Understanding EU financing for external action
In the face of the changing nature of the geopolitical environment in the past decade and its own internal challenges, the EU has reflected upon and adjusted its vision for its global role. In 2016, the EU Global Strategy for foreign and security policy declared the EU's ambition to play a stronger role in the world. At the start of its mandate, the current European Commission described itself as a 'geopolitical' one. The global pandemic raises further questions about the EU's role globally.

To assert itself at global level and pursue its priorities, the EU needs adequate means. Its external role and impact are defined to a great extent by the scope of its resources, but also by their efficient and coordinated use. With the adoption of the multiannual financial framework (MFF) for 2021-2027, the EU has ensured the means and tools for achieving its external action objectives over this period. This paper aims to examine how the EU financed its external action in the 2014-2020 MFF and how it has adapted its approach in this domain. Far from being exhaustive, it seeks to map the main financing instruments, mechanisms and actors involved, an exercise revealing the complexity of the architecture involved, as well as to outline the novelties with their underlying reasons and the main trends for the future financing of EU external action.

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LINGUISTIC VERSIONS

Original: EN
Translations: DE, FR

Manuscript completed in January 2021.

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PE 679.101
DOI:10.2861/257080
CAT: QA-02-21-159-EN-N

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Executive summary

This paper examines the way the EU funds its external action seeking to achieve its objectives and priorities in the world. EU external action is mainly funded from the EU budget under a dedicated heading in the multiannual financial framework. This funding is supplemented by a number of off-budget instruments and tools, Member States' own bilateral aid, and funds mobilised through the EU’s external investment framework from other donors. In the course of the 2014-2020 MFF, a number of crises (for instance, the migration and refugee crisis) and emerging needs pushed the EU to adjust its framework to be able to fund its external action accordingly. Consequently, new tools were created and the perception of complexity (already existing) became stronger. Apart from the diverse sources of funding, the EU uses a variety of delivery modes (grants, loans, investments, guarantees, etc.) and channels of funding via different implementation partners. This makes the overall external financing structure difficult to grasp, hinders transparency and makes it harder to clearly communicate about matters of external financing, despite the EU’s position as a global leader in development and humanitarian aid. The fact that the individual instruments are established according to different rules makes it difficult to exercise uniform and consistent democratic oversight and increases the need for greater accountability.

The first part of this paper provides an overview of the recent architecture for financing EU external policies, including the changes made since 2014. It takes a look at the MFF resources dedicated to external action, among which the European Development Fund (hitherto the biggest off-budget EU development fund), the recently created EU trust funds for external action and the Facility for Refugees in Turkey. It also explores the growing use of blending facilities and the launch of the EU External Investment Plan in 2017 and its financing arm, the European Fund for Sustainable Development, both of which are major novelties as regards the EU’s external investment framework. It also covers the topic of budgetary control over these funds, particularly the EP’s role in this regard.

The second part focuses on the performance of the above set of instruments and tools, as evaluated during the MFF’s mid-term review. The main message is that a simpler, more coherent and more flexible architecture is needed, without compromising its accountability and predictability. Given that development cooperation is at the heart of external action and that most EU external financing qualifies as official development assistance (ODA), related findings are put in the spotlight. The text outlines the main deficiencies identified and the need for optimisation, highlighting the findings of a ‘Cost of Non-Europe’ report according to which significant cost savings could be made if aid is better coordinated. In the post-2020 period, a new broad instrument for development cooperation is planned to absorb the EU’s biggest development instruments in and outside the MFF (including the EDF), with an initially proposed target of 92 % of funding under it to be reportable as ODA.

The third part draws attention to the challenges of negotiating the new MFF, exacerbated by the global pandemic, which highlighted the need to allocate adequate means for EU external policies. From 2018, the MFF negotiations went through various stages, with a revised set of proposals put forward by the European Commission in May 2020 in light of the pandemic. The Parliament had been ready to negotiate since November 2018. In the final round of talks, leading to the agreement adopted in December 2020, it included the new broad instrument and humanitarian aid in its 15 flagship programmes, for which it demanded and finally secured more funds. The paper presents the main changes that the new Heading 6 brings, namely a streamlined structure and a scaled-up external investment framework. In parallel, it sheds light on the ongoing debate on the future EU financial architecture for development. Last but not least, the paper briefly presents the EU measures adopted to help external partners cope with the consequences of Covid-19.
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1. Introduction

Five years after former Commission President Juncker announced his Commission would be a ‘political’ one, his successor, Ursula von der Leyen, described hers as a ‘geopolitical’ one. The increasingly challenging and complex global environment, laden with unexpected crises, and the likelihood of new ones unfolding have prompted the EU to seek a stronger global role and greater stability on its periphery. To achieve this, the EU has made adjustments to its policy framework in recent years. However, an enhanced global role calls for a matching budget. Securing sufficient funds and flexible cost-effective financing is one key challenge to the EU’s geopolitical ambition.

Through its external action the EU strives to uphold and promote its values and interests worldwide. It aims to promote effective global governance and global public goods, global peace and security, and tackle the root causes of global challenges (climate change, trade, global food security, among others). Its different foreign policy areas such as international and development cooperation, humanitarian aid, common foreign and security policy, neighbourhood and enlargement policy, and trade, pursue a range of strategic priorities. The EU implements them through a complex financing network relying on EU budgetary funds, on traditional financing instruments and innovative ad-hoc ones, and on tools for investment outside the EU. The network of actors with whom the EU partners in financing and implementing its policies is no less complex, often reinforcing the impression that the overall system is fragmented and intransparent.

The EU has significant influence and credibility as a global player. Together with its Member States, it is the leading development aid donor in the world, actively working towards the achievement of the sustainable development goals (SDGs). According to OECD data, the EU members of its Development Assistance Committee collectively provided US$84.5 billion in 2019, while total US ODA stood at US$34.6 billion (preliminary data). Although China does not report to the OECD, the OECD estimates that China’s international development co-operation stood at US$4.4 billion in 2018, down from $4.8 billion in 2017. The EU is also the biggest donor of humanitarian aid in the world. Over the years, the EU has taken a major role in humanitarian action, and its provision of rapid and flexible assistance both in major crises and in so-called ‘forgotten crises’ has become a hallmark of its donor profile. The EU is also a primary trading partner and foreign investor for many countries. The EU’s common trade policy allows it to speak with one voice when dealing with external partners.

The EU’s added value as a global player stems from its political and economic clout, the wide geographic range of its cooperation (with EU delegations present across the globe), and its participation in multilateral fora and processes that allow it to address global challenges and inspire global-level action to tackle them. All this puts the EU in a position to offer expertise, economies of scale and predictable and long-term financing for the duration of its MFFs. Yet, despite its beneficial position that allows for more effective global action, the EU’s competences have limits. They are often shared with Member States, which highlights the need for improved coordination.

The new Commission entered into office as the negotiations for the 2021-2027 MFF were ongoing. The outbreak of the Covid-19 pandemic rendered the negotiations, difficult as their context was, even more challenging than when the 2014-2020 MFF was being negotiated amidst the economic crisis. In the adopted MFF, the section dedicated to external action – Heading 6 ‘Neighbourhood

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2. Development Co-operation Profiles, OECD.
and the world’ – foresees a number of significant novelties that reflect the need for achieving greater coherence, complementarity, and better oversight of the funds used in external policies. The proposed allocated budget, initially increased, however suffered cuts in the ensuing negotiations, with the adoption of the European Council conclusions on 21 July 2020. Final agreement on the 2021-2027 MFF was reached on 10 November 2020, and consequently, the new MFF Regulation was adopted in December 2020.

1.1. Legal basis, policy framework and objectives

The EU Treaties define the objectives and principles of the EU external action and delineate the distribution of competences between the EU institutions and the Member States, as well as between the European Commission and other institutions, depending on the concrete policy area.

The Lisbon Treaty sets out the objective to uphold and promote the Union's values worldwide and promote peace, international security, sustainable development, solidarity, free and fair trade, and the eradication of poverty. Part V of the Treaty on the Functioning of the EU 5 spells out the general provisions governing the EU's external action, common commercial policy, cooperation with third countries and humanitarian aid, restrictive measures, international agreements, relations with international organisations and third countries, and EU delegations.

The Treaty on European Union6 envisages EU’s special relationship with neighbouring countries and covers the EU's common foreign and security policy (Title V). It outlines the principles that should guide EU external action (such as democracy, the rule of law, human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law). It envisages that the EU is to pursue consistency between the different areas of its external action and between these and its other policies, as well as to work for a high degree of cooperation in all fields of international relations.

The Treaties provide that the EU is to comply with its international commitments to development in the framework of its cooperation with the United Nations and other international organisations. The international community’s response to global challenges in relation to sustainable development includes the 2030 Agenda for Sustainable Development, the Addis Ababa Action Plan and the Paris Agreement on Climate Change. In 2015, the UN approved the 2030 Agenda,7 which established 17 sustainable development goals covering economic, social and environmental issues, to be achieved globally by 2030. The Addis Ababa Action Agenda,8 setting out a global framework for financing for development, is an integral part of it and is considered 'a major shift'9 in the international community’s strategy to realise the SDGs by efficiently using all financial flows, going beyond ODA, with an increasing focus on the role of private investment. It nevertheless foresees a recommitment to achieving the OECD target in international aid10 (shared by the EU) of 0.7 % of gross national income for ODA, and 0.15 % to 0.20 % for least developed countries by 2030.

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5 Consolidated version of the Treaty on the Functioning of the European Union.
6 Consolidated version of the Treaty on European Union.
7 Transforming our world: the 2030 Agenda for Sustainable Development, 2015.
10 Countries reach historic agreement to generate financing for new sustainable development agenda, UN Financing for Development Office, 2015.
During the 2014-2020 MFF, global developments also led the EU to reshape its strategic vision for external action and update its policy framework. Most notably, the 2016 Global Strategy for the EU’s Foreign and Security Policy\(^\text{11}\) outlines the broad vision for all of the EU’s external engagements and stipulates that the implementation of the 2030 Agenda will be closely coordinated with the EU’s other relevant international commitments. Anchored in the 2030 Agenda and the Addis Ababa Agenda, the new 2017 European Consensus on Development\(^\text{12}\) is the key document that outlines a common vision for the EU and its Member States for the future of development cooperation. The External Investment Plan, adopted in 2017, is an integral part of the EU strategic policy developments. A new partnership agreement\(^\text{13}\) between the EU and African, Caribbean and Pacific (ACP) countries was also announced on 4 December 2020, following the conclusion of the related negotiations.

1.2. Institutional and other actors

As stipulated in the Treaties, competences in external action are shared between the EU, its institutions\(^\text{14}\) and its Member States. Depending on the policy area, the EU’s powers to act on its own vary. In trade, an exclusive EU competence, the Commission can conclude negotiations on behalf of the EU, but any agreements it concludes need to be ratified by the Member States and the Parliament. Development cooperation is of a shared nature: the EU shapes the overall policy and the Member States’ policies are meant to complement it, although the EU cannot sanction deviations. The CFSP, due to its specific nature, is governed by specific rules and procedures. However, overall, policy coherence is the key principle that the EU and its Member States adhere to in order to play an effective role abroad.

The roles and relationships of the EU institutions in external action are complex.\(^\text{15}\) While the European Council sets the strategic external objectives of the EU, the Commission takes the lead as the EU’s main executive body (except e.g. in the domain of the CFSP, where the Council is in charge). Apart from policy and legislation proposals, it proposes and executes the budget, and implements policies. It also manages development financing through both the EU budget and the European Development Fund. Within the Commission, different directorates-general are in charge of different policy areas.

Some of the Commission’s directorates-general (DGs) related to external policies include DG DEVCO (in charge of the overall EU international cooperation and development policy); and DG NEAR (in charge of the Neighbourhood and enlargement policy); DG ECHO (manages European civil protection and humanitarian aid). The Service for Foreign Policy instruments (FPI) is in charge of CFSP expenditure from the EU budget.

