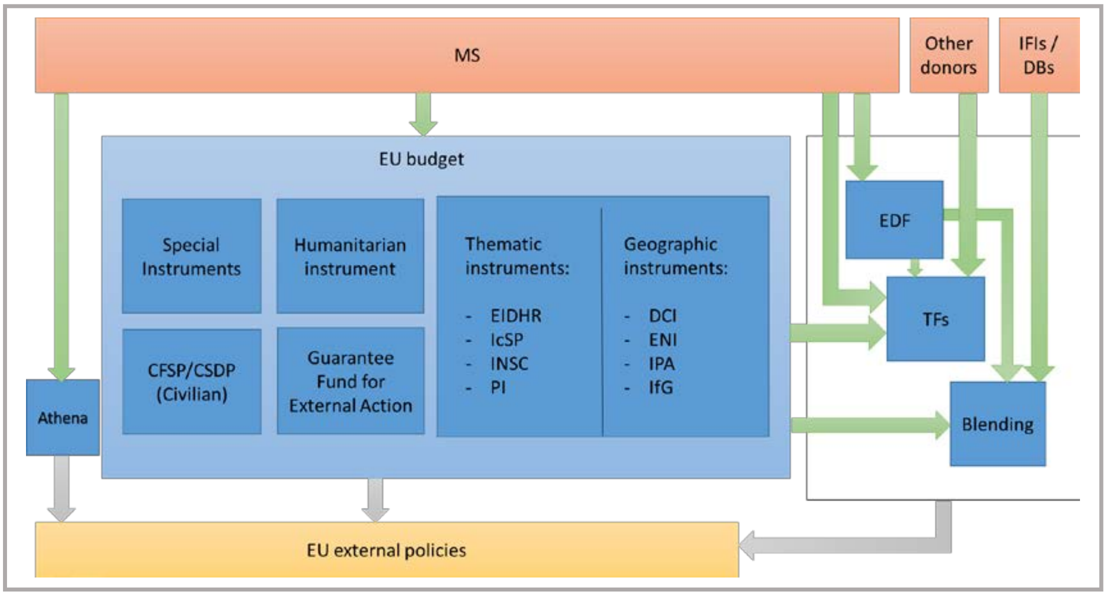
STUDY
for the BUDG committee

The budgetary tools for financing the EU external policy

Budgetary Affairs



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DIRECTORATE GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT D: BUDGETARY AFFAIRS

The budgetary tools for financing the EU external policy

STUDY

Abstract

The paper provides an overview of the current set-up of tools contributing to the funding of the EU external policies. The focus is on the recently established instruments and how they relate to the previously existing ones. The paper provides a first assessment of the current and envisaged set up of tools with regards to the following key aspects: added-value, coherence, flexibility and simplification, and democratic oversight of EU funding for external action.

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LIST OF ABBREVIATIONS

ACP	Africa Caribbean Pacific
AfIF	Africa Investment Facility
AIF	Asia Investment Facility
APF	Africa Peace Facility
CEB	Council of Europe Development Bank
CFSP	Common Foreign and Security Policy
CIF	Caribbean Investment Facility
CIR	Common Implementing Regulation
CSDP	Common Security and Defence Policy
DB	Development Bank
DCI	Development Cooperation Instrument
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	European Court of Auditors
EDF	European Development Fund
EFSD	European Fund for Sustainable Development
EIB	European investment Bank
EIDHR	European Instrument for Democracy and Human Rights
EIP	European External Investment Plan
ENI	European Neighbourhood Instrument
EP	European Parliament

EU	European Union
EUBEC	European Union Platform on Blending in External Cooperation
FEMIP	Facility for Euro-Mediterranean Investment Partnership
FR	Financial Regulation
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GFEA	Guarantee Fund for External Action
IcSP	Instrument contributing to Stability and Peace
IFCA	Investment Facility for Central Asia
IfG	Instrument for Greenland
IFI	International Financial Institution
IFP	Investment Facility for the Pacific
INSC	Instrument for Nuclear Safety Cooperation
IPA	Instrument for Pre-Accession Assistance
LAIF	Latin America Investment Facility
MFF	Multiannual Financial Framework
MS	Member State
NIF	Neighborhood Investment Facility
OCT	Overseas Countries and Territories
PI	Partnership Instrument
RAP	Rules of Application
SDG	Sustainable Development Goal
TF	European Union Trust Fund
ToR	Terms of Reference
WBIF	Western Balkan Investment Framework

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EXECUTIVE SUMMARY

Introduction

This briefing aims to provide an overview of the current architecture of EU financing for external policies, and to provide an assessment of the performance of this set-up, taking into account proposed reforms.

The briefing focuses on the following elements of EU funding for external policies:

- The European Development Fund (EDF);
- The EU external Trust Funds (TFs);
- The Facility for Refugees in Turkey (the Facility);
- The EU's regional blending facilities;
- The European Fund for Sustainable Development (EFSD);
- Loans and guarantees covered by the Guarantee Fund for External Actions (GFEA).

The briefing uses the following terminology to distinguish the diverse elements covered and to denote their relationship in the broader architecture for financing EU external policies. First, the term financing instruments applies to instruments in the budget with a regulation as legal basis. In spite of its current status outside the EU budget, the briefing also refers to the EDF as a financing instrument. Implementation of these instruments is carried out through different tools and modalities. With regard to the elements highlighted in the ToRs, EUTFs are referred to as new tools. Blending is a modality and the briefing also refers to blending facilities as mechanisms. Elements that do not fall into any of these categories are referred to by other terms (e.g. the Facility as coordination mechanism). The term "new instruments" is sometimes used to refer to a mix of these elements. Technical terms, such as "financial instruments", are defined as in the Financial Regulation (FR).

The first part of the briefing provides an overview of the existing architecture of EU funding for external policies and proposed changes. The overview covers the objectives, the governance arrangements, legal bases and the functioning of the elements mentioned above. The second part of the briefing assesses the performance of this set-up. The assessment concentrates on the following aspects:

- Added-value of operating outside or partially outside of the EU budget;
- Coherence and coordination of the different elements of EU funding for external action;
- Flexibility and simplification and related challenges;
- Democratic oversight and the role of the EP.

On the basis of this assessment, the briefing presents a series of conclusions and recommendations.

Findings and conclusions

General

Over the years, the EU has created a diverse range of financing instruments and tools for external action. While this setup enables the EU to pursue its objectives externally, it has also led to more complexity and fragmentation. Changes to the EU's financing instruments and the creation of new tools and mechanisms for implementation in recent years, as well as the proposed modification of the FR and the review of the Multiannual Financial Framework (MFF), represent opportunities to improve EU external policies and practices. This also implies that further reflection is needed on how different elements of this architecture fit together.

Added value

The EU's toolbox for external funding is now more diversified and this is opening up new possibilities. New elements such as blending facilities, TFs and the proposed EFSD can offer added value in different regards. Some of these innovations, such as TFs, have improved the EU's ability to react more swiftly and flexibly to urgent challenges. These innovations also have the potential to mobilise more resources and focus the efforts of a wide range of stakeholders on specific purposes.

Based on an intergovernmental agreement, the EDF has a distinct character outside the EU budget. However, increasing alignment with EU financial rules has resolved the most relevant differences with the EU budget. Inclusion of the EDF into the EU budget would increase democratic oversight by the EP and enhance budgetary unity. However, budgetisation also involves uncertainties about the level of development funding, the funding of the African Peace Facility and Brexit.

TFs offer added value by increasing the visibility of EU funding, pooling resources, speeding up disbursements and allowing cooperation in difficult contexts. TFs also offer opportunities to test innovative ways of working in different areas.

Blending facilities mobilise additional resources provided that the blending process is properly designed and managed. The quantity of EU blending facilities, each catering to specific regions and themes, adds to the complexity around the EU budget and might contribute to fragmentation.

As a single entry point for potential investors, the EFSD has the potential to generate added value by reducing the complexity of the EU's instruments for investment support. In the future, the EFSD could gradually increase its scope to cover more investment-related EU instruments and regions.

Coherence and coordination

There is no evidence that any of the elements contributing to the EU external policies replace or entirely duplicate one another. They all seem to respond to different situations and must be assessed in their own context. Even though there are legal and practical safeguards, duplication and overlaps are a potential risk. Coherence between all the elements contributing to EU external policies is not always clear. More reflection is needed on the use of some instruments and tools, such as TFs, and how they relate to other policies.

Flexibility and simplification

The establishment of new tools and mechanisms, even if they draw on financing instruments from the EU budget or the EDF, creates room to renegotiate the programming and management of funding. Rapidity and flexibility in funding come with risks, such as diversion of funding and shortening stakeholder consultations. There is also a risk that funding follows the immediate political agenda rather than long-term development goals, even though those might not necessarily conflict.

Democratic oversight and budgetary oversight

The role of the EP is generally limited with regard to new tools and mechanisms. Democratic control and budgetary oversight is ensured by provisions for transparency and monitoring, audit, respect of accounting standards and regular reporting to the EP. In some respects, the strong visibility of new tools might even contribute to more transparency and subject them to higher public scrutiny than other parts of the EU's financing for external policies. However, overseeing complex funding structures as well as speedy and flexible disbursements can be challenging in practice and requires adequate capacity.

Recommendations

1. Future reforms in the EU's financing for external policies should be closely linked to the EU's strategic objectives. Recent and proposed changes are considerably driven by the need to respond to immediate crises. The EU should strengthen its ability to respond to crises as part of a broader set of strategic and policy objectives set in the EU's Global Strategy and other policy documents.

2. The preparation of the next MFF presents an opportunity for a comprehensive review of the EU's financing instruments in the EU budget. Recent and proposed changes were constrained by the limits of adjusting the MFF midway. The next MFF can anchor required changes more solidly in the EU budget and reduce the need for ad hoc adjustments in the future.

3. MS should bring the long-standing debate on the budgetisation of the EDF to a conclusion. The EC is committed to proposing budgetisation as of 2021 and the EP has repeatedly called for the EDF's inclusion into the budget. A clear and sustainable decision on budgetisation is necessary before deciding on the shape of the external financing instruments in the next MFF. Developing a clear perspective for the EDF will also strengthen the EU's position in the negotiations with Africa Caribbean Pacific (ACP) states on a successor agreement to the Cotonou Partnership Agreement, scheduled to enter into force in 2021.

4. In view of the next MFF, the right balance between flexibility and long-term predictability of the EU's funding for external policies should be clarified more explicitly. Injecting more flexibility into the EU budget should be based on an assessment of which financing instruments are most suitable for enhancing flexibility based on their intervention logic and way of functioning. Current proposals would insert more flexibility across a broad range of instruments, including the geographic instruments of the EU budget, which have originally been designed for long-term cooperation with partner countries. The use of other instruments could be expanded to enhance flexibility, in particular humanitarian assistance and the IcSP. Some flexibility in geographic instruments might also be necessary and could, for instance, be achieved by adjusting the thematic programmes in the DCI, which have a flexible geographic reach.

5. The potential of new funding tools such as TFs and mechanisms such as blending facilities should be further explored. Growing experience and assessments should strengthen the evidence base on the use of these tools and mechanisms.

6. In view of enhancing the EP's ability to oversee blending activities, the EP should consider steps to strengthen its involvement in the governance of these activities. The EP could seek observer status in the four blending frameworks of the DCI, ENI, IPA and EDF. This could be achieved, for instance, via the role of standing rapporteur for blending. The EP should enhance its ability to process reports from the EC and other sources and to request evaluations by strengthening in-house capacity on blending.

7. The EC should review the scope for re-organisation and consolidation of the landscape of EU blending facilities. The quantity of investment facilities using blending is very high, including the eight regional blending facilities, the ACP Investment Facility and thematic blending facilities.

Blending frameworks supersede the regional blending facilities. In addition, the Africa Investment Facility (AfIF) and NIF will become the Regional Blending Platforms of the EFSD. A simpler and clearer architecture of the EU's blending facilities could improve coherence, visibility and oversight of the EU's blending activities.

8. The EC should assess the possibility to gradually maximise the EFSD's role as a "one-stop-shop". As an umbrella covering blending platforms and guarantees, the EFSD can foster coherence among the EU's investment-related instruments. So far, this is only partially the case. The EFSD does not include all relevant investment instruments in the EU Neighbourhood and Africa (e.g. ACP Investment Facility, Resilience Initiative). Moreover, the possibility of extending the EFSD to other regions could markedly enhance its ability to foster coherence. One longer-term option could be to gradually develop the EFSD into the EU's global investment framework for sustainable development.

1. INTRODUCTION

In recent years, the European Union (EU) architecture for financing external policies has become more complex. In addition to the EU's financing instruments in the EU budget, several innovative funding tools and mechanisms have been established. Driven by the need to respond to new challenges and unforeseen crises in times of tight public budgets, the EU has considerably diversified its toolbox for funding external policies. This toolbox now includes new funding tools, such as trust funds (TFs), and mechanisms, such as blending facilities, that combine funds from the EU budget with other resources. Instruments in the budget are also evolving to address the need for greater flexibility and simplification in the financing of the EU's external policies.

