

The lion's share of funding would be channelled through the geographic programmes, for which the Commission has proposed earmarked amounts divided into four regions: the EU neighbourhood, sub-Saharan Africa, Asia and the Pacific, and the Americas and Caribbean. This structure is a clear demonstration of the Commission's prioritisation of regional geographic approaches over global thematic ones.

The Commission proposals safeguard a prominent EU neighbourhood window with a ring-fenced minimum allocation of €22 billion in current prices. Sub-Saharan Africa would also receive a substantial ring-fenced minimum amount, some €32 billion in current prices, with additional funds likely to come from the other two pillars (thematic and rapid response) as well as potentially the cushion.

A number of thematic actions currently financed by thematic programmes under the Development Cooperation Instrument (DCI) and taking place at the country level would instead be covered under the geographic programmes in the new architecture.[10] For all geographic regions, cooperation would be structured around the 'five Ps' (people, prosperity, planet, peace and partnership). For the EU neighbourhood specifically, the proposed regulation contains a dedicated chapter with provisions on allocation criteria, the performance-based approach and cross-border cooperation. Additionally, the actions funded under the geographic programmes are to be complemented by four thematic programmes addressing, respectively, human rights and democracy, civil society organisations, stability and peace, and global challenges.

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

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

Table 3 Selected cross-cutting issues and main featured changes

Poverty	Interestingly, the 2 May MFF proposals do not refer to 'eradicating poverty' but to 'overcoming' poverty. Furthermore, poverty eradication is not mentioned explicitly as one of the objectives of the NDICI itself, but only indirectly through the reference to the EU Treaty. This absence has attracted criticism from civil society organisations working on development issues. Their concern is that poverty eradication as a longer-term objective will be lost or further diluted in the next programming cycle.
Sustainable Development Goals (SDGs)	According to the Commission, sustainable development will be mainstreamed throughout the MFF to implement the 2030 Agenda, both internally and externally. However, the SDGs are only mentioned in the introductory paragraph of the general proposals for Heading 6, and the NDICI itself foresees no strong concrete actions or dedicated funding for the SDGs. The proposed regulation states only, in article 4, that the thematic programmes shall encompass actions linked to the pursuit of the SDGs at the global level, in particular in the global challenges programme, while actions undertaken throughout should pay special attention to linkages between the SDGs and integrated actions that can create co-benefits and meet multiple objectives in a coherent way.
Gender	The Commission's 2 May communication makes no explicit reference to gender equality as a key political priority. Its annex refers to gender mainstreaming only twice, with one of these regarding the new NDICI. No details are provided as to how gender mainstreaming should be undertaken in the next MFF. The 20% spending target for social inclusion and human development, as currently proposed, explicitly includes gender equality and women's empowerment, but again, without further details as to what this means.

[10] https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-neighbourhood-development-international-annexes_en.pdf

Human rights	The proposed NDICI ring-fences human rights in the thematic pillar, providing a dedicated envelope of €1.5 billion, which is similar to the amounts available in the 2014-2020 period. The current Development Cooperation Instrument (DCI) sets a target of at least 15% of the indicative financial allocations to geographic programmes for human rights, democracy and good governance. There is no such target in the NDICI geographic pillar.
Peace, conflict and security	The EU budget for security and defence (Heading 5) would be significantly reinforced to €27.5 billion under the current proposals. The Commission has also proposed the creation of a new dedicated European Peace Facility, outside the budget, with a Common Foreign and Security Policy retained within the budget. Under Heading 6, the NDICI proposal does not retain the Instrument contributing to Stability and Peace (IcSP) as a separate tool, although a commitment to 'conflict sensitivity' is mentioned among a number of cross-cutting principles. The NDICI would include 'stability and peace' as a component of the thematic pillar, while also prominently incorporating peace, security and conflict considerations in the rapid response pillar. That last would constitute the main funding channel for quick responses for crisis management, conflict prevention and peacebuilding, strengthening resilience, and linking humanitarian and development actions. The rapid response pillar would adopt an approach similar to that of the IcSP, including quick deployment with non-programmable funds. Some concerns have been raised about the extent to which the rapid response pillar would be able to muster the longer-term preventive approaches also needed for sustainable peace and conflict prevention. Overall while mentioning both, the Commission's budget proposals place a stronger focus on the EU's own concerns, rather than overall collective global security.
Migration	Migration has clearly become a much stronger priority and is being mainstreamed throughout the MFF. In the MFF 2014-2020, migration was funded through a number of internal and external instruments, particularly humanitarian assistance and the EU Emergency Trust Fund for Africa. These, however, have tended to follow their own logics, cycles and processes, and have different ways of engaging with partners. To overcome the current disconnect between the various instruments and the EU's overall migration agenda, the Commission has proposed a more comprehensive approach that combines the internal and external dimensions of migration. The 2 May communication stresses that 'migration is a priority which will be identified and addressed across the instrument and in the different pillars, including by drawing on unallocated funds'. As proposed, 10% of the NDICI financial envelope is to be dedicated to addressing the root causes of irregular migration and forced displacement and supporting migration management and governance, including protection of refugees and migrants' rights. An integral element of the NDICI is to promote effective cooperation of partner countries with the EU on migration. The EU, for its part, is to pursue '[a] more coordinated, holistic and structured approach to migration' with partners and regularly assess its effectiveness. The principles for the geographic programmes state that these are to be 'based on the partner's capacity and commitment to promote shared interests and values'. The performance-based approach applicable to the neighbourhood countries mentions cooperation on migration as a criterion for supplementing country financial allocations (the 'more for more' approach).
Climate	The MFF 2014-2020 has some important climate-relevant features such as 'climate mainstreaming', the political target of spending 20% of the EU budget on climate action and a strategic link to the EU 2020 climate and energy framework. So far, however, EU implementation of the 20% target has gotten off to a slow start. For the MFF 2021-2027, the Commission has proposed mainstreaming climate across all EU programmes by raising the current 20% target for climate-related objectives to 25% of overall EU expenditure. One quarter of the NDICI envelope would thus be devoted to climate-related goals. The EU would also like to better balance funding streams for mitigation and adaptation in external action, as overall EU climate change spending is unbalanced in favour of mitigation, mirroring a general trend in climate change financing. If the Commission proposals survive, and in light of the EU's leadership on climate change under the Paris Agreement, the single instrument could provide a way to preserve the EU's climate-related objectives from the DCI. Nonetheless, while increased funds for development and promotion of global public goods related to climate are welcome, some have criticised the amounts currently proposed as not sufficiently ambitious.