The Lisbon Treaty created the post of the High Representative of the Union for Foreign Affairs and Security Policy (HR/VP) who represents the EU in international fora and has authority over the EU’s delegations globally. The European External Action Service (EEAS), created in 2010 to assist the HR/VP, further develops and implements the EU’s foreign and security policy, including support on development cooperation. The EEAS, through the EU delegations, helps increase synergies between EU and national policies on the ground. The Commission and the EEAS, together with the countries


\(^{12}\) European consensus on development, European Commission, 2017.


\(^{15}\) OECD Development Co-operation Peer Reviews: European Union 2018, December 2018.
of operation and other stakeholders, define the EU medium and long-term priorities, objectives and funding allocations to support partner countries through a process of multi-annual programming. This process aims to ensure that the EU budget is spent in line with EU policies and that recipient countries share ownership of the objectives and priorities identified.

The European Parliament\textsuperscript{16} has political, legislative and budgetary powers. The Parliament is to be immediately and fully informed at all stages of the procedure of negotiating, signing and concluding international agreements. Its consent is required\textsuperscript{17} for almost all international commitments of the EU. As per the Treaty of Lisbon, the EP and the Council act as the EU’s joint budgetary authority. For adopting the MFF, the Council has the primary power of decision, but requires the Parliament’s consent. The Council defines the general policy direction and co-legislates with the Parliament on the main external financing instruments (except on CFSP-related matters). The EP scrutinises the use of the funds, but its competences vary depending on the instruments concerned. External actions, including development aid, are scrutinised by the European Court of Auditors whose reports form the basis for the discharge exercise led each year by the EP’s Budgetary Control Committee.

Finally, the Commission works with a wide range of actors such as international financing institutions (IFIs), Member States’ own development agencies and development finance institutions (DFIs), as well as multilateral development banks (MDBs). The four institutions that are the most strongly involved in EU external action are the European Investment Bank (EIB, the largest implementer, disbursing part of EU ODA), the European Bank for Reconstruction and Development (EBRD), the Agence Française de Développement and the Kreditanstalt für Wiederaufbau. The EU also strongly engages with civil society, local authorities and the private sector on the ground.

A significant share of EU funding is implemented through multilateral organisations, particularly UN agencies, the main reasons for this being their specific expertise, unique capacities, privileges and access to humanitarian aid, and their ability to ensure the continuation of existing programmes, to name a few. In 2018, the two EU programmes committing most funds to international organisations were Humanitarian Aid (25 %), and the Development Cooperation Instrument (22 %) (Figure 1).

Table 1 – EU programmes contracting with international organisations

<table>
<thead>
<tr>
<th>Programme*</th>
<th>2019 commitments</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Humanitarian aid</td>
<td>1 223 217 336</td>
<td>25,47%</td>
</tr>
<tr>
<td>Development Cooperation Instrument (DCI)</td>
<td>1 075 728 128</td>
<td>22,40%</td>
</tr>
<tr>
<td>European Neighbourhood Instrument (ENI)</td>
<td>524 569 577</td>
<td>10,92%</td>
</tr>
<tr>
<td>Instrument for Pre-accession assistance (IPA II)</td>
<td>460 738 235</td>
<td>9,59%</td>
</tr>
<tr>
<td>Instrument contributing to Stability and Peace (IcSP)</td>
<td>137 283 963</td>
<td>2,86%</td>
</tr>
<tr>
<td>Common Foreign and Security Policy (CFSP)</td>
<td>30 496 845</td>
<td></td>
</tr>
<tr>
<td>Partnership Instrument (PI)</td>
<td>29 336 217</td>
<td></td>
</tr>
<tr>
<td>Instrument for Nuclear Safety Cooperation (INSC)</td>
<td>19 400 000</td>
<td></td>
</tr>
<tr>
<td>European Instrument for Democracy and Human Rights (EIDHR)</td>
<td>18 780 692</td>
<td></td>
</tr>
</tbody>
</table>

*The first five programmes are in the top 10 of EU programmes contracting with international organisations. Source: \textit{Commission Working Document Part IX: Funding to international organisations COM(2020) 300, June 2020.}

\textsuperscript{16} A general survey of development policy, Factsheets of the European Union, 2017.

\textsuperscript{17} E. Anosovs, Parliament’s Enhanced Role in International Agreements, EPRS, 2013.
2. 2014-2020 architecture of EU financing for external action

The EU architecture for financing external action\(^{18}\) has evolved over the years, with the EU’s external financing instruments (EFIs) having been continuously revised and streamlined. Most recently, major changes were introduced at the start of the 2014-2020 MFF, then later under the pressure of new challenges and to take account of the MFF mid-term revision in 2017 and the update of the Financial Regulation in 2018.

In the 2014-2020 period, EU external action was financed through a mix of instruments and tools within and outside the EU budget, and through cooperation with external lenders such as the EIB. Adjustments made during the period were in general aimed at increasing the flexibility and agility in financing external action, making EU funding more visible as well as boosting the EU’s potential for mobilising more funds from a larger pool of stakeholders, thus combining budget funds with other resources. An increasingly prominent priority was the effort to involve the private sector and leverage private investment for development.\(^{19}\) To improve responsiveness, different types of flexibility were created: on one hand, ad-hoc instruments (e.g. trust funds), and on the other, measures such as changes in the Financial Regulation, allowing shifts in unused funds between headings and years. At the same time, concerns were expressed that flexibility comes with trade-offs. Even before the introduction of new tools in the 2014-2020 MFF, the EU system for financing external action was largely perceived as complex and fragmented. This in turn, as stated in a 2017 study on ‘The budgetary tools for financing the EU external policy’, \(^{20}\) ‘makes democratic oversight and budgetary scrutiny more challenging’. Further reflection on how different elements of the EU’s external financing architecture fit together was carried out in the mid-term revision of the MFF.

The main elements of EU financing for external action include a dedicated heading, ‘Global Europe’, which integrates most EFIs; the largest development fund outside the EU budget, the European Development Fund; the EU trust funds for external action and the Facility for Refugees in Turkey; other special instruments outside the heading ‘Global Europe’; as well as the EU external investment framework under the 2017 External Investment Plan, in particular its financing arm, the European Fund for Sustainable Development, and the loans and guarantees covered by the Guarantee Fund for External Actions (GFEA).

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\(^{19}\) European development cooperation with Sub-Saharan Africa 2013-2018, European Center for Development Policy Management.

Forms of funding

The Financial Regulation (FR) is a piece of secondary legislation adopted by the Parliament and the Council after consulting the Court of Auditors (Article 322 TFEU). It mainly contains provisions applicable to the general budget and deals exhaustively with implementation and control (aspects not covered thoroughly in the Treaty). The FR foresees the types of financing through which the EU can channel its funds, as well as the methods of implementation of the EU budget. The EU provides funding in the form of grants, contracts, budget support to partners, technical assistance, contributions to trust funds; macro-financial assistance grants and loans; financial instruments and budgetary guarantees and blending, among others. Implementation can include channelling funds through NGOs under direct management; indirect management through implementation agencies (e.g. UN, World Bank Group, Member States' own agencies); blending of EU budgetary resources with IFI/DFI financing; and EU budgetary guarantees with two basic models - the EIB's External Lending Mandate (more details below), and the EFSD (and the EDF's ACP Investment Facility).

Grants, funded by the EU general budget or the EDF, offer donations to specific projects or operations in line with the EU external action objectives. They cover a wide range of sectors and areas and are usually awarded following a call for proposals. Grant management modes include direct management (the EU is responsible for the entire award procedure) and indirect management (through a financing agreement with a third party).

The EU is the largest provider of budget support, which plays a central role in EU international cooperation. It involves direct financial transfers (fixed or variable tranches) to the national treasury of partner countries. Funding is conditional on policy dialogue, performance assessment, and capacity-building. In 2018, budget support disbursements amounted to €1.8 billion and accounted for 18% of all EU development aid, with sub-Saharan Africa the largest recipient, followed by the EU Neighbourhood. The EU Consensus on Development recognises the key role of budget support in fostering partners' efforts in achieving the SDGs. At the same time, a 2019 Commission report reminds that it carries a fiduciary risk related to the partners' risk of corruption. It is to be granted if a sufficient level of transparency, accountability and effectiveness is shown.

Macro-financial assistance (MFA) is another form of EU financing for countries geographically, economically and politically close to the EU, which are benefiting from a disbursing International Monetary Fund programme. A pre-condition for granting MFA is that the partner respects effective democratic mechanisms. MFA is predominantly provided in the form of loans that are underpinned by guarantees from the EU budget. MFA funds disbursed for the 2014-2019 period amount to €4 616 million in loans and €53 million in grants.

EU funding is complemented by other non-traditional sources of public and private finance, mainly guarantees and blending. With guarantees the EU shares the risk of investing and lending in developing countries, so that private investors and development banks would finance development projects. Blending uses public money to cover part of the costs of a development project, with public and private investors financing the rest. The External Investment Plan, the EU 2017 flagship initiative for external funding, uses both blending and guarantees.

2.1. EU budget: Heading 4 'Global Europe' (2014-2020 MFF)

The 2014-2020 MFF has a total budget of €1 087 billion21 (commitments; adjusted for 2018) and is divided in headings that cover broad policy areas and reflect the EU's political priorities. Heading 4, entitled 'Global Europe' and having a budget of €66.3 billion, or just over 6% of the total MFF, provides the core of the EU financing for external policies and contains the main legal external financing instruments. Smaller resources for initiatives outside the EU are also available under other headings.

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policy areas, such as agriculture, trade, regional and urban policy, education and culture. Most EU external financing is eligible as ODA.\textsuperscript{22}

For its 2007-2013 MFF, the EU replaced 30 programmes and 90 budget lines with eight main instruments. In the 2014-2020 MFF, these instruments were only slightly modified in terms of structure, and a new Partnership Instrument was created.

<table>
<thead>
<tr>
<th>Geographic</th>
<th>Development Cooperation Instrument DCI (€19.7 bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Instrument for Pre-accession Assistance IPA (€11.7 bn)</td>
</tr>
<tr>
<td></td>
<td>European Neighbourhood Instrument ENI (€15.4 bn)</td>
</tr>
<tr>
<td></td>
<td>Instrument for Greenland (€184 million)</td>
</tr>
<tr>
<td>Thematic</td>
<td>Partnership Instrument PI (€955 million)</td>
</tr>
<tr>
<td></td>
<td>European Instrument for Democracy and Human Rights worldwide EIDHR (€1.3 bn)</td>
</tr>
<tr>
<td></td>
<td>Instrument for Nuclear Safety Cooperation INSC (€225 million)</td>
</tr>
<tr>
<td></td>
<td>Instrument contributing to stability and peace IcSP (€2.4 bn)</td>
</tr>
</tbody>
</table>

Each of the main instruments under Heading 4, both geographic and thematic (box 1), is accompanied by a specific regulation adopted by the EP and the Council. They are also subject to common implementation rules and procedures under Regulation (EU) No 236/2014 (except the INSC and the instrument for Greenland). These instruments contribute to achieving the EU’s external policy objectives. The geographic and thematic actions financed under them aim to promote democracy, peace, solidarity, stability, poverty reduction, prosperity and natural resource preservation, both in the EU’s immediate neighbourhood and across the world. The development, neighbourhood and other external policies of the EU share key objectives, such as fostering a sustainable economy that is not in contradiction with achieving social and environmental development, promoting human rights and democracy, good governance and the rule of law. The EU has sustained its efforts for crisis prevention in order to preserve peace and strengthen international security.