As a result, EU funding for external policies is becoming more complex. This complexity creates challenges. Besides making the EU budget less transparent in the eyes of European citizens, these developments also pose challenges to the European Parliament (EP) in terms of budgetary oversight. As reform dynamics are picking up pace, it is important to take stock of the evolving architecture for financing EU external policies.

The EU Global Strategy (June 2016) presents a vision guiding reforms for financing EU external policies. In particular, the Strategy calls for more flexibility and a reduction of instruments to enhance coherence.[1] The mid-term review of the Multiannual Financial Framework (MFF) 2014-2020 and the revision of the EU Financial Regulation (FR) bring more changes and innovations to EU external financing. Soon, the preparation of the next MFF represents an opportunity to consolidate reforms based on a comprehensive understanding of the shifting architecture of EU external funding.

The objective of this briefing is twofold:

- To provide a clear picture of the current architecture for financing and implementing EU external policies
- To provide an assessment of the performance of the current set-up and propose reforms with a view to ensuring adequate oversight by the EP.

In response to the Terms of Reference (ToR), this briefing focuses on the following elements of the EU's funding for external policies:

- The European Development Fund (EDF)
- The EU external Trust Funds (EUTFs)
- The Facility for Refugees in Turkey (the Facility)
- The EU's regional blending facilities
- The European Fund for Sustainable Development (EFSD)
- Loans and guarantees covered by the Guarantee Fund for External Actions (GFEA)

The briefing uses the following terminology to distinguish the diverse elements covered and to denote their relationship in the broader architecture for financing EU external policies. First, the term financing instruments applies to instruments in the budget with a regulation as legal basis. In spite of its current status outside the EU budget, the briefing also refers to the EDF as a financing instrument. Implementation of these instruments is carried out through different tools and modalities. With regard to the elements highlighted in the ToRs, EUTFs are referred to as new tools. Blending is a modality and the briefing also refers to blending facilities as mechanisms. Elements that do not fall into any of these categories are referred to by other terms (e.g. the Facility as coordination mechanism). The term "new instruments" is sometimes used to refer to a mix of these elements. Technical terms, such as "financial instruments", are defined as in the FR.

[1] Shared vision, common action: a stronger Europe. A Global Strategy for the European Union's Foreign and Security Policy, June 2016.

The first part of the briefing presents an overview of the EU's architecture for funding external policies with a focus on the elements highlighted in the ToRs. The overview of the first part concludes by presenting graphic illustrations at the end of the chapter. The second part of the briefing provides an assessment of the current architecture and proposed changes.

In order to address the research questions posed by the ToR, the researchers mainly relied on desk research. This included a review of the existing literature on the EU's external policies, such as the reports available on the instruments, tools and mechanisms under review, as well as relevant reports of the European Court of Auditors (ECA) and the European Commission (EC). Interviews with relevant stakeholders in different EC services complemented the desk research.

2. OVERVIEW OF THE SET-UP OF THE EU EXTERNAL FUNDING

KEY FINDINGS

- The "Global Europe" heading of the MFF (2014-2020) is the core of the EU's financing for external policies. It contains the main legal financing instruments.
- The EDF, the EU's largest financing instrument for development cooperation, is governed through an intergovernmental structure outside the EU budget.
- Since 2013, the EC has the possibility to establish TFs for external action. Four TFs have been created (Bêkou, Madad, Emergency Trust Fund for Africa, EU Trust Fund for Peace in Colombia). TFs operate outside of the EU budget and are funded by the budget, MS and other donors.
- The Facility for Refugees in Turkey is not a funding instrument but a coordination mechanism that allows mobilisation of funds. The Facility operates within the EU budget but with faster and more flexible procedures.
- Since 2007, the EU has established eight regional blending facilities. Blending facilities combine grants from the EU budget and the EDF with other public or private resources such as loans from financial institutions in order to mobilise additional funding to meet investment needs.
- The EFSD is the first pillar of the proposed European External Investment Plan. It addresses the migration crisis by promoting the Sustainable Development Goals. The EFSD consists of two components: two regional investment platforms for blending and an EFSD guarantee. The objective is to serve as a "one-stop-shop" to support public and private investors in the EU neighbourhood and Africa.
- The GFEA protects the EU from financial risks of loans and guarantees. It covers external lending from the European investment Bank (EIB), the EU's Macro-Financial Assistance and Euratom loans. Given growing financial risks related to instability in the EU neighbourhood and the migration crisis, the EC proposes amendments to the GFEA and the EIB external lending mandate. To manage increasing contingent liabilities the EC also proposes a common provisioning fund for EU guarantees under the GFEA, the EFSD Guarantee Fund and the European Fund for Strategic Investments (EFSI).

2.1. FINANCING INSTRUMENTS FOR EU EXTERNAL POLICIES IN THE EU BUDGET AND THE MFF 2014-2020

The financing instruments in the EU budget constitute the basis for the funding of EU external policies. Heading 4 ("Global Europe") of the multiannual financial framework (MFF) 2014-2020 lists the main instruments for financing external policies (Table 1). This heading corresponds to ca. 6.1% of the commitment appropriations for the period 2014 to 2020.

Table 1: Table of the Global Europe heading for the MFF 2014-2020

EU financing instruments in Heading 4 of the MFF 2014-2020 ("Global Europe")	Commitment appropriations (in EUR million)
Geographic Instruments	
- Development Cooperation Instrument (DCI) (including the thematic programmes Global Public Goods and Challenges and Civil Society Organisations and Local Authorities as well as the Pan-African Instrument)	19 661.64
- European Neighbourhood Instrument (ENI)	15 432.63
- Instrument for Pre-Accession Assistance (IPA)	11 698.67
- Instrument for Greenland (IfG)	217.8
Thematic Instruments	
- European Instrument for Democracy and Human Rights (EIDHR)	1 332.75
- Instrument contributing to Stability and Peace (IcSP)	
- Partnership Instrument (PI)	2 338.72
- Instrument for Nuclear Safety Cooperation (INSC)	954.76
	225.32
Humanitarian Aid Instrument	7 100
Common Foreign and Security Policy (CFSP)/Common Security and Defence Policy (CSDP) (civilian)	2 338.72
Lending covered by the Guarantee Fund for external actions	1 193.07
- EIB external lending mandate	
- Macro-Financial Assistance (MFA)	
- Euratom loans	
Special instruments relevant for financing external policies inside the EU budget, but outside the MFF	
Emergency Aid Reserve	280
Flexibility Reserve	471

Source: Regulations and websites of the different instruments.

Several instruments within Heading 4 are organised under Regulation (EU) No 236/2014 outlining common rules and procedures for the implementation of the Union's instruments for financing external action Common Security and Defence Policy (CIR).[2] The CIR covers four geographic instruments (Development Cooperation Instrument (DCI), European Neighbourhood Instrument (ENI), Instrument for Pre-Accession Assistance (IPA) and Instrument for Greenland (IfG)) and four thematic instruments (European Instrument for Democracy and Human Rights (EIDHR), Instrument contributing to Stability and Peace (IcSP), Instrument for Nuclear Safety Cooperation (INSC), Partnership Instrument (PI)). The CIR sets out common rules and conditions for these instruments consistent with the FR of the Union's budget.[3] Each of these instruments also has a specific regulation adopted by the EP and the Council. Other instruments include, in particular, the EU humanitarian aid instrument. Irrespective of

[2] Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action

[3] https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/where-does-money-come/external-action-financing-instruments_en [accessed on 21.12.2016].

their specificities, the usual adoption, implementation and control mechanisms apply to these instruments. The EP and the Council set the framework within which implementation is (directly or indirectly) managed by the EC and subject to parliamentary oversight and budgetary control. Implementation tools and modalities for these instruments also include tools and mechanisms discussed below (TFs, blending, etc.). The "Global Europe" heading of the MFF also contains lending covered by the Guarantee Fund for external actions (EIB external lending, Macro-Financial Assistance and Euratom loans) (see 2.7).

In contrast, the Common Foreign and Security Policy (CFSP)/Common Security and Defence Policy (CSDP) is intergovernmental and only partly reflected in the budget. The EP has a limited role. Due to the exclusion of legislative acts from the CFSP, the EP has no formal power to adopt CFSP decisions. The EP has influence on the CFSP mainly through budgetary powers, including the right to amend the CFSP budget. The EU budget finances administrative and operational expenditure. However, military or defence expenditure cannot be financed by the EU budget (Art. 41 TEU). Accordingly, expenditures from the EU budget (EUR 327.3 million in commitments for 2016) do not cover all CFSP/CSDP measures. Measures paid from the EU budget include, in particular, civilian missions, EU Special Representatives and measures supporting non-proliferation and disarmament. The EC's Service for Foreign Policy Instruments manages CFSP expenditures coming from the EU budget under the responsibility of the High Representative of the Union for Foreign Affairs and Security Policy. Appropriations are committed by Council decisions on different legal bases depending on the issue.[4]

The Athena financing mechanism provides the funding of expenditure with military or defence implications. This mechanism was established in 2004 and is not part of the EU budget. Member States (MS) contribute to the annual Athena budget based on their gross national income (except Denmark). A Special Committee composed of MS representatives sets the financial rules for this mechanism.[5] In addition, CSDP missions can also be supported by MS funds, participating third countries and other international organisations.

Moreover, the EU budget also provides for special instruments that are not part of the MFF 2014-2020. In the case of external policies, relevant instruments are the Emergency Aid Reserve and the Flexibility Instrument. The purpose of the Emergency Aid Reserve is to respond to unforeseen events and major crises in non-EU countries (EUR 280 million per year in 2011 prices). The Flexibility Instrument provides funding for clearly identified expenses that cannot be covered by one or more budget headings without exceeding the ceilings agreed in the MFF (EUR 471 million per year in 2011 prices).[6]

As part of the proposed amendment of the FR, the EC proposes to increase the budget's flexibility and enhance its ability to respond to crisis situations and unforeseen events. In particular, the EC proposes to introduce a "flexibility cushion" of 10% in the IPA, ENI and DCI. The "flexibility cushion" would represent a "second level of flexibility" in these financing instruments, in addition to the possibility of reallocating funds between countries and regions.[7] The "flexibility cushion" would be implemented by

[4] Alina Dobreva and Carmen Cristina-Cirlig (2016, March), "Common Foreign and Security Policy, Briefing: How the EU budget is spent, European Parliamentary Research Service. Matthieu Burnay et al. (2016), Does the EU have the right instruments to finance assistance in protracted crises and the needs of upper middle income countries?, Study, Directorate-General for External Policies, Policy Department, European Parliament.

[5] http://www.consilium.europa.eu/en/policies/athena/ [accessed on 27/12/2016].

[6] http://ec.europa.eu/budget/explained/budg_system/flex/flex_en.cfm [accessed on 21/12/2016].

[7] European Commission (2016b), Proposal for a Regulation of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union, COM(2016) 605 final, Brussels, 14 September, 2016.

EC implementing decisions and procedures for adopting financing decisions (including Comitology) as defined in the basic acts. Measures would be part of an Annual Action Plan or implemented as individual measures if the action falls within the framework of the relevant multi-annual programming documents. In case of unforeseen needs (Art. 2 CIR), they would be implemented as special measures. The EP and the Council are to be informed through the Comitology register.

Moreover, the EC proposes to expand special instruments and to establish a Crisis Reserve in order to improve the ability to respond to crises and events with major humanitarian or security implications. Annual availabilities would increase to EUR 1 billion for the Flexibility Instrument and to EUR 0.5 billion for the Emergency Aid Reserve (both at 2011 prices).[8] The Crisis Reserve would be funded from de-committed appropriations from all headings, up to EUR 3-4 billion. Unused reserves could be carried forward for one year. The capacity of the reserve would represent up to two years' worth of de-committed appropriations.[9]

More generally, current proposals for revising the FR focus on various aspects of simplification and flexibility: simplification for recipients, harmonised single control mechanisms, avoidance of parallel application of different rules and procedures, fostering a more effective use of instruments and a more flexible budget management, and reinforcing the focus on results.[10]

2.2. THE EUROPEAN DEVELOPMENT FUND (EDF)

Since 1958 the EDF has been the EU's main instrument providing aid for development cooperation to African, Caribbean and Pacific (ACP) States and Overseas Countries and Territories (OCTs). The EDF is the largest of the EU's financial instruments for development cooperation. Due to its origin as a framework for managing relations with former colonies, the EDF has a peculiar position outside the EU budget, representing an exception to the principle of budgetary unity.[11] The EDF has an intergovernmental structure, but is mostly managed by the EC. The Cotonou agreement with ACP States is the international legal framework under which the EDF is placed.

The EDF is negotiated among MS for commitment periods normally ranging from five to seven years. The joint ACP-EU Council of Ministers adopts a Multiannual Financial Framework (which is different from the MFF of the EU budget) to set a maximum amount available for development aid under the ACP-EU partnership for a given period. Subsequently, MS establish the EDF for this time period with an internal agreement specifying the contributions to be made by each MS.[12] This agreement needs to be ratified by each MS. In case this process is not completed by the end date of the previous EDF, funding is continued through a "Bridging Facility" until the ratification of the new agreement is completed. The 11th EDF, for instance, was established with an internal agreement signed in June 2013 and entered into force on 1 March 2015.