Civil society and local authorities	In the Commission's proposals, the dedicated programme for civil society and local authorities is replaced by a dedicated programme on civil society. The new programme thus no longer refers to local authorities explicitly as beneficiaries. Local authorities are only mentioned as one of the topics to be covered under the global challenges programme of the NDICI thematic pillar. Here again criticisms have been voiced, as some see this change as inconsistent with the fundamental need to localise the SDGs, to recognise the crucial role of cities in sustainable development and job creation, and to mobilise local resources

Earmarking for specific objectives

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

Table 4 Earmarking for specific objectives in current and future instruments

Earmarking under current external financing instruments	**Proposed NDICI earmarking**
Development Cooperation Instrument (DCI): – At least 20% of the instrument must be allocated to climate change–related activities. – At least 20% of the instrument must be allocated to basic social services with a focus on health and education. – At least 95% of thematic programmes and 90% of the Pan-African Programme must fulfil ODA criteria. – At least 25% of the Global Public Goods and Challenges Programme must be allocated to climate change–related activities, and 25% to human development. – At least 15% of the indicative financial allocation must go to human rights, democracy and good governance. – At least 45% of the indicative financial allocation must go to inclusive and sustainable growth for human development. **European Development Fund (EDF):** - At least 90% must be counted as ODA. - At least 20% must be allocated to climate action objectives. **European Neighbourhood Instrument (ENI):** – Up to 80% of the financial envelope is to be allocated to bilateral programmes. – Up to 35% of the financial envelope is to be allocated to multi-country umbrella programmes. – Up to 5% of the financial envelope is to be allocated to cross-border cooperation. **Instrument contributing to Stability and Peace (IcSP):** – At least 70% of the envelope is to be allocated to activities in response to situations of crisis or emerging crisis to prevent conflicts. – At least 9% is to be allocated to activities to assist in conflict prevention, peacebuilding and crisis preparedness.	**Overall:** – 25% must be committed to climate objectives. – 20% must be committed to social inclusion and human development, including gender equality and women's empowerment. – 10% must be committed to root causes of migration and forced displacement and to supporting migration management and governance. – At least 92% must fulfil ODA criteria. – All allocations should further the collective target of contributing 0.20% of EU gross national income (GNI) to least developed countries (LDCs) **Neighbourhood window:** – 10% must be allocated according to performance. – 4% must be allocated to cross-border cooperation.

Source: DCI Regulation 233/2014, IcSP Regulation 230/2014, ENI regulation 232/2014, NDICI proposed Regulation COM (2018) 460 final.

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

4. Strategic choices arising and outstanding questions

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

While difficult to draw direct comparisons, no area seems to lose out excessively
The very different way Heading 6 has been drawn up makes direct financial comparisons difficult. But at this stage, the overall heading does grow and there seems to be no areas or regions that lose out excessively. Further details and analysis will be needed to refine this assessment, and significant ambiguities will remain, as some key choices will become clear only at the programming stage.

Important to mobilise and defend overall funding for Heading 6
The proposal seems quite reasonable and strikes a careful balance between the negotiating parties. But it will take a robust defence and a new collective alliance to protect this part of the budget from cuts in the upcoming negotiations. Indeed, based on past experience, the further negotiations could result in significant cuts in the overall size of the MFF from the Commission's proposed amounts to the final deal, especially in relation to external spending. Last time around, the external action heading suffered the largest cuts from proposal to final outcome. An alliance might be useful to stake out a common ground in the negotiations, across the so far quite divided development, neighbourhood and foreign policy constituency.

Caution on the assumption that ring-fencing and specific objectives protect resources
Past practice demonstrates that ring-fencing is an ineffective way of influencing Commission decisions. Putting too much emphasis and faith in ring-fencing within the NDICI might defeat the purpose of delivering a simpler, more effective and priority-oriented external financing architecture. Such a strategy would likely lead to replication of the overlaps, gaps and rigidities of the current external financing instruments. Earmarking everything from the start of the seven-year cycle would rob the Commission of an ability to respond to emerging issues. This would lead to the need for painful reallocations and renegotiations later.

Reconciliation of values and interests, as Heading 6 offers opportunities and risks
Bringing values and interests together could produce a modern international cooperation. Yet, the Coherence Report draws attention to the difficulties of reconciling both agendas and the incoherencies resulting from the diverse objectives pursued by the different instruments. The NDICI could offer a more consolidated instrument to manage these challenges, provided that the values agenda is sufficiently mainstreamed in political strategy and implementation choices.

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

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

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

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

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

5. Next steps

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

In order to avoid repetition of the late adoption of the MFF 2014-2020, which significantly delayed the start of programmes and negatively impacted their achievements, the Commission is pushing for prompt political agreement on the next MFF, before the last plenary of the current European Parliament in April 2019, ahead of the European elections in May. In light of the political calendar ahead, this is a very tight schedule regardless of whether significant changes are made to the Heading 6 proposals.

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