Heading 4 also covers instruments with different legal bases, these being defined by factors such as the specific aim and content of the instrument. Set apart, the EU humanitarian aid instrument, based on Article 214 TFEU and operating under Council Regulation (EC) No 1257/96 of 1996, aims to address the impact of conflicts and natural or man-made disasters by providing ad-hoc assistance. The EU, along with its Member States, is the world’s leading humanitarian donor, present not only at the sites of the major humanitarian crises around the globe, but also dedicating a large share of funds to so-called ‘forgotten crises’ (with little media attention and poor coverage). Such crises were allocated 23% of the humanitarian aid funds between 2014 and 2019.\textsuperscript{23}

The common foreign and security policy (CFSP)\textsuperscript{24} is intergovernmental in nature and the part of the CFSP that is reflected in and financed from the EU budget (Heading 4), based on Council decisions, refers to the associated administrative and operational expenditure. As the EU budget cannot finance expenditure with military and defence implications (Article 41(2) TEU), it covers civilian missions, EU Special Representatives and measures supporting non-proliferation and disarmament.

\textsuperscript{22} Official Development Assistance (ODA) is a term established by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) to measure aid flows. EU Aid Explorer shows only ODA eligible projects and gives overview of the main figures related to the EU support and the different recipients, donors, sectors and channels.

\textsuperscript{23} Annual management and performance report for the EU Budget, European Commission, 2020.

\textsuperscript{24} A. Dobreva and C. Cirlig, Common Foreign and Security Policy, briefing, EPRS, 2016.
'Global Europe' also contains lending covered by the Guarantee Fund for external actions (EIB external lending, Macro-Financial Assistance and EURATOM loans) (see the section on ELM below).

**Figure 2 – Financial programming of Heading 4 'Global Europe' instruments 2014 - 2020**

Special instruments outside Heading 4 of the MFF

Within the budgetary framework and above MFF ceilings, a number of 'special instruments' allow entering in the budget and mobilising additional commitment and corresponding payment appropriations to support ad-hoc needs or address new situations that cannot be financed under expenditure ceilings. Those relevant for external action are the Emergency Aid Reserve and the Flexibility Reserve. The Emergency Aid Reserve (€345 million annually, 2018 prices) is meant to quickly reinforce aid for non-EU countries in case of unforeseen events. It is entered in the budget as a provision, after the Parliament and the Council approve the transfer. Thus far, it has mostly been used to supplement the humanitarian aid instrument as emergency assistance to third countries, but also for civil crisis management and protection and situations related to migratory flows at the EU’s external borders. The Flexibility Instrument (€689 million annually, 2018 prices) aims to provide funding for clearly identified expenditure that cannot be covered by agreed ceilings of one or more headings for a given financial year. The Parliament and the Council decide jointly on its mobilisation. It has been consistently used in the 2014-2020 MFF, especially in response to the migration crisis and for events outside the EU.

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2.2. Off-budget instruments and mechanisms

The European Development Fund (EDF)

The EDF, the largest EU financing instrument for development cooperation, was created in 1958, for historical reasons, as a separate funding mechanism for African, Caribbean and Pacific (ACP) countries and Overseas Countries and Territories (OCTs). It is based on an intergovernmental agreement – the Cotonou Agreement – and is financed by direct contributions from EU Member States (six provide the bulk) according to a contribution key, different from the general EU budget key. Commitment periods range from five to seven years. Annexes to the Cotonou Agreement set the maximum amount of resources available for a given number of years (usually five or six, but timeframes may vary). These financial protocols are now also called multiannual financial frameworks, but are not identical with the EU’s MFF. The 11th EDF covers the 2014-2020 period. It has a budget of €30.5 billion and is mostly managed by the Commission, with a small share being managed by the EIB. The amount, apart from Member State contributions, also includes EIB loans as part of the Investment Facility under the Cotonou Agreement. A Council regulation outlines the general framework of EDF programming and implementation. The latter is monitored by the EDF committee, composed of Member State representatives with voting rights proportionate to their contribution key. While outside the EU budget, the EDF’s own financial rules have progressively aligned with the EU’s financial rules.

Financing with military or defence implications

Operational expenditure with military or defence implications (which cannot be funded from the EU budget) has so far been covered by the off-budget Athena mechanism and the African Peace Facility. The Athena mechanism is funded by Member States’ allocations based on their GNI (except Denmark, which has opted out). Third countries and international organisations can participate under specific conditions. A Special Committee composed of Member State representatives sets its financial rules. In addition, CSDP missions can also be supported by Member State funds, participating third countries and other international organisations. The African Peace Facility was created to support regional and continental responses to peace and security challenges in Africa and is funded under the EDF.

EU trust funds (EUTF) for external action

In the course of the 2014-2020 MFF, the EU also launched ad-hoc instruments, such as the EU trust funds. The revision of the Financial Regulation in 2012 introduced the possibility of creating trust funds and the Financial Regulation applicable to the 11th EDF also offers this possibility. Consequently, the EU has created four trust funds (the Békou Trust Fund, the Madad Trust Fund, the Emergency Trust Fund for Africa, and the Trust Fund for Peace in Colombia) as a response mainly to the migration and refugee crises. They operate outside the EU budget and are funded by a

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26 A. D’Alfonso, European Development Fund: Joint development cooperation and the EU budget: out or in?, in-depth analysis, EPRS, November 2014.
27 Consolidated text: Partnership agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000.
combination of EU budget funds and direct contributions by Member States and other donors (Figure 3). EUTFs are established with a constitutive act, signed by the Commission and the donors, and have specific governance arrangements. Each EUTF has a board, chaired by the Commission; the donors and the non-contributing Member States are represented on the board as observers. The board gives general orientations on the strategy, and an Operational Committee decides upon the use of the funds and approves the programmes. Trust funds, while managed outside the EU budget, nevertheless abide by the principles of sound financial management. They have a specific time span that can be extended by the Commission after consultation with the relevant committees. The EU budget contribution comes from various instruments, such as the European Neighbourhood Instrument, the Instrument for Pre-accession, the Development Cooperation Instrument, humanitarian aid, the EDF and a contribution from the DG Migration and Home Affairs’ budget.

Figure 3 – Financing for the EU trust funds (in € millions)

The trust funds are seen as ‘quick and flexible tools’ able to respond to fast moving events. They were created with the objective of providing additionality, rather than duplicating existing channels of funding; increasing the visibility and efficiency of EU funding; pooling resources and attracting non-EU donors; speeding up disbursements through faster decision-making; and allowing increased cooperation and impact in difficult contexts. Non-EU donors, such as Switzerland, Norway, Turkey, and Chile have contributed to funding. However, the EU Member States’ contributions have not been as high as expected nor have they matched the EU’s contributions, possibly as Member States already provide funds for the EU budget and bilateral aid.

A separate tool, the Facility for Refugees in Turkey, was created in response to the 2015 refugee crisis to increase the funding for Turkey, one of the most affected host countries. The facility was established by a Commission decision based on Articles 210(2) and 214(6) TFEU. It is not a funding but a coordination mechanism that allows the mobilisation of funds but does not implement

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31 Trust Funds, European Commission.
32 The EU Facility for Refugees in Turkey, European Commission.
projects. Unlike the EUTFs, it operates within the EU budget but has faster and more flexible procedures.

The facility was agreed as part of the EU-Turkey Action Plan and is based on a Commission decision of November 2015. It has a Steering Committee, which is chaired by the Commission and features Member State representatives and Turkey in an advisory role. It takes decisions on issues related to the strategy, on what actions (humanitarian and non-humanitarian) are to be financed, in what amount and through what instrument. Once the funds have been allocated, the usual process is followed in accordance with the financial rules and the requirements of the chosen instrument. The facility can channel funding through the ENI, the DCI, the IPA, the IcSP, as well as through humanitarian aid, and can also transfer funds to the Madad Fund for the Syrian crisis.

Figure 4 – Financing sources for the two tranches of the Facility for Refugees in Turkey

Data source: European Commission monthly reports, June 2020.

2.3. Investment framework for external action

EU-supported external investment that aims to complement EU funding through the budget is not a novelty; different mechanisms have already been in use in previous MFF periods. However, during the 2014-2020 MFF the EU's investment framework for external action grew in scale, nature and complexity, combing existing blending facilities with the newly launched External Investment Plan. The EU has frequently reiterated its commitment to mobilising investment for developing countries in support of achieving the SDGs. The migration crisis was a concrete trigger for expanding the investment framework for external action. Both the 2030 Agenda and the Addis Ababa Action Agenda focus on the role of the private sector and the need to leverage substantial private investment in order to meet development goals. A 2017 article on the 'The European Budgetary Galaxy' explains that in the context of low MFF ceilings, which have prevailed over recent years, if the EU budget offers less money, using financial instruments allows the budget to continue supporting more projects, even at the expense of greater legal and budgetary complexity and new challenges in terms of ensuring adequate Parliamentary oversight and budgetary control. In line with this, the article also highlights the trend that took shape during the 2014-2020 MFF: an increased use of loans, guarantees and other forms of financial instruments (demand-driven and

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backed by the EU budget), as complementary to traditional financial assistance (grants and subsidies).

2.3.1. Blending facilities

Blended finance (BF) has been part of the EU development toolbox for the past decade, and accounts for about 10% of the EU ODA. Since 2007, the EU has set up eight regional blending facilities covering all its development cooperation (box 2). They are financed by different instruments, such as the EDF (for the ACP facilities), the DCI (Latin America, Central Asia and Asia), the ENI (the Neighbourhood), and IPA II (the Western Balkans). They are created by Commission decisions within the legal framework of the geographical instruments that finance them. A number of thematic facilities also use BF that is sourced from their own budget instruments. Financial rules for blending are laid down in the Financial Regulation (Title VIII). In 2012, to further develop the EU’s blending activities, the Commission set up the EU Platform on Blending in External Cooperation, an expert group composed of representatives of the Member States, the EEAS and the Commission, with the EP as an observer.

Annual reports of the blending facilities point to about €6.63 billion having been provided by all blending facilities in the 2007-2018 period, contributing collectively to finance projects worth €71.27 billion. Mainly Africa and the EU Neighbourhood have benefitted, particularly after the EFSD’s launch in 2017; the top five recipients are geographically close to the EU countries). The European Investment Bank is the largest implementer under the blending facilities, notably through its implementation of the Resilience Initiative in the Southern Neighbourhood and Western Balkans and its operations in Africa under the ACP Investment Facility.

Blending facilities combine grants from the EU budget and the EDF (e.g. predominantly investment grants followed by technical assistance; risk capital, that is, equity and quasi-equity; and guarantees) with other public or private resources, such as loans from international financial institutions and development banks. This is done in order to mobilise additional funding to meet investment needs by increasing the risk-adjusted return of development projects. Their objective is, by using ODA, to make projects sufficiently profitable so as to attract private and non-concessional investment in contexts of low returns and challenging investment climates. A key argument in favour of blending has been that it offers ‘additionality’, as, in the first place, an investment would not have been made without the supporting grant element. The 2014 ECA Special Report on blending underlined the importance of additionality. It considered the EU’s blending facilities generally effective, but pointed out that due to management shortcomings some potential benefits had not been achieved. Overall, the Commission’s 2016 evaluation report assessed blending positively in terms of its

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36 EU Platform on Blending in External Cooperation, European Commission.
38 Special Report: The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies, European Court of Auditors, 2014.
developmental impact, but found insufficient focus on broader, longer-term development results, as well as an emerging challenge of encouraging private funds to flow to the poorest countries. A 2020 study on 'The use of development funds for de-risking private investment'\(^{40}\) sees two essential features that justify the use of aid in blending projects: their 'financial' and 'development' additionality. If additionality is lacking, the study sees several potential risks, including crowding out of private financing and distortion of markets; undermining of the policy objectives of the grant-giving instruments in the EU budget (in particular, development policy objectives); and an increased debt exposure of already highly indebted countries. The OECD has also acknowledged\(^{41}\) that 'mobilisation [of additional finance] is often assumed rather than observed'. The study notes the global trend of an increase in blended finance, but specifically draws attention to a set of issues: the lack of a consistent, thorough definition explaining what exactly BF is, what actors are involved in it, how it is measured and how best to understand its impact. The scarcity of information poses problems in data collection and comparability and hinders accountability. The blending modality has also been criticised in terms of limited representation/ownership by recipient governments and local actors.