[8] European Commission (2016a), Commission Staff Working Document accompanying the Communication from the Commission to the European Parliament and the Council on the Mid-term review/revision of the multiannual financial framework 2014-2020. An EU budget focused on results, SWD(2016) 299 final, Brussels, 14.9.2016.

[9] European Commission (2016b), COM(2016) 605 final.

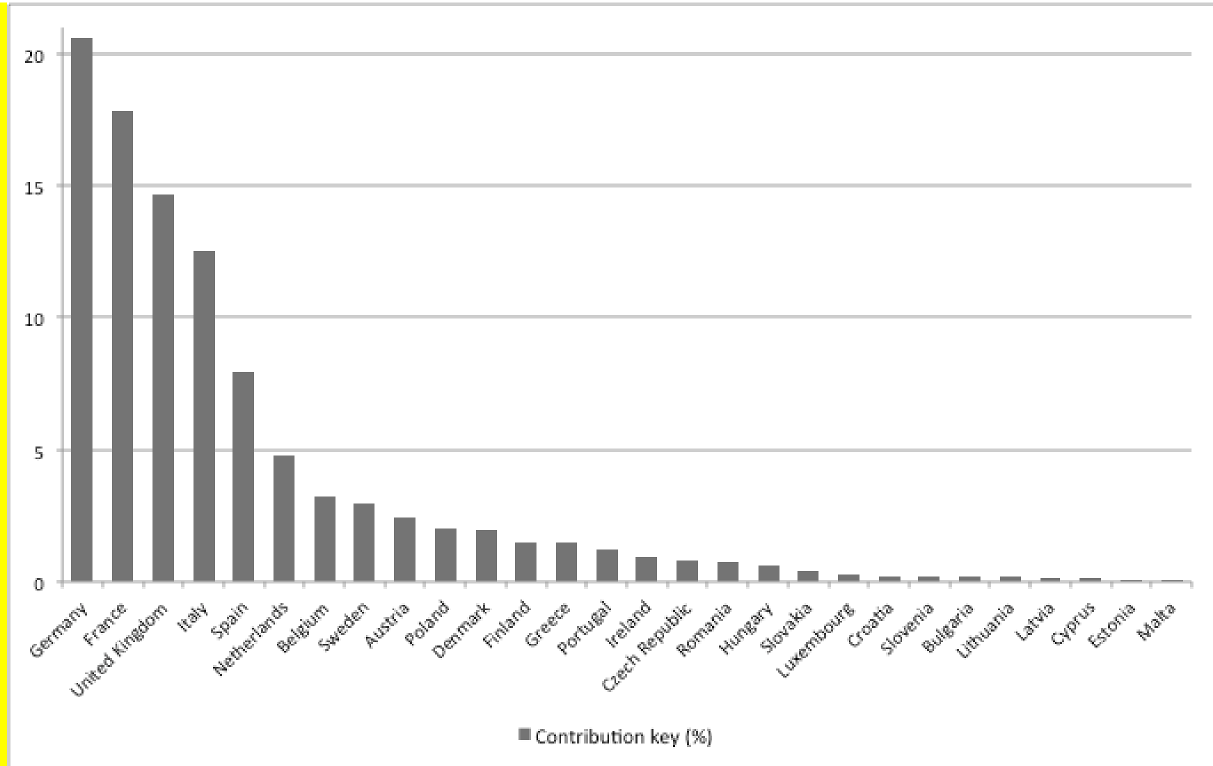
[10] European Commission (2016b), COM(2016) 605 final.

[11] An overview of the EDF and the debate on budgetisation is provided by Alessandro D'Alfonso (2014), European Development Fund. Joint development cooperation in the EU budget: out or in?, European Parliamentary Research Service.

[12] The internal agreement of the 11th EDF, http://ec.europa.eu/europeaid/sites/devco/files/internal-agreement-11edf-2013-2020_en.pdf [accessed on 14/12/2016].

The EDF is funded by MS. Contributions are determined by a contribution key set in an internal agreement between the MS governments meeting within the Council. The contribution keys are based on a proposal by the EC. They differ from the budget key of the general EU budget. In the 11th EDF contribution keys to the EDF have been further aligned with the EU budget key. However, differences remain.[13] In particular, contribution keys for the EDF are fixed for the entire commitment period. Contributions to the EU budget are updated annually based on the actual GDP of MS in a given year. Six MS (Germany, France, UK, Italy, Spain and the Netherlands) provide the bulk of funding to the EDF. The 11th EDF has commitment appropriations of EUR 30.5 billion for the period 2014-2020. In addition to MS contributions, this includes EIB loans in the framework of the Investment Facility under the Cotonou agreement.

Figure 1: EDF contributions and shares of MS



Source: Internal Agreement for the 11th EDF.

Each EDF is governed by its own financial rules set in a regulation that is different from the EU FR.[14] This financial regulation is adopted by MS in the Council once the internal agreement is ratified. The ECA has suggested introducing a single financial regulation for all EDFs that should be closely aligned with the EU Financial Regulation in order to ensure continuity and simplify management.[15] The EC has progressively aligned the EDF's financial rules with the EU budget FR in order to avoid unnecessary discrepancies between the EDF and the EU budget but also between EDFs.

[13] Kilnes, Ulrika et al. (2012), "More or less? A financial analysis of the proposed 11th European Development Fund", Briefing Note, No. 29, ECDPM.

[14] The financial regulation of the 11th EDF can be found here: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0323&from=EN [accessed 12/12/2016].

[15] European Court of Auditors (2016a), Annual Report on the activities funded by the 8th, 9th, 10th and 11th European Development Funds (EDFs), 2016/C 375/02.

Nevertheless, significant differences remain. In particular, the principle of annuality does not apply to the EDF. In the EU budget, financial commitments must be spent within the year for which they have been allocated. In the EDF, the use of funds within a single action may extend over several years. Therefore, unspent commitments are not lost and the EDF can accumulate reserves. Payments can be made over a much longer period. Since EDF expenditures can be carried beyond the commitment period, several EDFs exist in parallel. In 2015, for instance, there was spending under four EDFs.

The general framework of EDF programming and implementation is set in a Council regulation.[16] The EDF Committee, consisting of MS representatives, has the main role in programming and monitors implementation. Voting weights correspond to the contribution key and can therefore be different from that of the Council. The EC manages most of the implementation of the EDF. EDF interventions are implemented through projects, budget support and sector support. Implementation is either directly managed by the EC or indirectly through international organisations, third countries or national bodies of MS. The financial regulation of the EDF contains a range of internal and external control and audit obligations, including an ECA annual report.

2.3. THE EU EXTERNAL TRUST FUNDS

Since 2013, the EC has the possibility to create and manage trust funds (TFs) in the area of external action. The legal basis for the creation of TFs is set out in article 187 of the FR,[17] and article 259 of the Rules of Application (RAP).[18] Article 42 of the financial regulation applicable to the 11th EDF also mentions trust funds.[19]

As highlighted in the financial regulations, TFs are joint initiatives by the EC and other donors, and shall comply with the following conditions:[20]

- add value to the existing actions;
- contribute to increasing the EU global visibility and political weight;
- provide additionality (no duplication of existing funding channels).

The EC and founding partners sign the Constitutive Agreement defining the objectives of the TF and its governance set-up. After a constitutive decision, the EC needs to prepare a financing decision defining the instruments from which the Union will draw its contribution. This is then submitted for approval to the relevant comitology committee composed of MS representatives governing the funding instrument that will provide most of the EU contribution.[21] Setting up a TF is not subject to EP consent.[22]

Regarding their implementation, the TF are created with a limited time-span that can be extended by the EC (following consultation with the relevant committees). TFs exist outside of the EU budget but

[16] The Council regulation on the implementation of the 11th EDF can be found here: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0322&from=EN [accessed on 18/12/2016].

[17] European Commission (2012b), Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ L 298, Brussels, 26 October 2016.

[18] European Commission (2012a), Commission delegated regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union, OJ L 362, 31 December, 2012.

[19] European Commission (2015b), Council Regulation (EU) 2015/323 of 2 March 2015 on the financial regulation applicable to the 11th European Development Fund, L58/17, Brussels, 3 March 2015.

[20] European Commission (2012a)

[21] Hauck, V., A. Knoll and A. Herrero Cangas (2015), "EU Trusts Funds – Shaping more comprehensive external action?", ECDPM Briefing Notes, No 81, European Centre for Development Policy Management, Maastricht, November.

[22] See also D'Alfonso A., Immenkamp B. (2015), EU Trust Funds for external action, First uses of a new tool, European Parliament Research Service, Briefing, November 2015.

abide by the principles of sound financial management just as the EU budget. The EC directly implements the TFs using direct management. Indirect management can only be used for emergency TFs. However, this is likely to change with the proposed modifications of the FR, allowing for indirect management regardless of the emergency character of the situation.[23] The TFs currently in operation are all emergency TFs.

The governance set-up of the TF depends on the Constitutive Agreement. Nevertheless, a TF has two levels of governance: a board deciding on the general strategy of the TF, and an operational committee adopting the actions to be financed and supervising their implementation. Both entities are chaired by the EC and seek to work on the basis of consensus. When consensus is not found, voting takes places among the voting members and a simple majority is required.[24] A trust fund manager is in charge of the day to day management of the TF. Management costs of the TF may not exceed 5% of the amounts pooled into the trust fund, but it can also be less if specified in the Constitutive Agreement.

The proposed modifications of the FR hardly affect the existing external TFs. The proposed new legal basis for the TF (article 228 instead of article 187 of the FR) provides for the possibility to establish TFs not only for external policies but also for internal ones. The rationale is that some crises also have effects within the EU and that the multiplication of instruments to address different aspects (internal and external) of the same crisis is inefficient.[25] This provides for the possibility to create TFs operating within the EU and funded through internal policy instruments. The proposal for a new FR also indicates that the EC shall inform the EP and the Council before creating a TF.

Since 2013, four trust funds have been established and three are operational as of December 2016. They are presented in the following table.

[23] Annex 2 to European Commission (2016b), COM (2016) 605 final.
[24] About the governance of the TFs, see also Hauck et al. (2015)
[25] Documentation provided by the EP: Fiche 6 – More flexible budget management

Table 2: Overview of the existing EUTFs

Name	Constitutive Agreement	Constitutive parties	Target countries	General objective	Current Amount (in EUR million)[26]
Bêkou Trust Fund[27]	15 July 2014	EC, France, Germany and the Netherlands	Central African Republic (CAR)	Contribute to the stabilisation and reconstruction of CAR	136
EU Regional Trust Fund in Response to the Syrian Crisis (Madad)[28]	15 December 2014	EC and Italy	Syria, Lebanon, Jordan, Turkey, Iraq, Egypt or any country in the wider region, Including the Western Balkans	Respond to the needs of refugees from Syria in neighbouring countries, as well as the needs of the hosting communities, as regards resilience and recovery	741
Emergency Trust Fund for Africa[29]	12 November 2015	EC and Spain	Countries of the Sahel region, Lake Chad area, Horn of Africa, and North Africa (23 countries)	Address the root causes of destabilisation, displacement and irregular migration, by promoting economic and equal opportunities, security and development	2.400
EU Trust Fund for Peace in Colombia[30]	12 December 2016	The first donors MS	Colombia	Help to support the implementation of the peace agreement in the early recovery and stabilisation post conflict	Objective is to reach 95

Source: author based on publicly available information and data provided by the EC

TFs are funded by an EU contribution from the EU budget, as well as MS contributions. Other donors can also contribute to the TFs, with a minimum contribution allowing for voting rights. The establishment of the TFs was motivated by the intention of having the EU contribution matched by MS. However, as shown by the table below, the mismatch persists.

[26] As of October 2016 and December 2016 for the Emergency TF for Africa, data provided by the EC
[27] http://ec.europa.eu/europeaid/trust-fund-bekou_en [accessed 14/12/2016]
[28] http://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/syria/madad_en [accessed 14/12/2016]
[29] http://ec.europa.eu/europeaid/regions/africa/eu-emergency-trust-fund-africa_en [accessed 14/12/2016]
[30] http://ec.europa.eu/europeaid/eu-trust-fund-colombia_en [accessed 14/12/2016]

Table 3: Contributions to the TFs (in EUR million)

EUTF	Contribution from the EU budget	Pledges (disbursements) from MS and other donors
Bêkou Trust Fund*	101,1	34,9 (34,9)
Madad Fund*	944,9	72,4 (72,4) +24,7(Turkey)
Emergency Trust Fund for Africa*	2 378,4	137,4 (61,8)
EU Trust Fund for Peace in Colombia[31]	72,0	22,9 (no data)

Source: data provided by the EC, except for the TF for Colombia where data is available online
*Data as of October 2016, and as of December 2016 for the Emergency TF for Africa

The EU budget contribution comes from various instruments. According to information displayed on various EC websites, the instruments that have provided funding to TFs include: ENI, IPA, DCI, ECHO, the EDF and a contribution from DG HOME's budget. Figure 8 (section 2.8) displays the contributions to TFs.