### 2.3.2. European Investment Plan and the European Fund for Sustainable Development

Drawing on the model of the Juncker Plan and the European Fund for Strategic Investments, which targeted investment within the EU, following the MFF mid-term review, in 2017 the EU launched an External Investment Plan\(^{42}\) (EIP), acknowledging the need for measures that go beyond traditional aid\(^{43}\), in order to alleviate the effects of the economic crisis on the EU development policy. The EIP aims to contribute to the SDGs and mobilise sustainable public and private investment for development in Africa and the EU Neighbourhood under five thematic windows. It aims to increase the scale, impact, and coherence of EU-supported external investment by introducing two new aspects to EU development finance: a new guarantee mechanism extending to development entities\(^{44}\) other than the EIB; and a new ‘three-pillar’ approach to investment support complementing financial tools with non-financial assistance. The pillars include 1) the €4.1 billion EFSD; 2) technical assistance (advisory services and capacity-building); and 3) policy dialogue with the public and private sector.

The EFSD,\(^{45}\) in practical terms the financing arm of the EIP, has two components: first, an EFSD Guarantee (for a total of €1.5 billion by 2020), underpinned by an EFSD Guarantee Fund of €750 million, funded from the EU budget and the EDF, and second, blending facilities (for a total of €2.6 billion by 2020). In particular, it comprises a Neighbourhood Investment Platform and an African Investment Platform, rebranding the two respective current blending facilities. The total combined target aims to leverage investment of €44 billion in the two regions. A variety of guarantees\(^{46}\) have been defined and laid out to share the risk as a way to encourage private investors and development banks to lend to entrepreneurs or finance development projects. The use of EU

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42 EU External Investment Plan, European Commission.
44 What is the European External Investment Plan really about?, ECDPM, 2018.
budgetary guarantees is coordinated by an EFSD Strategic Board composed of representatives of the Commission and the EEAS, all EU Member States and the EIB, with the Parliament in an observer role. While the final decision-making power stays with the Commission, the EFSD Strategic Board provides advice on the strategic orientation and priorities of EFSD-guaranteed investment.

The 2018 Operational Report on the implementation of the EIP gives details on the current projects. The latest figures show that, through the EIP, the EU has allocated €4.6 billion in public funds to leverage €47 billion in public and private investment for development. The EU has now allocated the entire amount of the Guarantee (€1.54 billion) to 28 guarantees, and expects to leverage €17.5 billion in investment. The EU has allocated all €3.1 billion available through the EIP for grants for blending projects – financing 142 in all. This is unlocking close to €30 billion in overall investment.

Finally, the Commission 2020 Implementation report builds on an independent assessment carried out between July 2019 and January 2020 and shows that the EFSD is strongly relevant to the investment needs of sub-Saharan Africa and the EU Neighbourhood regions, as well as to the EU priorities and commitments.

### 2.3.3. Guarantee Fund for External Action (GFEA)

Since 1994, the GFEA has covered defaults on loans and loan guarantees granted to non-EU countries or for projects outside the EU. The GFEA pays creditors in the event of default by a beneficiary that received an EU loan or guarantee. The GFEA-covered lending operations relate to three instruments: EIB external lending, Euratom loans and MFA. The objective of the GFEA is to protect the EU budget against financial risks by serving as a 'liquidity cushion'. The EIB is in charge of its financial management. The GFEA resources come from an annual payment from the EU budget (determined each year based on the adopted budget); interest on GFEA resources invested; and amounts recovered from defaulting debtors. The GFEA has to be maintained at a certain percentage of the outstanding amount of the loans and loan guarantees, currently 9%. The amount in surplus of this rate is paid back to the EU budget. Guaranteed lending (and correspondingly, the GFEA assets) has increased. In recent years, the conflict in Syria, the migration crisis and financial problems in Ukraine have put additional pressure on the GFEA.

In 2018, the Commission amended the GFEA, increasing the target from 9% to 10% to better protect the budget against potential additional risk of default of the EIB operations related to the migration crisis. The EIB mandate takes up around 90% of the GFEA portfolio. The proposed change aims to allow the EIB to contribute to the EIP ‘by expanding quantitatively and qualitatively the EIB [external lending mandate] ELM’.

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2.3.4. The European Investment Bank (EIB) and its external lending mandate (ELM)

For over 60 years, the EIB has been the EU’s finance arm and the world's largest multilateral borrower and lender. Its financial capacity and technical know-how allow it to complement the EU’s development efforts (under Article 209 TFEU), and to support the achievement of the SDGs worldwide by mobilising financing for projects in a number of priority areas (such as climate change mitigation, infrastructure, SMEs job creation). It mainly operates within the EU, but about 10% of its operations are external, for a large part of which it operates under a mandate from the EU, relying on an EU guarantee. The Board of Governors, the decision-making body, is made up of EU Member States' representatives and decides on EIB’s external actions. EIB loans can be combined both with loans from other banks and EU grants. The EIB works with public and private sector entities and contributes up to 50% of a project’s cost. Its 2019 financial report notes that over a period of 50 years, the EIB has granted €64.8 billion worth of loans in 106 different countries as of end-2019. The bulk of non-EU activities are covered by guarantees from the EU ELM or the EU’s Member States (through the ACP Investment Facility under the Cotonou Agreement). The volume of own-risk investments pursued outside the EU is limited. The EIB is also one of the implementing partners for the new EU guarantee offered through the EFSD.

Since 1977, the EU has provided large-scale budgetary guarantees to the EIB through the external lending mandate (ELM). Its legal basis is Decision No 466/2014/EU, amended in 2018 in the context of the mid-term review and following the migration/refugee crisis. The ELM covers 68 countries and territories in four regions (pre-accession countries; the Southern and the Eastern Neighbourhood; Asia, Central Asia and Latin America; and South Africa), with guarantee ceilings for the various (sub) regions. In its (latest) 2020 report, the Commission explains that the ELM is based on a guarantee from the EU budget that enables the EIB to increase its lending outside the EU in support of EU policies targeting riskier environments, while at the same time maintaining its AAA credit rating. The EU guarantee covers defined instances when borrowers fail to repay financing owed to the EIB. In case the EIB calls on the EU guarantee, payments are made from the Guarantee Fund for External Actions.

In response to the refugee crisis, in 2016, the EIB launched the Economic Resilience Initiative (ERI) to contribute by addressing the root causes of migration. For the additional objective of long-term economic resilience in the ELM Decision, €1.4 billion was earmarked for public-sector investments addressing the needs of refugees and host communities, and a specific 'ERI Private Mandate' of €2.3 billion was created to guarantee private-sector investments supporting long-term economic resilience. Since the amendment of the ELM Decision, the EU budget guaranteed up to €32.3 billion (previously up to 27 billion) of EIB operations for 2014-2020, with a commitment to cover the first 65% of losses that may arise in the guaranteed portfolio.

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2.3.5. Budgetary control and democratic oversight

In view of the complexity of the current EU architecture for financing external action, concerns about accountability and budgetary control over EU funds have been prominent. Most broadly, the rules on budgetary control are provided for in the EU Treaties, the Financial Regulation and the 2013 Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, cooperation in budgetary matters and sound financial management. The EU institutions and the Member States scrutinise the EU budget on a regular basis. External detailed checks are performed by the European Court of Auditors at various levels and by the European Parliament at the political level. Through the annual discharge procedure, Parliament scrutinises the implementation of the budget by the Commission, the other EU institutions and the EU agencies. Within the Parliament, the Committee on Budgetary Control is responsible in particular for scrutinising the implementation of the EU budget and the EDF, as well as the financial activities of the EIB. The ECA also regularly draws up reports on borrowing and lending operations and the EDF.

As regards external action funds, a frequently voiced concern is the lack of systematic information, which hampers clarity and transparency. Due to the variety of instruments, the Parliament’s involvement in their oversight is not clear and uniform. On one hand, the funds allocated through the EU budget are under the Parliament’s scrutiny. Thus, the main financing instruments that have their own regulations and fall under the Heading ‘Global Europe’, are subject to Parliamentary oversight and budgetary control. Since the Parliament co-legislates on these instruments’ regulations, it can ensure greater democratic legitimacy and scrutiny. In contrast, the CFSP is intergovernmental (based on decisions in whose adoption the Parliament has no formal power) and

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Understanding EU financing for external action

is only partly reflected in the budget, which limits the Parliament’s role. The Parliament has influence on the CFSP mainly through budgetary powers, including the right to amend the CFSP budget.

On the other hand, significant funds are managed outside the budget, which makes it difficult to have adequate Parliamentary oversight. The growing use of new instruments, despite the positive changes it has brought, has pushed to the fore the issue of the Parliament’s limited democratic control and the need to find a balance between flexibility and accountability. For example, the EDF, the trust funds and blended finance, among others, are managed in distinct ways and are not directly subject to scrutiny by the Parliament. When it comes to the EDF, its financial regulation contains a range of internal and external control and audit obligations, including an ECA annual report. An important tool that the Parliament has at its disposal to influence the functioning and the development of the EDF is a specific discharge procedure devoted to it, a form of ex-post democratic control at the political level that takes place every year, mirroring the discharge for the EU budget. As noted in an EPRS in-depth analysis on the EDF, its discharge comes with some limitations. The part of the EDF managed by the EIB is not covered, and ECA checks on interventions in the form of budget support are also not exhaustive, since the funds are transferred to the budgets of the recipient countries. The Parliament has repeatedly called for the EDF’s inclusion in the EU budget, in order to ensure improved democratic oversight.

As regards trust funds, a 2017 article on the ‘European Budgetary Galaxy’ states that ‘it might be argued that resort to these ad hoc instruments also functions as means of circumventing the Union budgetary procedure under Article 314 TFEU’, a concern that appears ‘even more pertinent’ with regard to the Facility for Refugees in Turkey. The current trend of setting up trust funds and going beyond the EU budgetary rules raises a number of questions in terms of transparency and accountability. A dedicated 2018 CEPS study requested by the Parliament’s Committee on Budgetary Control offers a comparative assessment of the frameworks for governance and oversight of EU trust funds and the Facility for Refugees in Turkey. The study recommends reducing the complexity of these governance frameworks and strengthening their consistency with the EU cooperation efforts in third countries. It critically assesses the trade-offs made in the name of ‘flexibility’ and ‘speed’ vis-à-vis democratic, legal and financial accountability and the EU’s budgetary integrity. In the same spirit, the Facility for Refugees was established by a Commission decision without any involvement of the Parliament. The procedure for establishing the EUTFs was changed in the revised 2018 Financial Regulation, by introducing the requirement for the Commission to consult the Parliament and the Council on its intention to establish a EUTF for emergency- and post-emergency actions.

In general, trust funds are subject to the regular forms of monitoring and oversight under the Financial Regulation. The Commission’s internal audit service is competent to examine them, and the powers of the ECA and of the European Anti-fraud Office (OLAF) over trust funds and the Facility for refugees are the same as those they exercise over the other activities of the Commission. Each year trust funds are subject to an independent external audit, and regular monitoring mechanisms apply, while in addition some have contracted private monitoring and evaluation activities, linked to their results monitoring frameworks. The Commission reports annually to the Parliament and the Council on their implementation and performance in the context of the discharge procedure. As of 2017, it presents a working document accompanying the draft budget for the next financial year.

The 2018 CEPS study, however, notes deviations in comparison with regular EU external instruments concerning governance. The study broadly shows that trust funds suffer from a number of ex ante deficits in democratic accountability. The EP has several ways to exercise ex post democratic accountability over the EUTFs, such as annual reporting, posing parliamentary questions and organising hearings. The discharge procedure constitutes the main ex post budgetary control procedure, a crucial tool for the EP to scrutinise the Commission’s management of the EUTFs. The ‘most radical’ ex post mechanism for democratic oversight concerns the possibility for the EP to request the discontinuation of a EUTF, which is defined in the Financial Regulation.

The above-mentioned 2020 Parliament study on blended finance also highlights the issue of oversight of complex blended financing structures and the execution and delivery of blended projects. Concerns have been expressed as regards the transparency and accountability of the EIB, which, as mentioned in a recent article, is not supervised by external regulators. The Parliament’s most recent annual report on ‘Control of the financial activities of the EIB – annual report 2018’ reiterates this ‘lack of adequate external scrutiny on its activities’ and calls on the EIB to become more accountable towards other EU institutions, by reinforcing the Parliament’s scrutiny over the EIB and allowing the ECA full rights to audit the EIB’s operations. It also calls for an assessment and a report on risks and controls systems associated with blended finance with the Commission, considering the impact of blending activities not only in terms of oversight but also in terms of governance options. The above-mentioned article on ‘the European Budgetary Galaxy’ also warns that in the case of complex guarantee-based instruments like the European Fund for Strategic Investments, it is not always easy to determine what budgetary risks are being taken and by whom, a concern that has been expressed by the European Parliament’s Committee on Budgetary Control and by the Court of Auditors.

To sum up, efforts to increase reporting and greater visibility and transparency of both EU and Member State financing for external action are a key area of attention. Overall, while Parliament holds a wide range of powers (legislative, budgetary, scrutiny), they do not completely meet its initial expectations when the new financing instruments were being negotiated at the time of adopting the 2014-2020 MFF. These powers vary depending on the instruments and funds being mobilised. The innovative ways to finance EU’s external action so as to respond to unexpected needs have stretched further these variations. As a 2019 study on the democratic accountability and budgetary control of non-governmental organisations financed from the EU budget concludes, even when traditional grants are concerned, there is still a need for a more systematic approach to the communication of EU grant-funded activities to enhance EU visibility and to strengthen transparency and accountability. This applies even more in the case of overseeing complex funding structures as well as speedy and flexible disbursements, a task that can be challenging in practice.

3. Evaluation of the current external financing architecture

In the context of the mid-term review carried out by the Commission, the performance of the EU external financing instruments was evaluated through individual reports, published in

58 Blomeyer & Sanz, Democratic accountability and budgetary control of non-governmental organisations financed from the EU budget, 2019.
December 2017, assessing the achievement of the objectives against measurable indicators. On the basis of these reports, in April 2018, Parliament adopted a resolution\textsuperscript{61} on the implementation report on the 'EU external financing instruments: mid-term review 2017 and the future post-2020 architecture' and made recommendations on the design of the new generation of EFIs in the period after 2020.

The instruments were assessed in terms of their effectiveness, efficiency, coherence and coordination, their level of flexibility, added value, democratic and budgetary oversight. In general, EFIs were found, overall, fit for purpose and showing positive trends as regards achieving results, despite some difficulties in measuring achievements. The \textit{consulted stakeholders} identified a need for: flexibility (faster response and easier shifting of funds across regions and aid modalities); greater consistency between the internal and external policies of the EU and coherence between the existing instruments; complementarity between the geographical and the thematic programmes; a simpler overall architecture; and leverage of public and private financing for EU external assistance. However, they underlined that these improvements should in no way lessen predictability, country ownership or the focus on long-term development objectives.

Given that all instruments had been stretched to their limits during the 2014-2020 MFF, the need for more resources was acknowledged. Greater flexibility had largely been unavailable, even though it was key for enabling reallocation of funds easily whenever new priorities emerged. It was noted that coherence and consistency between all the elements contributing to EU external policies were not always clear, and that more needed to be done to better synchronise the different instruments, tools and donors.

Looking forward, it was recognised that external financing had to better link to the EU strategic objectives and to better reflect the universal coverage of the 2030 Agenda and the external projection of internal policies, among other things. In its 2018 resolution, Parliament also called for increased coordination and coherence with external funding policies by EU Member States, including through the enhancement of joint programming, to optimise the use of the available resources.

In September 2019, the Commission published a comprehensive evaluation\textsuperscript{62} of the implementation of the ELM from mid-2014 until end 2018. The main conclusions point to the continued relevance of the ELM and its objectives in the changing geopolitical context. The report further acknowledges the overall effectiveness of the ELM operations and the financial advantage they have brought to beneficiaries. The report encourages the EIB to take greater risk so as to crowd-in the private sector and to create 'leverage' of a greater scale, as well as to expand lending to low-income countries and to step up cooperation with other development entities to ensure more effective use of resources (more than half of the ELM operations signed by the EIB in 2014-2017 were co-financed with other financial institutions, most frequently the EBRD). The evaluation also notes that the actual results and impacts of the EU intervention remain largely unknown, as the EIB results measurement framework relies on upfront estimates and data on results achieved arrive with a big delay.

\textsuperscript{61} European Parliament resolution of 18 April 2018 on the implementation of the EU external financing instruments: mid-term review 2017 and the future post-2020 architecture, rapporteur: Marietje Schaake, 18 April 2018.

\textsuperscript{62} Evaluation of Decision No 466/2014/EU of 16 April 2014 granting an EU guarantee to the EIB against losses under financing operations supporting investment projects outside the Union, SWD(2019) 334 final.
3.1. The case of development cooperation

EU development policy is at the heart of external action. Most EU external financing qualifies as ODA and is directed towards ODA-recipient countries (over 90% according to the OECD).63 Its key objective is eradicating poverty, promoting human rights and gender equality, and tackling environmental and climate challenges. Together the EU and its Member States are a leading development donor, having provided over €74.4 billion64 in aid in 2018. Article 208 TFEU stipulates that the EU’s and the Member States’ development cooperation policies should complement and reinforce each other. In addition, the Treaty prescribes ensuring overall policy coherence for sustainable development, and factoring in the impact of all related policies within and beyond the EU, as part of the strategy to achieve the UN sustainable development goals.

While according to the Treaties development cooperation remains a shared competence between EU institutions and Member States, the 2017 European Consensus on Development foresees a common approach to implementing their international commitments, with increased use of joint programming aimed at achieving a greater collective impact through combined resources and capacities. It also foresees boosting the reach of development cooperation through increased use of innovative financial mechanisms, and leveraging investment through sources such as blending, as well as closer engagement with European development finance institutions.

The EU development financing system is a key component of the global development architecture. Evaluations have shown, however, that the structure of EU development aid is fragmented and complex, and involves many different actors interacting at all levels.65 For instance, the Commission is at the centre, but so are the EIB and the EBRD. Furthermore, there are multilateral development banks, and the European development finance institutions66 are increasingly important, as they implement a big part of EU’s blended finance and have had a key role in deploying EU guarantees under the EFSD through the provision of guarantee programmes.

Aid is fragmented67 due to the diverse bilateral and multilateral sources, on one hand, and the various modes of delivery: investments, loans or grants, advice, training, etc.), on the other. It is disbursed under programmes with different objectives, responding to different needs. To exemplify this fragmentation of aid, the ‘OECD Development Co-operation Peer Reviews: EU 2018’ takes the example of Mali. In Mali, the EU works through regional and national indicative programmes under the EDF, but also through Member States’ programmes, the Emergency Trust Fund for Africa, CSDP missions, the IcSP, humanitarian aid and the EU Special Representative. This makes overall EU involvement complex to grasp for all stakeholders. From this perspective, streamlining the external action instruments is seen as a way to increase coherence of EU action in fragile contexts, improve the dialogue with local governments, make EU assistance more

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64 Europe remains the world’s biggest development donor – €74.4 billion in 2018, European Commission, 2019.
66 European DFIs website.
visible and optimise the use and impact of the aid budget. A key challenge is reconciling short-term crisis (security) with long-term (development) objectives and finding a balance in a context where crisis and security concerns influence the international cooperation system.

The EU and its Member States are committed to targets, such as allocating 0.7 % of EU GNI to ODA and 0.15 % of ODA/GNI to least developed countries in the short term, reaching 0.20 % of ODA/GNI in the timeframe of the 2030 Agenda. While the EU remains a major global donor, it has not reached the 0.7 % of GNI/ODA target. The EU Aid Explorer\(^68\) shows that the EU’s collective ODA in 2018 stood at 0.44 % of GNI, with great disparities between Member States.

### Trends in development assistance

Globally, resources for pursuing the SDGs remain scarce. Estimates suggest that developing countries face a US$2.5 trillion annual financing gap to meet them. The main channels for development finance include aid (grants and technical cooperation from donor agencies), public sector loans (concessional and non-concessional loans to states and state institutions from development banks) and private investment (equity, loans, and guarantees to commercially sustainable private sector projects). Aid accounts for most of the ODA and has traditionally been the main channel of development assistance to low- and middle-income countries. In recent years, however, the focus has gradually shifted to all forms of finance, particularly from the private sector. While ODA has been relatively constant in real terms since the 1990s, the DFIs activity level has risen steadily. Moreover, major new aid providers have appeared, with differing profiles: from countries such as Brazil, China, to private donors, topped by the Bill and Melinda Gates Foundation.

In such a context, the EU’s influence as a donor is changing, and it is faced with the need to better focus and leverage its funds in order to add value to its action in development. In line with global trends, the EU has been innovating, seeking to complement traditional grants with other sources of finance (blending, guarantees). In 2018, the Commission\(^69\) noted that the EU’s collective ODA is only a small part of the development funding landscape. Given the importance of the private sector as a contributor to growth, the EU has taken measures to promote private-sector development. Examples include the new EIP and investments through blending mechanisms. In its 2020 joint communication ‘Towards a comprehensive Strategy with Africa’,\(^70\) the Commission notes that EU instruments, such as the ELM, the ACP Investment Facility and, more recently, the EIP, have unlocked considerable investments in Africa.

Nevertheless, aid remains a key source of funding, particularly in humanitarian settings and in fragile states. The EU collectively mobilised finance from blending operations (€71.27 billion during 2007-2018, based on €6.63 billion of public funds) is still far from addressing the global financing gap.

In the context of the limited availability of development aid, there is an increased demand for effective results,\(^71\) even more so in view of the UK’s departure from the EU, which is expected to have an impact on EU development assistance. The UK has been a key contributor to the EU aid budget, to the EDF and to humanitarian assistance, and has responded to the migration crisis through bilateral funds.

In that respect, a 2019 EPRS study, ‘Europe’s two trillion euro dividend: Mapping the Cost of Non-Europe 2019-2020’,\(^72\) estimated that improved donor coordination in development policy could generate efficiency gains ranging from €3.6 billion to €14.5 billion per year – with a mid-point

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\(^{68}\) EU Aid Explorer, European Commission.


\(^{72}\) Europe's two trillion euro dividend: Mapping the Cost of Non-Europe, European Added Value Unit, EPRS, European Parliament, 2019.
estimate of €9 billion – including both direct savings and better results in recipient countries in terms of GDP, savings, and poverty reduction, should the EU’s own aid coordination be more efficient. Reducing ‘donor transaction costs’ is among the most straightforward potential gains of a more coordinated budget but benefits include a broader range of positive implications over the longer term. Coordination is desirable in the aid sector because it allows for economies of scale and scope, helps avoid duplication and brings a potential cost-saving effect.