2.4. THE FACILITY FOR REFUGEES IN TURKEY

The specificity of the Facility for Refugees in Turkey (the Facility) is that it does not implement projects. It collects the funding and decides of the orientation of the policy. It is a coordination platform and reservoir of funds. The Facility for Refugees in Turkey has been established as part of a wider framework to address the migration crisis. The EU and Turkey have agreed a certain number of issues in the framework of the EU-Turkey Action Plan, including the Facility.[32] The legal basis of the Facility is the Commission Decision of November 2015 on the coordination of the Union and of the Member States through a coordination mechanism – The Refugee Facility for Turkey.[33]

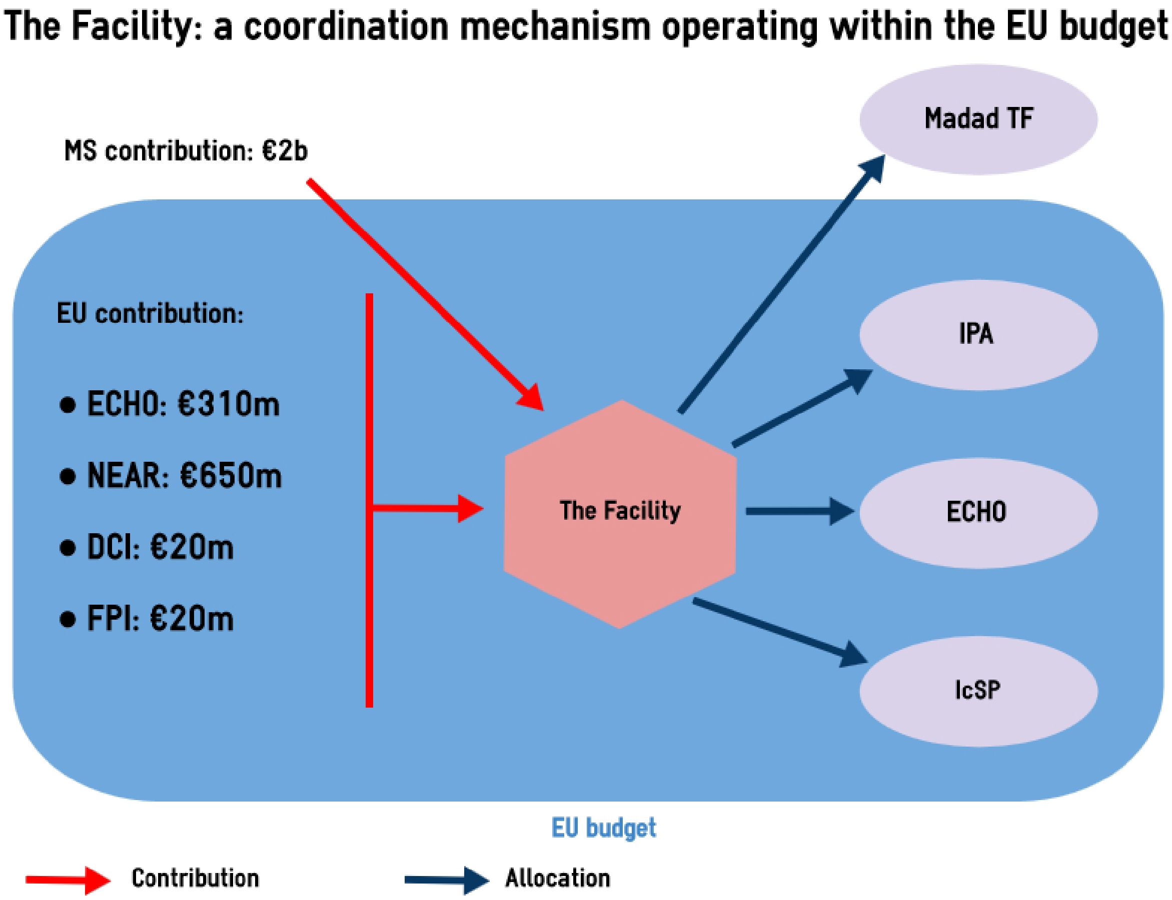
The Facility has a Steering Committee that is chaired by the EC and composed of MS representatives and Turkey with an advisory capacity. The Steering Committee provides the strategic guidance and decides on the actions to be financed, the amount allocated and through which instrument the action will be financed. The priorities are decided according to a need assessment that was undertaken in Turkey, and then the procedure followed is the one corresponding to the instrument that will provide the funding. The Facility decides on both humanitarian and non-humanitarian support.[34] The Facility as a coordination mechanism follows the directions set by the Steering Committee. Once the funds are allocated, the process followed is the same as usual for the instruments through which it is channelled. The team at DG NEAR monitors the process to make sure that there is a legal basis for all the actions, and that the set directions are effectively followed.

The Facility is not a funding mechanism, but a coordination mechanism that allows for the mobilisation of funds. The Facility can channel funding through the following instruments: ENI, DCI, IPA, IcSP, and the Humanitarian and Civil Protection ECHO. Article 6 (3) of the Commission decision establishing the Facility states that "*Actions and measures to be financed by the Union's budget will be implemented in accordance with its financial rules and the requirements of the respective basic act.*".[35] Figure 2 illustrates the functioning of the Facility. The Madad Fund is a mechanism to mobilise funding. The Facility can also transfer funds to the Madad fund. The Facility has been established to manage an initial EUR 3

[31] http://europa.eu/rapid/press-release_MEMO-16-4294_en.htm [accessed 03/01/2017]
[32] http://europa.eu/rapid/press-release_IP-15-6162_en.htm [accessed 16/12/2016]
[33] European Commission (2015a), Commission Decision of 24 November 2015 on the coordination of the actions of the Union and of the Member States through a coordination mechanism – the Refugee Facility for Turkey, 2015/C 407/07, Brussels.
[34] https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20161208-frit-factsheet_0.pdf accessed [16/12/2016]
[35] European Commission (2015a), article 6 paragraph 3

billion in 2016-2017. A further EUR 3 billion could be managed by the Facility in 2018-2019, however, this still needs to be confirmed. By June 2017, all the funds of the first package will be committed. The discussion about the new package of aid is likely to take place in the summer of 2017. The Facility operates within the EU budget, but with faster and more flexible procedures. It follows an instruction that is internal to the Commission based on Art 190 (2) of the Rules of Applications (RAP) (Regulation 1268/2012).[36] Article 190 of the RAP lists the conditions in which grants may be awarded without calls for proposals, and paragraph 2 details the 'definition' of a crisis situation.[37] In terms of the Facility's monitoring and control arrangements, the evaluation of the projects financed and an audit are foreseen in the future.

Figure 2: The Facility - a coordination mechanism operating within the EU budget



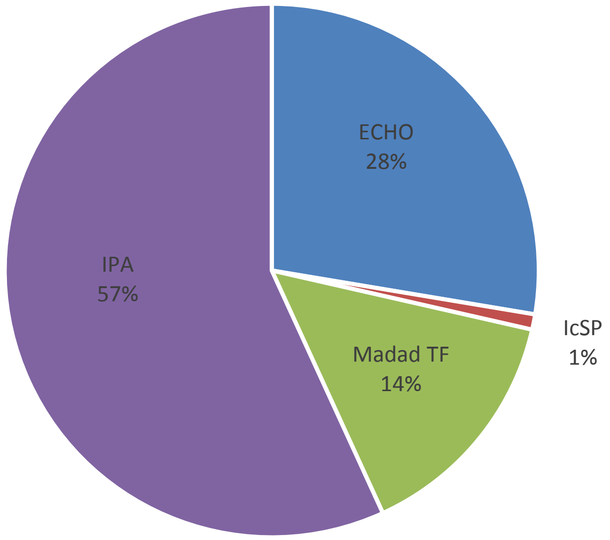
Source: author based on data provided by DG NEAR

The EU budget already covers EUR 1 billion in terms of the EU contribution, and the MS provide the remaining funding. All MS have paid their contribution to the Facility.[38] The contribution of the MS has been assigned as follows: EUR 910 million to DG NEAR, and EUR 1,090 million for humanitarian funding.[39] As of the end of December 2016, EUR 1,450 million has been contracted and EUR 691 million has been disbursed. Out of the EUR 3 billion, 2.15 billion have already been allocated for humanitarian

[36] Interview
[37] European Commission (2012)
[38] Interview
[39] Data provided by DG NEAR

and non-humanitarian projects. The following graph displays the instruments to which funds are committed.[40]

Figure 3: Facility for Refugees in Turkey: Funds committed per instrument as of 22/12/2016



Source: author based on EC documentation

Considering that the funding is scheduled to be contracted before the planned revision of the FR, the existing funding should not be affected by the revision. Should there be a second tranche of EUR 3 billion after the entering into force of the reformed FR, commitments under the Facility will apply the new FR. . The Facility has been designed as an answer to a specific problem in unique circumstances. It is not clear whether the Facility will set a precedent in the EU 'toolbox' for crisis response. The EC might nevertheless resort to similar mechanisms in the future.[41]

2.5. BLENDING OF GRANTS AND LOANS UNDER THE EU'S EXTERNAL POLICIES

The Agenda for Change (2011) states the ambition to further develop the role of innovative financial instruments in order to meet increasing investment needs in developing countries, including blending and other risk-sharing mechanisms.[42] Blending facilities combine grants with other public or private resources (such as loans, risk capital or equity). The main objective of blending is to mobilise additional funding to meet investment needs. To this end, blending addresses sub-optimal investment situations, in which projects do not raise sufficient funds from market sources. This is, for instance, the case when projects offer economic, social and/or environmental benefits but are not sufficiently profitable, present excessive risk profiles or are located in heavily indebted countries subject to International Monetary Fund (IMF) requirements for loans.[43]

[40] https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20161222_facility_table_website.pdf [accessed 29/12/2016]

[41] Interview with DG NEAR

[42] European Commission (2011), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Increasing the impact of EU Development Policy: an Agenda for Change, COM(2011) 637 final, Brussels, 13.10.2011.

[43] European Court of Auditors (2014), The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies, Special Report No. 16, p. 8.

The EC has established several regional investment facilities, covering the entire geographic range of the EU's external cooperation (Figure 4).[44] In addition to the seven regional investment facilities indicated on the map, the EC, together with International Financial Institutions (IFIs) (EIB, EBRD, CEB) and bilateral donors, established the Western Balkans Investment Framework (WBIF) in 2009. Apart from these regional investment facilities, other EU investment facilities using blending with funds from the EU budget or the EDF include, for instance, the Investment Facility created in 2003 by the Cotonou agreement, the facility for Euro-Mediterranean Investment Partnership (FEMIP), and the Global Energy Efficiency and Renewable Energy Fund (GEEREF). Moreover, some thematic initiatives are supported through blending, including, for example, the Agriculture Financing Initiative (AgriFI) and the Climate Finance Initiative.

Figure 4: Geographical coverage of EU blending facilities

Source: EC website, http://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en

The regional investment facilities have been created by EC Decisions within the legal framework of the EU geographic instruments providing the grant element. The facilities combine grants from the EU budget and the EDF with loans, mainly from European financial institutions and in some cases direct MS contributions. The facilities are arranged under four blending frameworks organised according to the source of grant financing (DCI, ENI, IPA, EDF). These frameworks provide strategic guidelines for investment facilities and align their rules of procedure, in line with EU priorities for aid in each region. Moreover, it is possible to create dedicated Facility Trust Funds to enable MS and other donors to provide additional resources to blending operations.[45]

[44] http://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en [accessed on 20/12/2016].

[45] European Commission (2016c), Report from the Commission to the Council and the European Parliament on the activities of the EU Platform on Blending in External Cooperation (EUBEC) from August 2014 until end of 2015, Brussels 19.9.2016 (COM(2016) 600 final).

The regional investment facilities usually have a three-tiered governance structure.[46] A strategic body (strategic board or steering committee) sets the overall strategy of the facility. The executive body (operational board or executive committee), which is composed of the EC, MS and other donors, is responsible for approving individual grants. The technical body (Project Financiers' Group or Financial Institutions Group), which consists of financial institutions and the EC, establishes a common project pipeline and selects the projects to be presented to the executive body.[47] Each of the facilities has a secretariat, which is normally hosted by the EC, to support the executive bodies. In general, the EC channels grants through a lead financial institution, which is also responsible for monitoring the implementation of projects. The EC works with a broad range of IFIs and development banks. The four institutions that are most involved are the EIB, the largest implementer, the European Bank for Reconstruction and Development (EBRD), the Agence Française de Développement (AFD) and the Kreditanstalt für Wiederaufbau (KfW).