The Parliament has called on several occasions for greater coordination in aid programming and delivery. As one of the major EU flagship initiatives for development effectiveness, joint programming contributes to these objectives. It encourages partner countries’ ownership by aligning cooperation resources with their own development plans, and strengthens the complementarity and efficiency of EU and Member States’ development policies. The crucial role of joint programming was highlighted in the EU 2016 Global Strategy and in the new European Consensus on Development. A 2017 evaluation of joint programming concluded that it helps improve alignment, reduce fragmentation and enable mutual accountability. Its increasing importance in development cooperation has also been exemplified in the context of joint implementation of the four EU trust funds and the Facility for Refugees in Turkey, which allows the EU to collectively deliver humanitarian assistance to refugees in Turkey and their host communities.

In this context, the Istituto Affari Internazionali highlights the need for the EU to rebrand its visibility as a strong united developmental actor. Yet, as noted by the OECD, making full use of a collective vision for development policy remains a challenge, as it is a shared competence.

4. EU financing for external action post-2020

EU financing for external action underwent significant changes in the course of the 2014-2020 MFF, driven by major crises and the ensuing need to respond and find adequate ways of funding them. With the UK’s departure from the EU taking full effect in the next financing period, significant implications can be expected not only in political terms but more specifically for the financing and implementation of EU external action. Without the UK, the EU’s role as the world’s leading donor would be challenged; the UK was one of the biggest contributors to the EU budget in general, and to foreign aid in particular. Working towards achieving the UN SDGs will also be a more pressing issue in the next MFF timespan. At the same time, findings have shown that many EU Member States and the EU as a whole still have to reach the target of spending 0.7 % of GNI on aid.

Reaching a final agreement on the 2021-2027 MFF was a difficult yet crucial task, as the MFF defines the architecture and availability of resources from 2021 on. It also gives shape to the future of the EU’s external engagement, in particular the relevance, credibility and impact of the EU as a major

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73 Transaction costs are the overhead costs associated with programming, identification, preparation, negotiation, agreement, implementation, monitoring and evaluation of aid programmes and projects that may be incurred by donor- and partner countries.


79 Possible impacts of Brexit on EU development and humanitarian policies, Elcano Royal Institute, requested by the European Parliament’s Committee on Development (DEVE), 2017.
player in international development. In the preparation of proposals for the next financing period, several factors\(^{80}\) have weighed in: the changing (global and EU own) context and new challenges; the findings of the mid-term evaluations; the EU’s updated strategic vision for its larger global role in the world; the new Commission’s ‘geopolitical’ focus announced at the start of its mandate; more recently, the new pandemic and its financial impact on Member States, which significantly changed the negotiating context for the MFF; and last but not least, the debate for the future.

In its proposals for the next (now adopted) MFF, the Commission sought to incorporate the recommendations made in evaluations, such as to simplify working procedures and to make the instruments more flexible, allowing for swift adjustment to changes and rapid action on the ground. The Commission also made efforts to simplify the EU toolbox for financing external action by merging a number of instruments in a broad single one, giving it more flexibility but also to increase its unity and democratic accountability, by including the EDF in it; and to adapt to the future trends and challenges of the global financing landscape by upgrading its external investment framework, among other things.

Initially, the Commission published its proposal for the 2021-2027 MFF as well as the sectoral proposals in May 2018. Following a round of negotiations and Council positions, as well as the outbreak of the coronavirus pandemic, the context in 2020 significantly changed. The pandemic has had a major impact on societies around the globe, affecting their health systems and inflicting severe social and economic damage. Reacting to the pandemic and the need to adapt the plan for recovery and align it with the next MFF period, in May 2020 the Commission adopted an amended MFF proposal. Notably, it proposed a European Recovery Instrument (‘Next Generation EU’), initially with implications for external action, as well as a targeted amendment\(^{81}\) to the Commission’s initial proposal for the main EFI in the next MFF, the Neighbourhood, Development and International Cooperation Instrument (NDICI), published in 2018. However, the European Council conclusions following the July 2020 summit rescinded all financing under Next Generation EU directed externally, despite the needs of developing countries coping with the consequences of the pandemic. The External Action Guarantee and the European Fund for Sustainable Development Plus, major components of the NDICI, will play a key role in this regard, linking investment with the SDGs. The Parliament and the Council reached a political agreement on the new MFF on 10 November 2020, and the MFF Regulation\(^{82}\) was adopted in December 2020.

There is an ongoing debate on how to rationalise the European financial architecture for development. Among other things, changes in the institutional framework (involving EIB and EBRD reforms) are being considered, as a way to centre and expand the development impact of EU financing. As underlined by a recent CER insight,\(^{83}\) reform of EU aid is ‘not only about the numbers’, but also about improved management of external expenditure and making the most of it.

### 4.1. Heading 6 – 'Neighbourhood and the world'

In May 2018, the Commission proposed to replace the 2014-2020 MFF Heading 4 ‘Global Europe’ with a new Heading 6, entitled ‘Neighbourhood and the World’ (Figure 9). The proposed heading

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has a simplified structure, including a new broad instrument: the NDICI,\textsuperscript{84} which absorbs a number of currently separate instruments and also integrates the off-budget EDF. This broad instrument will be complemented by: the traditional standalone Instrument for pre-accession assistance (IPA) III; humanitarian aid; funding for common foreign and security policy; overseas countries and territories (OCTs) incl. Greenland, the European Instrument for Nuclear Safety, and others. In addition and outside the EU budget, the High Representative, with support from the Commission, proposed in 2018 the setting up of a European Peace Facility to cover military expenditure in relation to partner countries.

Figure 9 – Structure of Heading 6 and comparison of the various stages of the MFF proposals

Initially (in May 2018), the Commission proposed a total budget of €108.9 billion for Heading 6. It updated its proposal in May 2020,\textsuperscript{85} with a visible impact on external financing. The renewed proposal foresaw a total budget for external action of €118.2 billion in 2018 prices for the 2021-2027 MFF, of which €15.5 billion from the Next Generation EU (NGEU). The main novelty was the increased budget for the NDICI, the main instrument for EU cooperation and development with partner countries, to €86 billion in 2018 prices, of which €10.5 billion from the Next Generation EU, as well as €5 billion from the Next Generation EU going to humanitarian aid. At the European Council July 2020 summit, however, these changes were revoked and the whole amount going to Heading 6 from the NGEU was withdrawn. The EUCO conclusions\textsuperscript{86} set the total budget for Heading 6 at €98.4 billion in 2018 prices (or 9.2 % of the €1.074 trillion budget for 2021-2027), a significant cut compared to both the 2018 and the 2020 Commission proposals, and only a slight increase as

\textsuperscript{84} B. Immenkamp, \textit{A new neighbourhood, development and international cooperation instrument}, briefing, EPRS, European Parliament, 2018.

\textsuperscript{85} The EU budget powering the recovery plan for Europe, COM(2020) 442 final.

\textsuperscript{86} European Council conclusions, 21 July 2020.
compared to the estimated €97.1 billion\footnote{Draft European Council conclusions of 10 July 2020 Preliminary analysis of figures, EP Committee on Budget, July 2020. Please note that MFF ceilings for 2014-2020 and 7*2020 are EU-27 estimates (excluding the UK and including the EDF).} for the 2014-2020 MFF. The NDICI was allocated €70.8 billion, a\footnote{Proposal for a Decision of the European Parliament and of the Council amending Decision No 1313/2013/EU on a Union Civil Protection Mechanism, COM(2020) 220 final.} reduction of 10.4\% compared with the Commission’s first proposal from May 2018.

The humanitarian budget was kept stable at €9.8 billion, on top of the additional €2 billion foreseen to strengthen the EU Civil Protection Mechanism\footnote{15 EU Flagship Programmes supported by the European Parliament in the MFF Negotiations, EPRS, European Parliament, 2020.} and its strategic equipment reserve ‘RescEU’ (budget €3 billion). It is intended to assist EU Member States or non-Member States whose capacities are overwhelmed by the scale of a natural, health or manmade disaster. The Instrument for pre-accession was allocated €12.6 billion and the CFSP €2.4 billion. The change in amounts, however, did not affect the structure of the instruments for EU external action as proposed in 2018.

Regarding the European Peace Facility, the off-budget instrument to finance all CFSP external action with military or defence implications, the proposal was cut to €5 billion in 2018 prices (down from €8 billion), for a period of seven years, coinciding with the duration of the MFF.

Following the July 2020 summit, negotiations between the Parliament and the Council continued and a final political agreement was reached on 10 November 2020. The Parliament secured an increase of up to €1 billion for the NDICI and €0.5 billion for humanitarian aid (as well as a further €0.5 billion, ring-fenced from the external strand of the Solidarity and Emergency Aid Reserve). Both the NDICI and humanitarian aid were part of the 15 flagship programmes\footnote{Proposal for a Regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument, COM(2018) 460 final.} that the Parliament supported in the final stage of the MFF negotiations. The additional amounts of up to €1 billion for the NDICI are expected to come from potential reflows stemming from the EDF’s ACP Investment Facility, while the €0.5 billion for humanitarian aid would come from reallocations from the margin.

4.1.1. Neighbourhood, Development and International Cooperation Instrument

In 2018, the Commission proposed\footnote{Proposal for a Regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument, COM(2018) 460 final.} setting up a single broad instrument incorporating the Common Implementing Regulation, the Development Cooperation Instrument, the European Neighbourhood Instrument, the European Instrument for Democracy and Human Rights worldwide, the Instrument contributing to Stability and Peace, the Partnership instrument, the European Fund for Sustainable Development, the External Lending Mandate, the Guarantee Fund for External Action, macro-financial assistance and the European Development Fund. The impact assessment accompanying the 2018 proposal concluded that unless they have a very specific nature, most instruments could be merged. The rationale for creating this instrument lay in the identified need to remove artificial barriers between instruments and to streamline the structure, ensuring coherence, flexibility and a lesser administrative burden for the EU institutions and Member States.

The 2021-2027 NDICI budget is €70.8 billion in 2018 prices, on top of which the Parliament secured an additional amount of up to €1 billion from reflows under the European Development Fund (its ACP Investment Facility) in the final agreement with the Council on the overall MFF of 10 November 2020. The Parliament and Council are expected to agree on the final legislative instrument establishing the NDICI in early 2021. Therefore, the text below is based on the Commission proposal and some elements are still in the process of being finalised.

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87 Draft European Council conclusions of 10 July 2020 Preliminary analysis of figures, EP Committee on Budget, July 2020. Please note that MFF ceilings for 2014-2020 and 7*2020 are EU-27 estimates (excluding the UK and including the EDF).
**Structure and features**

The NDICI has a three-pillar structure allowing some flexibility between the headings:

1) a geographical pillar (covering programmes for sub-Saharan Africa, the EU Neighbourhood, Asia and the Pacific and the Americas and the Caribbean);
2) a thematic pillar (covering human rights and democracy, civil society organisations, stability and peace and global challenges); and
3) a rapid response pillar.

In addition, a flexibility cushion/reserve dedicated to new challenges and priorities is a major new element of the instrument, with more than 10% of the overall allocated resources dedicated to it.

The geographical programmes have far-reaching objectives and are intended to: promote good governance, inclusive and sustainable economic growth and employment, security and peace, while also protecting the rule of law, human rights, human development and the environment, eradicating poverty, fighting inequality and addressing issues related to migration and climate change. The thematic programmes are complementary and are linked to the pursuit of the SDGs. Rapid response actions complement both the geographical and the thematic programmes. The architecture of the NDICI reflects the EU's geographical and thematic priorities and seeks to ensure the EU's ability to address sustainable development as part of its external action. The proposed new instrument integrates the model of the EIP and follows the same innovative approach to development financing, through an expanded European Fund for Sustainable Development Plus (EFSD+) and a new External Action Guarantee.

The new increased flexibility consists of the ability to use and re-use unspent funds on a multi-annual basis, and to mobilise funding from the rapid response pillar for crisis situations. The flexibility cushion/reserve with unallocated funds would enable the EU to move funds where they are needed as the international context changes. At the same time, this will not be at the cost of predictability for partner countries, as most funding is to be allocated to geographical programmes. The geographical programming will continue to be based on country needs and other criteria, and to respect the principles of development effectiveness, including country ownership.

**Implementation**

<table>
<thead>
<tr>
<th>Cross-cutting priorities/Spending targets</th>
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</thead>
<tbody>
<tr>
<td>A horizontal spending target of 20% for human development;</td>
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<tr>
<td>A spending target of 25% to step up efforts on climate change;</td>
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<tr>
<td>A horizontal spending target of 10% for migration-related activities;</td>
</tr>
<tr>
<td>At least 92% of funding should be reportable as official development assistance.</td>
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</tbody>
</table>

Source: European Commission.

NB: Some of these targets have been adjusted provisionally in the political agreement reached on the NDICI in December 2020.

Largely based on the Common Implementing Regulation, the NDICI proposal incorporates the implementation provisions from some of the existing instruments and foresees the implementation of development cooperation through the most appropriate tools in a given context, such as grants, budget support, financial instruments or guarantees, or a combination of instruments. The new instrument integrates all existing modalities of implementation, covering them in the programming process, and envisages a much stronger role for joint programming, the preferred implementation approach. Member States are to be involved in key decisions on the multi-annual indicative programmes and financing decisions, notably through the setting up of a new NDICI Committee. The Commission also proposes that the governance established under the EFSD with the EFSD Strategic Board be applied in the future to all blending and budgetary guarantees.
Geographical programmes would be implemented through multiannual country and multi-country indicative programmes, setting out the priority areas selected for EU financing, the specific objectives, the expected results, clear and specific performance indicators, and the indicative financial allocations, both overall and per priority area. Thematic programmes would be implemented through multiannual indicative programmes, setting out the indicative overall financial allocation, as well as the allocation by area of cooperation and by priority. Where applicable, resources and intervention priorities shall be laid down for participation in global initiatives.

From 2022 onwards, the Commission is to submit to the EP and to the Council an annual report on the achievement of the objectives by means of indicators, measuring the results and the efficiency.

**Budgetisation of the EDF: Reinforced oversight and budgetary unity**

The question of including the EDF in the budget has stood for a long time and has counted with Parliament’s continuous support. With the EDF in the budget, the EP expects to have reinforced scrutiny powers as far as EU assistance to ACP countries is concerned, while also ensuring enhanced budgetary unity. Overall, this would help strengthen the public legitimacy and political visibility of the EU’s external assistance and align it with the successor agreement to the Cotonou Partnership Agreement, the negotiations on which were concluded in December 2020. Including the EDF in the budget is expected to increase the efficiency and effectiveness of EU development aid.

The impact assessment accompanying the 2018 NDICI proposal finds that the advantages of not continuing to finance development activities through the EDF outside the EU budget would outweigh the disadvantages as long as certain pre-conditions could be met: the amount allocated to external action should not be less than the sum of the EDF and the other EFIs combined; the flexibilities of the EDF should be transferred to the extent possible to the EU budget; and the military operations financed under the EDF’s African Peace Facility should continue through another off-budget mechanism (the proposed off-budget European Peace Facility).

**Reactions to the new instrument**

Some of the main issues during the negotiations had to do with the distribution of resources between the geographical and the thematic pillars, on one hand, and among country and region beneficiaries, on the other. Ensuring specific spending targets for programmes that aim at tackling strategic EU priorities (e.g. the root causes of migration), as well as guaranteeing the effectiveness of the rapid response pillar and ‘flexibility cushion’ were other key points in the discussions.

European Development NGOs have expressed concerns about the new instrument, the primary one being the risk of diverting aid from its main objective of poverty eradication and long-term sustainable development. The trend of focusing on flexibility and putting it over predictability and accountability is raising further concern. While the new instrument aims to provide simpler, more streamlined EU investing activities, questions have arisen about its management and accountability structures, given its sizeable scale. On a positive note, the Centre for European Reform has argued that if the pledge to spend at least 92% of the NDICI as ODA is honoured, there would be important advantages such as greater flexibility and a decreasing need for ad hoc instruments. If a clear procedure and grounds for tapping these funds are defined, accountability would be ensured. Moreover, streamlining the EU’s aid budgets would raise the EU’s visibility in partner countries.

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91 F.N. Feroci, Reactions to the Commission’s Proposals on the Financing of Migration and Foreign Policy, *EU Financing for Next Decade: Beyond the MFF 2021-2027 and the Next Generation EU*, 2020.


93 K. Parandii, *Is development aid a victim of the EU budget deal?*, CER, September 2020
Parliament 94 has voiced a number of considerations mainly related to the NDICI governance structure, the distribution of resources between geographic and thematic priorities, as well as the predictability of the instrument, in view of its increased flexibility. For instance, the Parliament insists on having a greater say in formulating the programmes, notably through delegated acts. On the positive side, the EP expects improved budgetary oversight by integrating the EDF in the NDICI. Moreover, a broad merged instrument could make the EU’s external action more visible, ensure a more European approach to external policy and bring dynamism to the EU’s human rights promotion.

In its Opinion 10/2018, the ECA finds that the establishment of the NDICI is a very ambitious proposal for a comprehensive and complex instrument that would simplify the legislative framework in the area of external aid. It notes however that the intended coherence and consistency depend on the implementation arrangements to be chosen, and on the Commission’s supervision and management arrangements. It also notes a number of EDF-specific arrangements that are to be made later depending on the post-Cotonou agreement with the ACP countries, but whose absence in the text creates uncertainties for partners.

4.1.2. Future external investment framework: The EFSD+ and the EAG

The vision for the future EU external investment framework has been further fine-tuned, building on findings of the MFF mid-term review and overall evaluation of EU blending activities. The EIP and the EFSD are at the centre of the proposed structure for the post-2020 period. The Commission has largely kept the existing structure and three-pillar approach, but has scaled them up. The EFSD is to be replaced by a European Fund for Sustainable Development Plus ('EFSD+'), an expanded financing arm of the External Investment Plan, supported by an External Action Guarantee (EAG). This investment framework is integrated in the proposed NDICI regulation. The ceiling for operations under the EAG has been set at around €53.5 billion; at the Parliament’s request, a ceiling has been set for the EAG provisioning as well. The regulation foresees that the EFSD+ and provisioning of the EAG will be financed from the proposed financial envelope of the geographical programmes, which will be transferred into a common provisioning fund. The expanded EFSD+ includes a simplified structure for blending, while the new EAG would replace all existing guarantee systems and would be open 95 to a number of IFIs and (European) development institutions. This change is an attempt to create a more level playing field among development institutions and draw on their respective strengths to leverage maximum financial capacity in support of external policy objectives. The EFSD+ and EAG will cover all NDICI countries, as well as countries under the IPA III, with special attention expected to be given to least developed countries, with the objective to support investments aimed at achieving the SDGs.

European Fund for Sustainable Development Plus ('EFSD+')

The EFSD+ is designed to function in a similar fashion to its predecessor. It would include a single worldwide blending facility into which all regional facilities would be merged, and would be the ‘go to’ facility for all licensed (pillar-assessed) development institutions seeking EU funding. The EFSD+ will include a comprehensive selection of types of financing including grants, financial instruments (e.g. loans, guarantees, equity or quasi-equity, investments or participations, risk-sharing instruments), budgetary guarantees and blending. The NDICI Regulation sets out its governance structure. It is to be managed by the Commission, advised by a strategic board. The proposed

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composition of the strategic board includes representatives of the Commission, the EEAS, the Member States and the EIB, with the EP as an observer (other stakeholders can also have observer status if needed).

**External Action Guarantee (EAG)**

The objective of the External Action Guarantee is to allow the EU to reduce the risk for public and private investment operations in partner countries covered by the NDICI and by the IPA III (under the EFSD+), and to support countries experiencing a balance of payments crisis (with macro-financial assistance). The EAG is designed as an open guarantee framework that merges the EFSD Guarantee, the EFSD Guarantee Fund, the ELM (available to the EIB only), and the Guarantee Fund for External Actions, thus also covering MFA loans to governments that go beyond the EFSD+. The ceiling of the EAG has been set at around €53.5 billion. Together with the private sector and thanks to the leverage effect, the Commission expects that it may mobilise more than half a trillion euro in investments for 2021-2027. The EAG provisioning rate ranges from 9 % to 50 %, depending on the type of operations and associated risks. The EAG provisioning is to be financed from the budget of the relevant geographical programmes and transferred into the common provisioning fund. Member States, third countries and other third parties may contribute to the EAG.

**Questions raised in response to the proposed investment framework**

The proposed new investment framework has raised a number of concerns. For example, in 2018 CONCORD\(^{96}\) outlined some issues referring concretely to the specific amounts dedicated to EFSD+ operations, the scale of the EAG, the increased reliance on blending and guarantees despite the scarce information on their performance, and broader ones such as weak transparency and accountability under the NDICI regulation.

The European Centre for Development Policy Management (ECDPM) in its 2019 paper on the EFSD+\(^{97}\) takes a critical look at the proposal, highlighting several points. It notes that unlike in the EFSD Regulation, the NDICI regulation does not specify the dedicated amounts for EFSD+ operations under the EAG, and that there is a need for more clarity on the issue of the level of guarantee provisions. The paper finds that neither the EFSD+ governance, nor the objectives related to e.g. climate, women, youth, are well elaborated. It sees a risk that, with no specific targets, EFSD+ operations under the EAG may mainly be channelled to middle-income countries. It also mentions the lack of provisions on addressing tax avoidance and tax havens and illicit financial flows (a concern shared by the EP and civil society organisations), as well as the lack of a specific reporting and monitoring framework for the EFSD+, unlike in the current EFSD Regulation. Last but not least, the reshaped framework poses a question about the future of the EIB operations. The EAG would absorb the ELM, which covers EIB operations only. In contrast, the EAG would be available for all eligible institutions. Although the NDICI regulation envisages that the EIB is to remain the EU’s ‘natural partner’, the ECDPM paper notes that it remains vague on how and to what extent it would continue to benefit from the EU guarantee.

A 2020 ‘Study on the use of development funds for de-risking private investment’\(^{98}\) highlights some accompanying risks of blending, expressing doubts about the capacity of the scaled-up proposal to achieve the current objective of mobilising €500 billion for the 2021-2027 MFF. In line with concerns

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96 CONCORD, The European Fund for Sustainable Development plus (EFSD+) in the MFF2021-2027. Ten areas to consider in the NDICI Regulation, September 2018.

97 ECDPM, Leveraging the next EU budget for sustainable development finance: the European fund for sustainable development plus (EFSD+), 2019.

expressed by others (CSOs), the study notes that while private sector involvement is an explicit EIP and EFSD objective, it is essential that this is not achieved to the detriment of the wider development objectives.

4.1.3. Special instruments

Based on the experience of the 2014-2020 MFF, when special instruments have proved necessary, the Commission has foreseen boosting and redesigning them in the next period, and setting up a crisis reserve to be able to quickly address crises and events with significant humanitarian or security implications. The Commission had proposed in 2018 to extend the scope of the Emergency Aid Reserve to allow its activation inside the EU. The Commission proposed\(^99\) to increase the maximum annual amount available under the instrument, renamed Solidarity and Emergency Aid Reserve, to €3 billion (2018 prices), so that emergency funding can be mobilised at a scale that would make it possible to deal with unforeseen challenges. The EUCO conclusions fixed the annual amount of the Reserve at €1.2 billion (2018 prices). The objective is to reinforce EU action in response to all aspects of the health crisis, as well as to other emergencies. It is planned to enable swift reinforcements via budgetary transfers to EU instruments whenever needs arise. Funds can be channelled to provide emergency support as and when needed through EU instruments such as humanitarian aid, the Emergency Support Instrument, the Single Market Programme, or the Asylum and Migration Fund.