In the blending frameworks, decision-making is organised in a two-level structure, including: 1) Technical Assessment Meetings, chaired by the EC and with representatives of EC services, the EEAS and IFIs; 2) board meetings, chaired by the EC and with representatives of EC services, the EEAS, MS as voting members, and IFIs as observers.[48]

In December 2012, the EC has set up the EU Platform on Blending in External Cooperation (EUBEC) to further develop the EU's blending activities building on lessons learned.[49] EUBEC consists of a policy group, supported by seven technical groups. EUBEC is coordinated by a Secretariat staffed by the EC. The policy group is composed of representatives from the MS, the EEAS and the EC. The EP acts as an observer.

Since 2007, grants of EUR 2.7 billion have financed over 270 blended projects (i.e. the regional investment facilities, excluding the WBIF). Grants have leveraged approximately EUR 23 billion of loans by European financing institutions and regional development banks. Blending is estimated to have catalysed investment with a value of ca. EUR 50 billion. The most active facilities have been the NIF and the AfIF (and its predecessor the EU-Africa Infrastructure Trust Fund). The main sectors have been energy and transport (60%), social infrastructure (27%) and private sector support (13%).[50] The most common types of grants used in EU blending activities have been direct-investment grants, interest-rate subsidies, technical assistance and loan-guarantee schemes.[51]

Financial rules for blending are laid down in title VIII ("financial instruments") of the FR. Under the principles and conditions for financial instruments, Art. 140(2) FR enumerates requirements for financial instruments. Financial instruments should address market failures or sub-optimal investment situations, which are financially viable, but receive insufficient funding from market sources. Moreover, the article stresses the principle of additionality: "financial instruments shall not be aimed at replacing those of a Member State, private funding or another Union financial intervention". Financial instruments should also create a leverage effect: "the Union contribution to a financial instrument shall aim at mobilising a global investment exceeding the size of the Union contribution according to the

[46] The WBIF is an exception as it has two-tiered structure with a steering committee and a project financiers' group.
[47] European Court of Auditors (2014), p. 9.
[48] European Commission (2016c).
[49] European Commission (2016c).
[50] http://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en [accessed on 20/12/2016].
[51] European Court of Auditors (2014), p. 8.

indicators defined in advance". Financial instruments are established on the basis of an ex-ante evaluation that verifies whether these and other requirements are fulfilled. As for the impact of blending facilities on liabilities for the EU budget, Art. 140-3 FR states that the "budgetary expenditure linked to a financial instrument and the liability of the Union shall in no case exceed the amount of the relevant budgetary commitment made for it, thus excluding contingent liabilities for the budget."

2.6. THE EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT

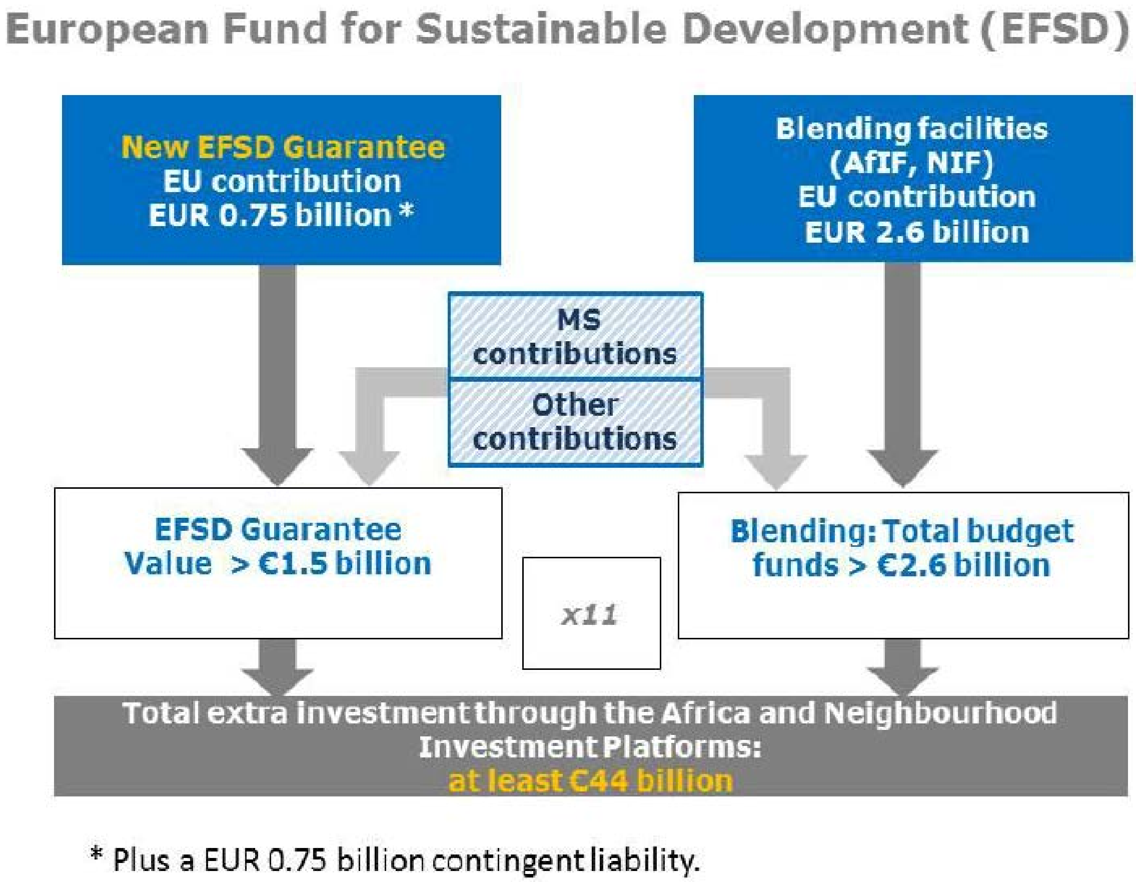
In the mid-term review/revision of the MFF 2014-2020, the EC proposes a European External Investment Plan (EIP), including a European Fund for Sustainable Development (EFSD). The EIP builds on the new partnership framework with third countries under the European agenda on migration. The main objective of the EFSD is to catalyse public and private financing to tackle the root causes of migration in the EU neighbourhood and Africa by supporting the UN 2030 Agenda and the Sustainable Development Goals (SDGs).[52] The other two pillars of the EIP are: 1) technical assistance for local authorities and companies; 2) structured political dialogue targeted at improving the investment climate and the overall policy environment.[53] The EIP draws on the experience made with the Investment Plan for Europe and the European Fund for Strategic Investments (EFSI).

As the first pillar of the EIP, the EFSD will consist of two Regional Investment Platforms (for the EU neighbourhood and Africa) and a new EFSD guarantee (Figure 5). The Africa Investment Facility (AfIF) and the Neighbourhood Investment Facility (NIF) will be refocused in line with the objectives of the EFSD and become the new Regional Investment Platforms. The platforms will have identical structures as the existing blending facilities. The creation of additional investment platforms for other regions is an option for the future. As a second component, the EFSD will offer a new guarantee to intermediary financing institutions in order to leverage additional financing, in particular from the private sector. An EFSD Guarantee Fund is to be established as a liquidity cushion to back the EFSD guarantee. Overall, the main idea behind the EFSD is to function as a "one-stop-shop", a single entry point for financial institutions and other public and private investors.

[52] European Commission (2016d), Proposal for a Regulation of the European Parliament and of the Council on the European Fund for Sustainable Development (EFSD) and establishing the EFSD Guarantee and the EFSD Guarantee Fund, COM(2016) 586 final, Brussels, 14.9.2016.

[53] European Commission (2016e), Communication of the European Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, Strengthening European investments for jobs and growth: towards a second phase of the European Fund for Strategic Investments and a new European External Investment Plan, COM(2016) 581final, Brussels, 14.9.2016, p. 11.

Figure 5: European Fund for Sustainable Development



Source: European Commission (2016e).

Funding for the EFSD will come from the EU budget and other sources, in particular the EDF. EU funds will total EUR 3.35 billion until 2020. However the EFSD will have a value of up to EUR 4.1 billion, including the EUR 750 million contingent liability adding to the EU budget and EDF contribution of EUR 750 million for the guarantee and the EUR 2.6 billion for the blending facilities. For the EUR 750 million EU contribution to the guarantee fund, the EC intends to propose the mobilisation of the contingency margin to provide EUR 250 million. Other contributions are to be mobilised by the use of redeployments or refocusing of programmed funds. Additional funds could come from MS and other sources. The EFSD is expected to mobilise up to EUR 44 billion of investments. If MS match the EU contribution to the guarantee, total investments could increase to EUR 62 billion. If they also match the contribution to the blending, total investment could reach up to EUR 88 billion.[54]

As the establishment of a guarantee bears a contingent liability for the Union, the EFSD requires adoption by a Regulation of the EP and the Council in ordinary legislative procedure. The EFSD will be supported by a secretariat managed by the EC. A strategic board will be co-chaired by representatives of the EC and of the High Representative of the Union for Foreign Affairs and Security Policy and include representatives of the MS and the EIB. The strategic board will give guidance in setting overall investment goals and ensure coordination and coherence between the Regional Investment Platforms and with the EIB External Lending Mandate, the EIB Resilience Initiative and the ACP Investment Facility. The EP would have observer status on the Strategic Board and the EC shall report on an annual basis to the EP and the Council.

[54] European Commission (2016e), p. 11.

Two operational boards will steer the Regional Investment Platforms. The boards support the EC in setting regional and sectorial investment goals as well as in defining investment windows according to regional, sectorial and thematic aspects. The boards also formulate opinions on blending operations and discuss the use of the guarantee. Public and private sector bodies would be eligible for funding under the EFSD and can submit proposals subject to eligibility criteria listed in article 8 of the proposed EFSD regulation.

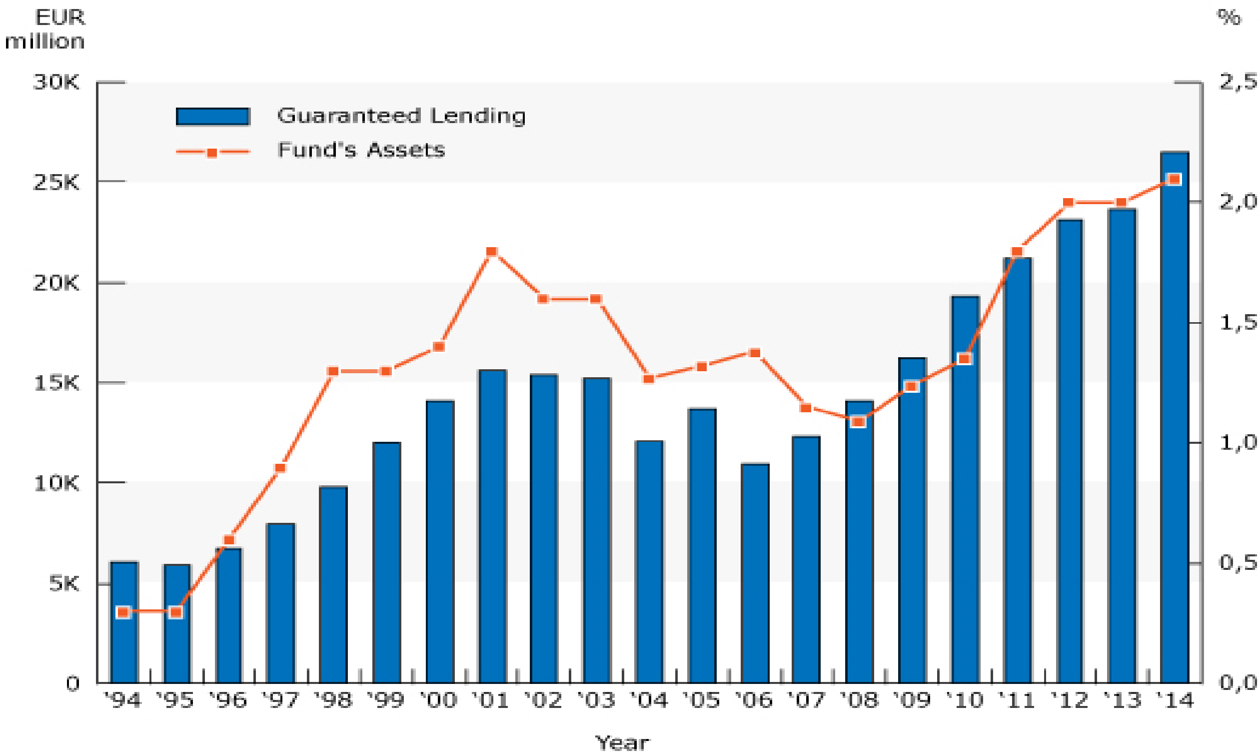
2.7. LOANS AND GUARANTEES COVERED BY THE GUARANTEE FUND FOR EXTERNAL ACTIONS

The GFEA was set up in 1994. It covers defaults on loans and loan guarantees granted to non-EU countries or for projects in non-EU countries. The GFEA pays creditors in the event of default by a beneficiary that received a loan or guarantee by the EU. The lending operations covered by the GFEA relate to three different instruments: EIB external lending, Euratom loans and Macro-Financial Assistance. The objective of the GFEA is to protect the EU budget against financial risks by serving as a "liquidity cushion" in order to avoid calling on the EU budget in the event of a default or late payment on a guaranteed loan. It also contributes to budgetary discipline by setting a framework for the EU's policy on guarantees for EC and EIB loans to non-EU countries.[55]

The EC has assigned the EIB with the financial management of the GFEA. The EC supervises this mandate and monitors the Fund. The GFEA's resources come from: 1) an annual payment from the budget of the EU (if needed); 2) interest on Fund resources invested; 3) 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, which is currently 9%. The amount in surplus of this rate is paid back to the EU budget.[56] Guaranteed lending (and correspondingly the Fund's assets) has increased since 1994 (Figure 6). At the end of 2014, guaranteed lending was about EUR 26.4 billion, and the assets of the Fund stood at about EUR 2.1 billion. In recent years, the conflict in Syria, the migration crisis and financial problems in Ukraine have put additional pressure on the GFEA.