Taking into account the use of the Flexibility Instrument in the 2014-2020 MFF, the Commission proposed an annual amount of €1 billion (2018 prices) for the next period, whereas the EUCO conclusions set the annual ceiling at €772 million. Finally, the ceiling for the annual amount available for the Flexibility Instrument in the adopted MFF was set at €915 million (in 2018 prices).

Debate on the future of the European financial architecture for development

The expanded investment framework outlined above is part of the wider efforts to adapt the EU development finance in the context of the 2030 Agenda, the Addis Ababa Action Agenda and related trends. In line with this, and to explore further the challenges and opportunities for rationalising the European financial architecture for development, in 2018 the Council set up a High-Level Group of Wise Persons, tasked to produce an independent report. This was done following a Franco-German initiative to that end, as well as the increasingly prominent need to have a more in-depth look\(^100\) at the issue, in particular the roles of the EIB\(^101\) and the EBRD respectively.

The final report\(^102\) published in October 2019 explores a number of options for the future. The high-level group report acknowledges that concerns about the effectiveness of the external development financing architecture of the EU are not new, and refers to its 2010 predecessor, the ‘Camdessus report’, which had also identified deficiencies in the broader system.

At present, new development challenges and ambitious international development goals add more urgency to the need for reform. The 2019 report outlines the requirements that ‘a system that

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\(^99\) Amended proposal for a Council Regulation laying down the multiannual financial framework for the years 2021 to 2027, COM(2020) 443 final.


\(^101\) European Court of Auditors, Journal No 2/2020: Climate Change & Audit, 2020. The ECA’s 2020 Journal on Climate Change and Audit notes the EIB’s increasingly prominent role of as a multilateral development bank, and its acting as the EU’s climate bank prioritising climate action.

\(^102\) The future of the European financial architecture for development, an independent report by the High-Level Group of Wise Persons on the European financial architecture for development, 2019.
delivers' needs to meet: it has to be such as to generate tangible, lasting development impact; ensure policy coherence and effective coordination across all EU levels and actors; and have the right set of institutions allowing it optimal capacity to mobilise development finance resources. It then also identifies the main systemic gaps at present: most notably, the absence of a strong policy centre in the European system to define and streamline development policies and strategies. Despite its global presence and leading global role as an ODA contributor, the EU often channels its funding to a multitude of actors, including European IFIs, national and multilateral development agencies and financial institutions, which hinders overall policy coherence. The high-level group concludes that there is room for consolidating the external development activities of EU financial actors and for strengthening the policy steer over the institutions. It identifies both shorter-term and long-term options for improvement. The immediate steps suggest that the proposed NDICI instrument could serve as a catalyst for improvement by further strengthening cooperation and coherence between all actors involved, through an increased use of joint programming and by ensuring that the annual programming for the NDICI implementation is flexible enough to provide for possible institutional changes throughout the 2021-2027 MFF.

The foreseen institutional changes involve reforms of the EIB and the EBRD. The Group finds that the challenges of the 21st century call for setting up a single institution in the medium term, to serve as the European actor outside of the EU for climate and development financing, alongside the Commission in its role of a policy centre. Against this background, the report suggests three options for building a European Climate and Sustainable Development Bank:

- A European Climate and Sustainable Development Bank building on the EBRD and the external financing activities of the EIB;
- A new mixed-ownership European Climate and Sustainable Development Bank;
- A European Climate and Sustainable Development Bank based on an EIB subsidiary.

All three options imply additional costs, including significant capital needs, annual contributions as well as political and legal complexity, and they all need time to be implemented.

The report's findings were welcomed by 19 European bilateral public development banks and DFIs. They agreed that European sustainable development and climate finance has the potential to achieve more global leverage and impact with improved coordination and focus on key priorities. On a more critical note, the ECDPM acknowledges the report's usefulness for urging reflection, but finds that it fails to assess the policy and development implications of the proposed options. It also stresses that making the financial architecture for development less fragmented goes beyond revising the roles of the EIB and the EBRD. Greater coordination and synergy is also sought among bilateral and European institutions, and other regional and international finance institutions.

Finally, the Council in its 2019 conclusions on strengthening the financial architecture for development agrees that this architecture needs to be more flexible, integrated, coherent and responsive to climate and development needs. It invites the EU institutions and Member States to explore ways of improving the overall branding and narrative for the EU global development strategy and financing and to increase the visibility and communicability of their impacts for both the EU and its partner countries.

105 Council conclusions on strengthening the European financial architecture for development, December 2019.
4.2. European Parliament

In the field of financing external action, Parliament’s involvement does not change substantially in the new architecture, with some exceptions. On the one hand, the integration of the EDF in the EU budget would strengthen the Parliament’s democratic oversight of EU development aid. On the other hand, as highlighted in the 2018 study on the European Parliament and the new external financing instruments, some mechanisms governing the existing instruments have not been imported in the NDICI proposal, which could be seen as a decline in terms of parliamentary involvement. The study refers mainly to the fact that the Strategic Dialogue between the Parliament and the Commission is not mentioned in the explanatory memorandum to the proposal. The level of Parliamentary involvement regarding not only the NDICI but also instruments such as the EU trust funds (whose functioning would be affected by the inclusion of the EDF in the budget), remains to be clarified. The Parliament has been calling for greater attention be paid to the issue of democratic legitimacy and accountability under the new single instrument, which is all the more crucial in view of its increased flexibility and ambition to play an enhanced role in the post-2020 architecture.

The political agreement reached on the NDICI in mid-December 2020 foresees an enhanced role of the European Parliament in defining the main strategic choices for the instrument, by means of a delegated act, and in scrutinising decisions made under this instrument.

The Parliament’s legislative power (acting as co-legislator to establish new or review existing financing instruments) does not extend to the proposed European Peace Facility. The latter falls under the CFSP and will be set up by a Council decision with no role for the Parliament.

4.3. Covid-19 and the EU’s external response

The outbreak of the coronavirus pandemic in early 2020 has had economic, social, political and geopolitical consequences, with implications for the MFF negotiations, and has stimulated the debate about the future global role of the EU in general. A 2020 study on ‘The geopolitical implications of the COVID-19 pandemic’ finds that EU foreign policy is entering an era of re-definition and that the pandemic ‘is already proving to be a game changer’.

The EU has acted rapidly in supporting its partners worldwide, launching in April 2020 a ‘Team Europe’ package mainly directed to vulnerable countries, with the bulk of the funds targeting the economic and social consequences of the outbreak. Since the start of the crisis, the EU has launched a number of initiatives to tackle its health and socio-economic impact in partner countries, while the EIB has launched a COVID-19 Economic Vulnerability Index to identify which countries outside the EU need most help.

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The EU has launched a number of external solidarity initiatives since mid-March 2020. The €15.6 billion Team Europe package from April, rather than mobilising new money, reallocated funds that were still available under the 2014-2020 MFF. It was complemented by resources from member states, the EIB and the EBRD, amounting to a total of over €20 billion. Roughly a third of the funds and guarantees is directed towards Africa. In the second half of April, the EU (like other G20 nations), agreed to debt relief or suspension for 77 of the world’s poorest countries. The EU offered €3 billion of loans for macro-financial assistance to ten enlargement and neighbourhood countries, considered most at risk of a balance of payment crisis. In May, the Commission hosted an international pledging event, the Coronavirus Global Response, to collect funds to develop, produce and deploy Covid-19 vaccines and treatments and assist global recovery. The EU eventually raised €15.9 billion.

In general, according to a paper by Istituto Affari Internazionali, the Covid-19 crisis would likely represent ‘the biggest ever stress test for development cooperation’ and its ability to address shared global challenges. The role of the EU is crucial, not only because of its economic weight and position as a major aid donor in the world, but also because of its role in fostering a new multilateral agenda for international development. According to Friends of Europe, the pandemic could serve as a trigger for a stronger global role of the EU, in the lead of international recovery. A Jacques Delors Centre policy paper also argues that the pandemic indeed raises the case for a more geopolitical Europe, but notes in a July 2020 paper dedicated to the July summit that its outcome ‘reveals a lack of foresight’, since it has cut the external action budget in spite of rising challenges. The Centre for European Reform also notes that development countries have been among the hardest hit by the pandemic and that the EU development funding proposed for the 2021-2027 MFF is ‘unlikely to be transformative’ for beneficiary countries, although it ‘will be vital nonetheless’.

5. Outlook

The volatile international context and the likelihood of new crises breaking out, as happened in the course of the 2014-2020 MFF, the evolving nature of the EU’s relations with its partners globally, as well as the impact of the coronavirus pandemic make a case for ensuring sufficient funding for external action, without which the EU’s ability to respond would be much more limited. The outcome of the MFF negotiations sets the course for the EU’s external action over the next seven years, and would help shape the global role it aspires to play. The proposed innovations for external action, as agreed in the 2021-2027 MFF, are closely linked to the EU’s strategic interests and values. Going beyond the mere amount of resources secured for external action, the new structure of the external financing instruments and the modernised investment framework aim to improve the efficiency, coherence and added value of EU external action.

Being the world’s largest trading bloc and collective donor, the EU is well-placed to play a leading role in safeguarding the rules-based multilateral order, upholding free trade and promoting global solidarity. With the UK’s departure and in a post-pandemic context, the question of redefining the EU’s global role is more pertinent than ever, with both opportunities and challenges present in that respect. In such a setting, the outcome of the July 2020 summit on the new MFF, while representing

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111 Coronavirus Global Response, European Commission.
113 G. Merritt, Why the EU will play a greater global role post-Corona, Friends of Europe, 2020.
'one giant leap for the EU', was seen by some as 'only a small step for its spending abroad'. Others have expressed regret that the new MFF limits the EU’s room for manoeuvre to address the consequences of the pandemic globally, and question the EU’s ambition for a bigger footprint in the world, at a time when other global players are seeking to step up their political influence while leveraging less aid. In the negotiations with the Council, the Parliament drew attention to these concerns, in line with its overall effort to improve the 2021-2027 MFF, and secured additional funds for the NDICI and for humanitarian aid.

The financial aspect aside, another key issue to be considered is how the EU communicates its external financing. Effective communication helps raise awareness of the external policies and actions of the Union in its role as a global player, and provides accountability and transparency on the use of EU funds to both EU citizens and the citizens of partner countries. Despite the fact that the EU is the largest provider of ODA and humanitarian aid, together with its Member States, and that it provides substantial support as a global response to the corona crisis, the scale of its measures often remains underreported or not clearly presented. A well-coordinated communications strategy is also a way to enhance the visibility of the EU’s contribution to global solidarity, in a context like the current one, where the EU also needs to assert itself in what HR/VP Josep Borrell recently referred to as 'a global battle of narratives', and be a source of reliable information.

6. References


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116 V. Chadwick, Foreign aid neglected in historic EU budget deal, DEVEX, 22 July 2020.
117 Budget européen : la solidarité internationale victime du compromis final, Coordination SUD, 21 July 2020.
118 BIC Reacts to the EU’s MFF and coronavirus recovery fund deal, Brussels International Center, 23 July 2020.
119 EU HRVP Josep Borrell: The Coronavirus pandemic and the new world it is creating, 24 March 2020.
To achieve its external objectives and priorities, the EU needs financial means in adequate proportions. Its global role and impact are defined to a great extent by the scope of its resources, but just as importantly by their efficient and coordinated use. This paper aims to examine the structure of the EU external financing in the 2014-2020 MFF and the agreed changes for the upcoming post-2020 period. It gives a general outline of the main financing instruments and mechanisms along with the multiple actors involved, while also underlining the complexity of the architecture and highlighting the proposed changes and main trends for the future of financing the EU’s external action.