[55] http://ec.europa.eu/economy_finance/financial_operations/market/index_en.htm [accessed on 21/12/2016].
[56] Council Regulation (EC, Euratom), No 480/2009 establishing a guarantee fund for external actions.

Figure 6: The Guarantee Fund for external actions



Source: EC website,http://ec.europa.eu/economy_finance/financial_operations/market/index_en.htm

The EC has proposed an amendment of the GFEA.[57] The amendment includes:

- An increase of the target amount from 9% to 10% to better protect the budget against potential additional risk of default of the EIB operations related to the migration crisis.
- Transferring the management of the GFEA to the EC in order to streamline and consolidate the asset management activities of the EC, which already manages the guarantee fund of the EFSI.

Similarly, the EC has proposed an amendment related to the EIB's external lending.[58] Currently, the EU provides a budgetary guarantee to the EIB covering risks of a sovereign and political nature to ensure adequate security for the EIB's lending operations and protect the EIB's credit rating. The EIB mandate represents around 90% of the portfolio covered by the GFEA. The proposed amendment aims to enable the EIB to contribute to the EIP "by expanding both quantitatively and qualitatively the EIB External Lending Mandate (ELM)". The EIB plays a key role in the EIP, notably via its implementation of the Resilience Initiative in the Southern Neighbourhood and Western Balkans and the EIB's operations in Africa under the ACP Investment Facility.

The amendment is proposed in a context in which guarantee arrangements for EIB lending face challenges, especially related to the migration crisis, Syria and Ukraine. The EC proposes:

[57] European Commission (2016f), Proposal for a Regulation of the European Parliament and the Council amending Regulation (EC, Euratom) No 480/2009 establishing a Guarantee Fund for external actions, COM (2016) 581 final, Brussels, 14.9.2016.

[58] European Commission (2016g), Proposal for a Decision of the European Parliament and of the Council amending Decision No. 466/2014/EU granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union, COM(2016) 583 final, Brussels, 14.9.2016.

- To introduce addressing root causes of migration as a fourth high-level objective in the EIB mandate (next to local private sector development, the development of social and economic infrastructure and climate change mitigation and adaptation)
- To release the optional EUR 3 billion mentioned in the current Decision with the same regional ceiling distribution as before. The EIB's support to the public sector of EUR 1.4 billion directed to refugees and host communities (i.e. building block 2 of the resilience initiative) should be included in the activated EUR 3 billion.
- To create an additional maximum ceiling for the EIB's private sector mandate amounting to EUR 2.3 billion, while introducing a comprehensive guarantee for the private sector operations directly linked to refugees and host communities, thus extending the EU guarantee to commercial risks. As a result of the new private sector mandate, the EU will be entitled to the risk premium revenues generated under EIB financing operations. Those revenues should be transferred to the GFEA as a fourth source of revenue.
- To allow increased flexibility to switch amounts under regional ceiling allocations (from currently 10% between regions to 20%), but only in the direction of high priority regions and not in the new EIB private sector mandate.
- To review the list of country eligibility: in particular, removing a number of high-income and high-investment grade countries.

Under the proposal, the overall ceiling for EIB financial operations will reach EUR 32.3 billion for the period 2014-2020.

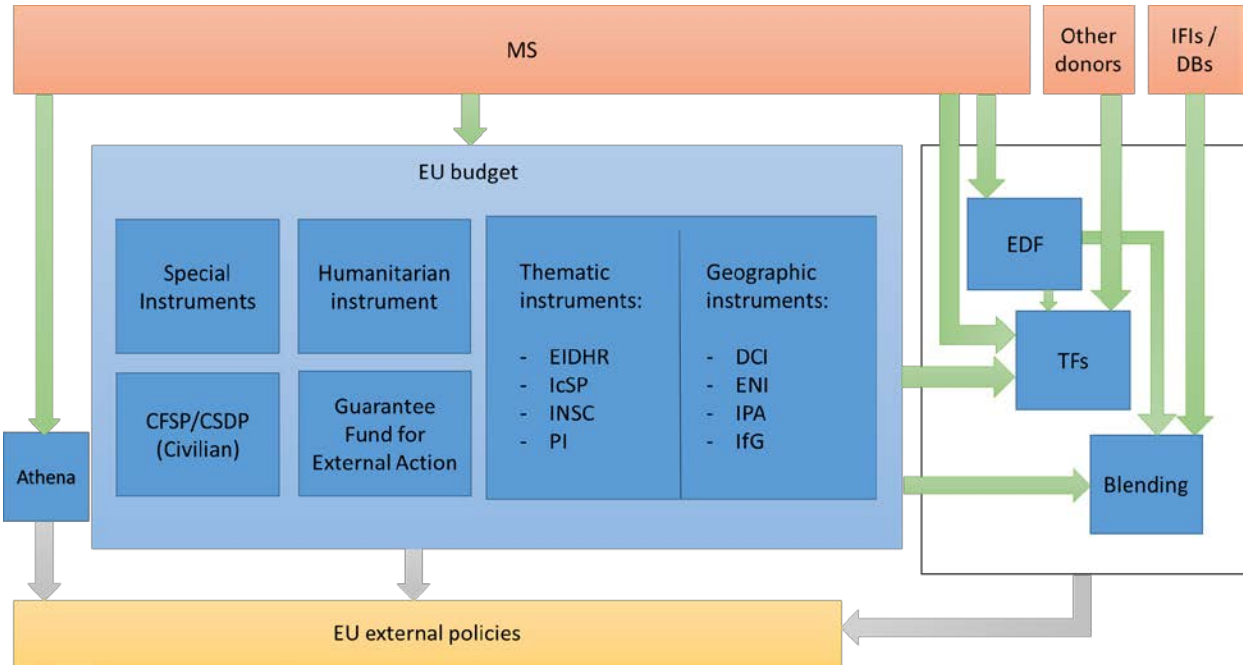
The EC is responsible for regular reporting on the GFEA to the EP, the Council and the ECA. The EC annually reports on the implementation of the mandate by the EIB to the EP and the Council. As part of the revision of the FR, the EC proposes a new section on guarantees to provide a common regulatory framework for the EU's guarantees bearing a contingent liability. Moreover, the EC proposes a common provisioning fund to limit the amount of cash to be held to cover calls on the guarantees provided by the EU budget. This common guarantee fund would cover funds for the EFSI, the EFSD and the GFEA. It would be managed by the EC.[59]

2.8. GRAPHIC OVERVIEW

The following figures display the architecture for financing EU external policies. The Facility, as a coordination mechanism, is not included in the figures. Figure 7 displays the general architecture for financing EU external policies. Figures 8 concentrates on the set-up concerning TFs. Figure 9 shows the EU's framework for external investment support, including proposed changes such as the EFSD and the common provisioning fund for guarantees.

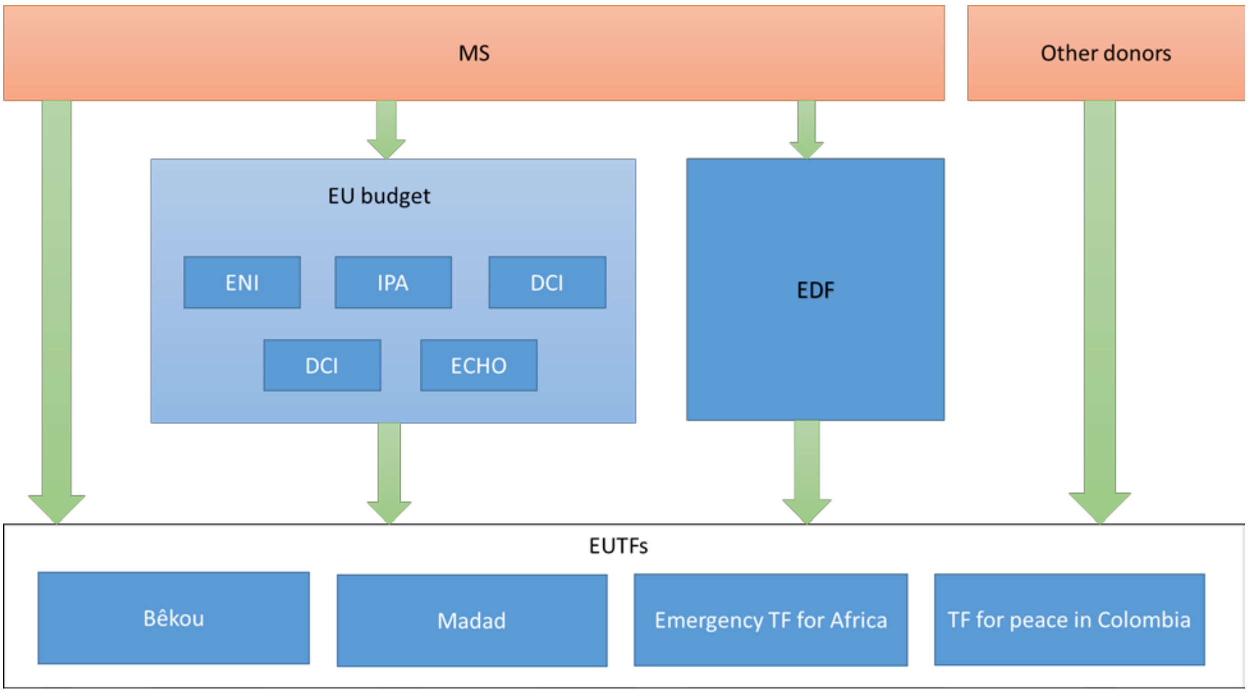
[59] European Commission (2016b), COM(2016) 605.

Figure 7: The architecture for financing EU external policies



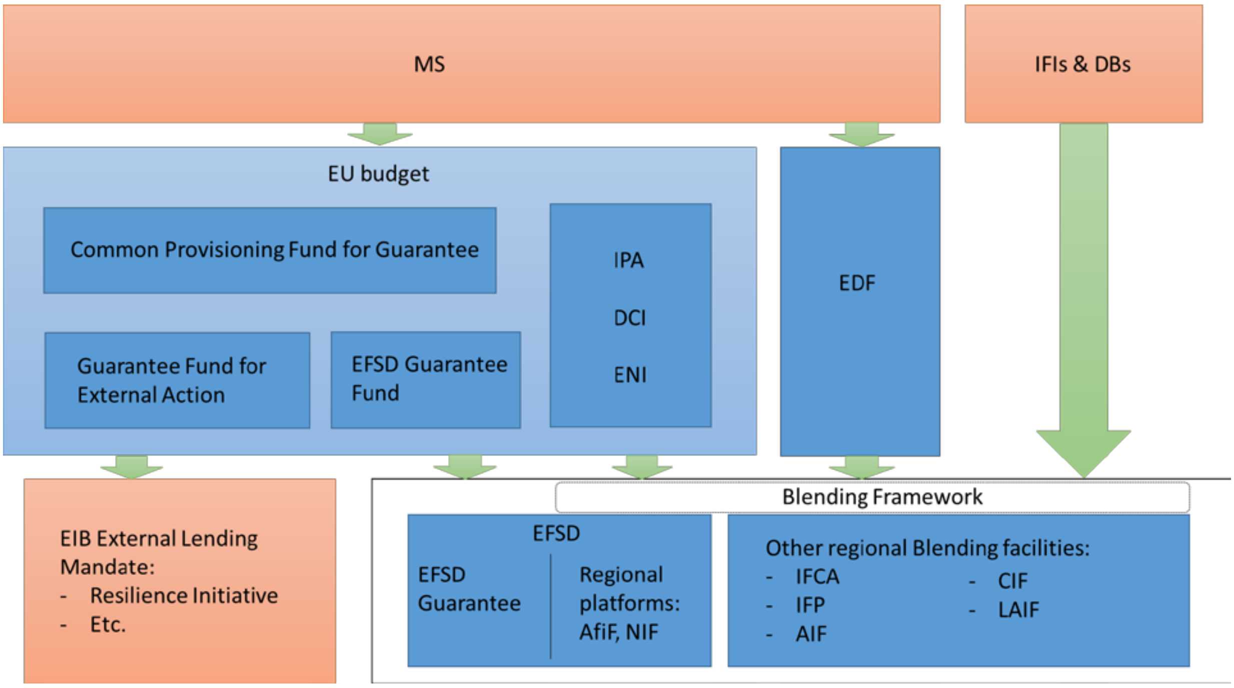
Source: author based on desk research

Figure 8: Contributions to the TFs



Source: author based on desk research

Figure 9: The new EU framework for external investment (according to the current proposal)



Source: author based on desk research

3. ASSESSMENT OF THE CURRENT SET-UP AND PROPOSED CHANGES

KEY FINDINGS

- The EDF has a distinct character outside the EU budget based on an intergovernmental agreement. Increasing alignment with EU financial rules has resolved some of the most important differences with the EU budget. Inclusion of the EDF into the EU budget would increase democratic oversight by the EP and enhance budgetary unity. However, budgetisation involves uncertainties about the level of development funding, the funding of the African Peace Facility and Brexit.
- TFs offer added value by increasing the visibility of EU funding, pooling resources, speeding up disbursements and allowing cooperation in difficult contexts (e.g. fragile states). TFs also present an opportunity to improve policy and practice in the EU.
- Blending facilities mobilise additional resources provided that the blending process is properly designed and managed.
- As a single entry point for potential investors, the EFSD has the potential to generate added value by reducing the complexity of the EU's instruments for investment support. In the future, the EFSD could gradually increase its scope to cover more investment-related EU instruments and regions.
- The establishment of new tools and mechanisms, even if they draw on existing instruments, creates room to renegotiate the programming and management of funding.
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- The multiplication of tools and mechanisms may lead to duplication, even though there are legal and practical safeguards to prevent overlaps. Coherence between all the instruments is not always clear.
- The quantity of EU blending facilities adds to the complexity around the EU budget and might contribute to fragmentation.
- There is no evidence that any of the elements contributing to the EU external policies may replace or duplicate one another. They all seem to respond to different situations and must be assessed in their own context. For some elements, such as the TFs and the blending facilities, further reflection on the modalities of the use could be beneficial with a view to increasing coherence.
- Rapidity and flexibility in funding come with risks, such as diversion of funding and short-cutting stakeholders consultations. Funding may easily follow the immediate political agenda more than long-term development goals.
- The role of the EP is generally limited with regard to the new tools and mechanisms.

3.1. INTRODUCTION

This section provides an assessment of the architecture for financing EU external policies and proposed changes based on the overview presented in the previous section. As the previous section has shown, the EU's financing for external policies has been subject to considerable change over recent years. In the context of the mid-term review of the MFF, the proposed revision of the FR and the preparation of the next MFF, the reform dynamic can be expected to remain strong in this area. The focus on new challenges and crises, especially the migration crisis, has been a major driver of change and the establishment of new instruments aiming at re-prioritising or mobilising more resources and increasing flexibility of funding. However, room for re-prioritisation and change of financial rules in the mid-term of a MFF is for a number of reasons constrained. The MFF reflects funding priorities at the time of adoption, and adjustment midway can only be limited.[60] As a consequence, the architecture for financing EU external policies has become more complex, balancing the need for innovation and the respect of budgetary rules.

This section assesses the existing setup and proposed changes in the light of a limited number of key criteria. First, it analyses the rationale for the creation of recent or new tools and mechanisms and assesses their added value compared to operating according to the usual programming and implementation processes of financing instruments in the EU budget. As a closely related issue, this sub-section is preceded by a review of the arguments for and against budgetisation of the EDF. Second, this section analyses to what extent growing complexity has resulted in more fragmentation. In this regard, the sub-section also assesses to what extent new tools and mechanisms and proposed changes contribute to balancing growing complexity by contributing to coherence and coordination of EU external financing. Third, this section discusses to what extent new tools and mechanisms and the budgetary architecture as a whole allow for more flexibility and simplification in financing EU external policies. This is indicated as one of the main objectives of recent and proposed changes. Finally, this section looks into the challenge of democratic oversight and budgetary scrutiny in a context of increasing complexity.

3.2. INSIDE OR OUTSIDE THE EU BUDGET: WHAT ADDED-VALUE?

This section assesses the rationale of new tools and mechanisms and other proposed changes. The objective is to identify their added value in combining resources from the EU budget and from sources outside the budget compared to working only with the financing instruments of the EU budget. Before dealing with recent or new elements, this part reviews the arguments for and against the added value provided by the EDF outside the EU budget.

3.2.1. The budgetisation of the EDF

The EC and the EP have repeatedly expressed their preference for budgetisation, i.e. the inclusion of the EDF in the EU budget. This has so far been prevented by a lack of agreement among MS. In a recent resolution, the EP states "*that the simultaneous expiry of the Cotonou Agreement and of the Union's multiannual financial framework (MFF) provides an opportunity to finally decide on the budgetisation of the European Development Fund in order to enhance efficiency and effectiveness, transparency, democratic scrutiny, accountability and the visibility and coherence of EU development financing*".[61] In the Interinstitutional Agreement of 2 December 2013, *"[t]he European Parliament and the Council note that*

[60] European Court of Auditors (2016b), EU budget: time to reform? A briefing paper on the mid-term review of the Multiannual Financial Framework 2014-2020, 28.10.2016, p. 11.

[61] European Parliament (2016a), Resolution of 4 October 2016 on the future of ACP-EU relations beyond 2020.

the Commission […] intends to propose the budgetisation of the EDF as of 2021."[62] In the mid-term review of the MFF 2014-2020, the EC states that it "*will carefully analyse the way forward for the budgetisation of the European Development Fund*".[63]

The following paragraphs summarise the main arguments in the discussion about EDF budgetisation.[64]

The initial rationale for establishing the EDF outside the EU budget is related to the post-colonial ties of some MS at the time of the EDF's creation in 1958. Although, this initial rationale is now out-dated, there are still arguments supporting the added value of the EDF outside the EU budget and challenges that could stand in the way of budgetisation.

- **The EDF as a cornerstone of the ACP-EU partnership:** Embedded in the Cotonou agreement, the EDF is part of a special relationship with partner countries differing from other EU financing instruments for development. The agreement is legally binding and provides a joint institutional framework in which ACP States deal as a united block with the EU and have a stronger say in issues such as programming. Moreover, the agreement combines development cooperation with trade and political dialogue under a common framework. The ACP-EU framework has lost some of its appeal (criticism of insufficient results, lack of political interest, regionalisation of the trade pillar, etc.). Nevertheless, the relationship still has properties of a privileged partnership that might be undermined by inclusion into the general budget. The EP points out that "the privileged partnership can be maintained within the EU budget where the geographic focus of a budgetised EDF can be designed so as to reflect and promote the privileged ACP-EU relationship".[65]
- **Perceived risk of overall decrease of the EU development budget:** An open question of budgetisation is the impact on the overall EU budget. Currently, the EU budget is capped at 1% of EU GDP. Including the EDF into the budget would result in either an increased EU budget above this limit or a reduced development budget. The EP makes budgetisation conditional on "*a guaranteed ring-fencing of developing funds to maintain the level of financing for developing countries*".[66]
- **The EDF can accumulate reserves:** An added value of the EDF compared to the EU budget is its ability to use funds over several years. At the same time, the need to accumulate reserves is often caused by inefficiencies in disbursement. Moreover, proposed changes to the FR, if accepted, would allow the use of margins and carry overs within certain limits in the EU budget.
- **Funding of the Africa Peace Facility (APF):** Article 41(2) of the Lisbon Treaty prevents the use of the EU budget for military missions. Including the full EDF in the budget would make it difficult to continue those parts of the EU's support to the APF that fund military operations. Alternative solutions to continue this funding would be required. The EP makes budgetisation conditional on "*a permanent and separate solution for EU financing for security expenses that are linked to and in coherence with development cooperation*".[67]**Brexit:** In terms of size of contribution, the UK is the third most important donor to the 11th EDF (ca. 15% of

[62] Interinstitutional Agreement of 2 December 2013 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, para. 26.

[63] European Commission (2016h), Communication from the Commission to the European Parliament and the Council, Mid-term review/revision of the multiannual financial framework 2014-2020. An EU budget focused on results, SWD(2016) 299 final, Brussels 14/9/2016.

[64] This part reflects arguments drawn from the various resources referenced here and interviews.

[65] European Parliament (2016a).

[66] European Parliament (2016a).

[67] European Parliament (2016a).

contributions). The prospects for continued UK contributions to the EDF are stronger with the EDF remaining outside the general EU budget. If the EDF is included in the general budget without UK contributions, these resources would have to be paid by other MS or the EDF be reduced.

In contrast, there are arguments in favour of budgetisation, suggesting that the added value of the EDF outside the EU budget is becoming smaller:

- **More predictability and streamlined budgeting:** The inclusion of the EDF in the EU budget would improve continuity. Currently, the EDF depends on voluntary contributions by MS and each new EDF requires ratification by national parliaments and negotiation of transitional measures (i.e. 'bridging facilities'). Moreover, with the EDF inside the general budget contributions would be based on the EU budget key and the actual GDP of MS in that year (instead of a fixed contribution key for the entire commitment period).
- **Stronger democratic legitimacy and scrutiny:** The EDF is the only financing instrument of the EU's development policy that is not subject to authorisation by the EP. As part of the general budget, the EDF would be subject to the ordinary decision-making procedure in which the Council co-legislates with the EP. Incorporation in the budget would strengthen democratic scrutiny of implementation. Inclusion of the EDF into the budget would increase the profile of the EP's development committee.
- **Rationalising organisational structures and policy capacity:** Budgetisation could allow for rationalisation of certain structures in EU development policy (e.g. separate committees for EDF and other instruments for development cooperation). Gains in terms of re-organisation appear limited. Structures in DEVCO, for instance, do not really make a difference between ACP and non-ACP.
- **Increased efficiency of EU development cooperation:** The need for each EDF to have its own financial regulation increases complexity. However, potential gains of including the EDF under the FR should not be overestimated as the financial regulation of the 11th EDF is already closely aligned to EU budget rules for external action.
- **Improved flexibility of EU development finance:** The EDF currently protects budget allocations to ACP countries, which can be a challenge, for instance when financing regional initiatives involving ACP and non-ACP countries (e.g. Sahel, Gulf of Aden). Inclusion into the EU budget could allow more flexibility in managing funds in response to evolving priorities.

In general, differences between the EDF and the EU budget are partly being reduced by the progressive alignment of the EDF with the EU budget (in terms of financial rules and the contribution keys). Therefore, conditions for budgetisation in 2021 are in place, provided that MS agree. MS could have an interest in safeguarding their influence over decision-making on development cooperation with ACP countries. In the EDF, MS have more decision-making power, which they would have to give up in case of budgetisation. However, MS have different positions as budgetisation would have varying consequences for them, especially with regard to contributions (although the EDF contribution key has been further aligned with the EU budget key).

Overall, the decision on budgetisation will be closely linked to the future of EU-ACP relations.[68] The Cotonou agreement will expire in 2020. A changed ACP-EU relationship could follow different

[68] Eric Pichon (2016, December), "ACP-EU relations after 2020. The end of an era", Briefing, European Parliamentary Research Service..

scenarios.[69] There has already been a public consultation on the issue and the EU negotiation position will be agreed in 2017, with negotiations having to start no later than August 2018. A joint communication by the EC and the High Representative of the Union have called for "*a more targeted and flexible partnership*" that preserves the advantages of the current agreement while adapting to a new global context. The communication highlights three options: 1) a substantially revised partnership with the ACP group, 2) full regionalisation through three separate regional partnerships (with Africa, the Caribbean, the Pacific) and 3) an umbrella agreement with three distinct regional partnerships for Africa, the Caribbean and the Pacific and closer involvement of other countries. The communication shows a preference for an umbrella agreement.[70] EP consent will be required for the agreement. The EP has called for a legally binding ACP-EU framework with regional agreements and repeated its call for inclusion of the EDF in the budget.[71]

3.2.2. The rationale behind the creation of new instruments

The Facility for Refugee in Turkey

The Facility illustrates the EU recognition of the fact that Turkey had many expenses in hosting refugees. Besides increasing the visibility of the EU response, the Facility was meant to increase the level of funding for Turkey, and all the MS have committed their pledge. The idea was not to create a new instrument because the already existing instruments were considered sufficient. However, a coordination mechanism was missing to give the general direction to the EU response to the refugee crisis in Turkey.

The EU external Trust Funds

The possibility to create TFs is based on the idea that pooling resources would increase coordination and cooperation among donors, and avoid fragmentation and disorganisation of the response of the international community. The general objectives can be summarised as: 1) increase visibility of EU funding; 2) strengthen the efficiency of funding; and 3) faster decision-making.[72]

Visibility is a central objective of TFs. The role of the EU as a coordinator of international aid needs to be more visible. The mediatisation of the TFs contributes to this visibility. Besides, it also increases EU visibility vis à vis partner countries, that only have to deal with one stakeholder to discuss project funding instead of having to discuss with multiple donors.

The second and third points on efficiency and fast decision making are very much linked in terms of coordination of funding, and the flexibility and speed in delivery of aid. The main added-value of the TFs lies in their flexibility and speed in providing funding, as well as the opportunity and potential for innovation in external aid that they represent.[73] TFs are also seen as a tool providing for the possibility to direct funding at countries that may otherwise not receive as much funding. This would, for example,

[69] For a deeper analysis of different scenarios for the post-Cotonou agreement see: Jean Bossuyt et al. (2016, September), Exploring scenarios for the future of ACP-EU Cooperation: an analytical tool for informed choices, ECDPM.

[70] European Commission and High Representative of the Union for Foreign Affairs and Security Policy (2016), Joint communication to the European Parliament and the Council. A renewed partnership with the countries of Africa, the Caribbean and the Pacific, JOIN(2016) 52 final, Strasbourg, 22.11.2016, p. 25.

[71] European Parliament (2016a).

[72] Hauck et al. (2015)

[73] Castillejo, C. (2016), The European Union Trust Fund for Africa: A Glimpse of the Future for EU Development Cooperation, Discussion Paper 22/2016, German Development Institute.

be the case for countries where the risks are high (fragile states, emerging from war, etc.). The joint intervention, while not reducing the risks, reduces the public exposure if the risks materialise.[74]

Another argument put forward by the EC is that the creation of the TFs will increase available resources and attract non-EU donors. The initial idea for each TF is that the contributions of MS match the contribution from the EU budget and that other donors participate. So far, there have been several non-EU donors such as Switzerland, Norway and Turkey (for the Madad Fund). Regarding the expectations that MS contributions would match the EU contribution, the current situation is still far from this target. For some of the TFs (such as Madad and the Emergency TF for Africa), many MS have contributed only the minimal EUR 3 million allowing for voting rights when discussing the orientation and projects. The main argument put forward by MS is that they already contribute to the EU budget and consider matching EU funding a duplication.[75] One also has to keep in mind that many MS provide bilateral aid as well. This may explain the reluctance of some MS to provide additional resources to the TFs.

Focussing on the Emergency TF for Africa, Castillejo (2016) notes several rationales behind the creation of TFs. Some MS see the TF as a tool in order to leverage more cooperation from African partners on migration issues, while this is not considered as a realistic possibility for EU officials. Other MS see the TF as an alternative source of funding for their national development agency. From the EU side, some think that the use of TF may be a tool to kick start new approaches to international aid in the area of migration, but views vary within EU institutions.

Finally, Castillejo (2016) finds broad agreement that the Emergency TF for Africa is a political communication tool. The Emergency TF for Africa was created very quickly with the constitutive agreement signed at the Valetta Summit on migration in 2015.[76] L. den Hertog (2016) partly explains the establishment of new funding instruments with the intention of conveying the image that the crisis is being managed "because of the assumed strong link between funding and implementation".[77] While this is certainly not the only reason new instruments were created, this is something to keep in mind when looking at the tools and mechanisms created in response to a crisis, such as the TFs and the Facility. The Facility for Refugees in Turkey is a good example of the political rationale. The Facility has been created to respond to the refugee crisis at a very critical moment for the EU with the announcement of big amounts of funding when the refugee crisis was the main issue for many member states.

MS preferences for TFs may depend on their capacities to disburse aid on their own. Pooling resources in a TF may be more attractive to MS with small capacity than to MS with big capacity.[78] However, the fact that some MS consider TFs as potential sources of funding for their national aid agencies suggests that even MS with strong capacities also see added-value in using the TFs. Finally, a briefing from the European Centre for Development Policy Management concludes that there has not been enough reflection on how to use the TFs, and how to better frame the work of the EU through TFs.[79] Castillejo

[74] Reinsberg, B., K. Michaelowa, and V. Z. Eichenauer (2015), The rise of multi-bi aid and the proliferation of trust funds, Handbook on the Economics of Foreign Aid, pp. 527-554.
[75] Castillejo (2016)
[76] See also Collett E. (2016, January), EU cooperation with third countries: rethinking concepts and investments, Forced Migration Review No 51.
[77] Den Hertog, L. (2016, May), EU Budgetary Responses to the 'Refugee Crisis' Reconfiguring the Funding Landscape, *Liberty and Security No 93*, CEPS.
[78] Hauck et al. (2015)
[79] Hauck et al. (2015)

notes a lack of 'appetite' from MS to create future TFs. This may suggest that MS do not favour TFs over traditional aid instruments.[80]

Blending facilities

The main rationale for channelling funds from the EU budget through facilities is to combine them with resources from other stakeholders (in particular loans from IFIs and Development Banks). The key argument to justify the added value of this type of mechanism is embodied in the principle of "additionality".[81] Additionality means that the investment benefiting from the injection of a grant element would not have taken place in the absence of the grant element. As a further aspect of additionality, the grant element should make a difference beyond just the decision to invest. Blending should have an influence on project design and management as well as investment-related standards (e.g. limiting negative externalities of projects, capacity development, increasing ownership of developing countries). Finally, additionality refers more generally to the crowding-in of additional investment as a result of the demonstration effect of successful investments.

On the basis of additionality, blending facilities provide a clear added value and offer opportunities for mobilising additional funding.[82] Therefore, the central challenge of blending is to make sure throughout the blending process (from ex-ante assessments, project selection, design, implementation to evaluation) that investments are additional. As a result, blending involves long and more cumbersome procedures, transaction costs and coordination requirements with different stakeholders. The choice of blending (rather than simply disbursing grants or loans) needs to be well founded.

Failure to ensure additionality exposes blending to several risks. If grants are used for loans that would have been viable under market conditions, blending risks crowding out private financing and distorting markets. Insufficient engagement of the grant donor and final recipients might also undermine the policy objectives of the grant-giving instruments in the EU budget (in particular, development policy objectives). Blending could also increase debt exposure of already highly indebted countries, reduce their fiscal space and increase their exposure to volatile international financial markets.

The ECA Special Report on blending underlined the centrality of additionality. The report considered the EU's blending facilities generally effective. At the same time, the ECA pointed out that potential benefits of blending had not been realised due to EC management shortcomings.[83] According to the ECA, grant application processes and monitoring had not been sufficiently focused on ensuring the added value of grants. In some cases, there was a lack of convincing analysis that a grant was necessary for the financial institutions to contract the loans. Moreover, the EC did not capitalise sufficiently on the opportunity to influence the design of projects. The ECA concluded that, for nearly half of the projects examined, there was insufficient evidence to consider that the grants were justified while, for a number of these cases, there were indications that the investments would have been made without the grant.

[80] Castillejo (2016)

[81] Sebastian Große-Puppendahl and San Bilal (2016, December), Blending 2.0: Towards new (European External) Investment Plans, ECDPM Discussion Paper No. 207, pp. 3/4.

[82] The general debate on blending has been going on for several years now and has highlighted opportunities and risks of blending. See, for instance: European Think Tanks Group (ETTG) (2011, January), EU Blending Facilities: Implications for Future Governance Options; San Bilal and Florian Krätke (2013, October), Blending loans and grants for development: an effective mix for the EU?, Briefing Note No. 55, ECDPM; Große-Puppendahl and Bilal (2016, December).

[83] European Court of Auditors (2014), pp. 25/26.

The ECA's main recommendations to the EC were to improve the assessment of the added value of grants and to be more proactive in identifying and selecting projects. Moreover, the ECA recommended improving monitoring of EU grant implementation, including the establishment of a results-measurement framework.

Since the ECA Special Report, the EC has built on lessons learned and guidelines provided by the EU Platform on Blending in External Cooperation (EUBEC). For instance, the EC has updated the templates for project proposals to better ensure additionality of grants. Moreover, an evaluation of blending will be published in 2017.[84] The EP supports the expansion of EU blending activities, provided that ECA recommendations are implemented. In a resolution on the role of the private sector in development, the EP stressed additionality and consistency with development effectiveness principles and policy objectives as key requirements. The EP called on the EC to further strengthen its management capacities, to democratise the governance structure of the EU Blending Platform and the regional blending facilities, by properly engaging with all relevant stakeholders, to strengthen the criteria for setting up grants and establishing their amounts, and to specify in detail the added value of blending in each of its projects.[85]

The European Fund for Sustainable Development

The declared rationale of the EFSD is to serve as a "one-stop-shop" to receive financing proposals from financial institutions and public or private investors. The objective is to facilitate investments in the EU neighbourhood and Africa by offering a single entry point for proposals and to deliver a wide range of financial support. The two components of the EFSD, the regional investment platforms and the EFSD guarantee, combine resources from the EU budget (grants, guarantees) with resources from other stakeholders aiming to invest in the two regions.

As a single entry point for potential investors, the EFSD has the potential to generate added value by reducing the complexity of the EU's framework for investment support. The current proposal would be a step towards achieving this ambition. The two regional investment platforms bring together the two existing regional investment facilities for Africa (AfIF) and the EU neighbourhood (NIF). Yet, they do not yet incorporate other EU blending facilities in the concerned regions (e.g. the ACP Investment Facility and potentially other thematic investment facilities). Similarly, other relevant funding mechanisms are outside the EFSD (in particular, the EIB External Lending Mandate, including the EIB's Resilience Initiative). As a result, the proposed EFSD would not yet be a complete "one-stop-shop" for investments in the EU neighbourhood and Africa. The immediate added value of the EFSD rather lies in its pioneering role of testing a new approach of bringing together different mechanisms.

[84] Interviews.

[85] European Parliament (2016b), Resolution on Private Sector and Development, Strasbourg, 14. April 2016.

3.3. COHERENCE AND COORDINATION VS FRAGMENTATION OF EU EXTERNAL FUNDING

This section looks into the coherence of the current setup for financing EU external policies. An important question in this regard is to what extent new tools and mechanisms and proposed changes promote coherence and coordination or entail a risk of fragmentation. Coherence and fragmentation refer to different levels, including the overall structure and unity of the budget, the coherence of external policies and funding instruments as well as coordination between different institutions, MS and other stakeholders at the level of decision-making and implementation.

The Budgetisation of the EDF

The impact of EDF budgetisation would generally be positive from the perspective of coherence. Budgetisation would integrate all major financing instruments for EU development policy in the EU budget and respect the principle of budgetary unity. In terms of coherence of external policies and financing instruments, budgetisation might not lead to major changes since the EDF and the ACP-EU relationship are already embedded in the common principles and objectives set out in the EU treaties and EU development policy documents. Some limited gains in terms of coherence could be expected from a re-organisation of institutional structures, such as separate committees for the EDF and other financing instruments. EDF budgetisation could contribute to improving the management of overlaps between different EU financing instruments for development cooperation. This could enhance the EU's coherence in regions and thematic areas covered by the EDF and other instruments from the EU budget, especially with regard to Africa and the EU neighbourhood.

The EU Trust Funds for external affairs

In the case of the EU's geographic financing instruments, coordination among stakeholders, including the partner country, is usually addressed during the programming phase. This is a rather long process that does not take place systematically in the case of TFs. As Castillejo (2016) points out, for the EDF there is joint programming but no joint decision-making, and for the TFs it is the reverse: i.e. joint decision-making but no joint programming.[86] The rapid disbursement of funds does not seem compatible with the lengthy programming process. Decision-making is necessarily collective because of the political stakes. Coordination and coherence in TF activities is not looked at as extensively and is assessed on a case by case basis. However, coherence regarding the objectives is not always very clear. Collett (2016) notes that "*a review of the core goals of the EU regional Fund in Response to the Syria Crisis (Madad) reveals significant overlap with the core goals of the Regional Development and Protection Programme in the Middle East*", and further completes "*meanwhile the UN-led regional Refugee and Resilience Plan (3RP) for the Syria region remains severely underfunded in the same area of sustainable livelihoods*".[87] While this in no way means that there is an absence of cooperation between the UN and the EU, this raises some questions about the necessity to create new tools, while others with similar objectives (though managed by a different entity) remain underfunded. However, it is in the EU's interest in terms of visibility to manage its own TFs instead of channelling funding to a UN-managed programme or fund. It is not certain that MS would contribute to the same extent if the funds were not managed by the EU. It is also argued that the speed at which some of the TFs were established, and especially the TF for Africa, raised concerns about strategy and complementarity with existing processes and programmes.[88] In general, Castillejo (2016) notes a widespread scepticism among the stakeholders interviewed about the establishment and utility of that TF.[89] The coherence of TFs is often

[86] Castillejo (2016)
[87] Collett (2016)
[88] Faure R., Gavas M., Knoll A. (2015), Challenges to a comprehensive EU migration and asylum policy, Report, ECDPM, ODI.
[89] Castillejo (2016)

questioned because they are created as emergency mechanisms and aim to address medium and long-term issues, such as migration. (Castillejo, 2016; Faure et al., 2015). On the response of the EU to the refugee crisis, Faure et al. (2015) find that "*short-term approaches have failed to address the long-term nature of the problem*",[90] and links this to the speedy creation of new tools, lacking reflection on the strategy to address short, medium and long-term objectives.

Besides potential additionality of new tools, it appears that the TFs do not replace the traditional instruments for external funding. According to the EC, TFs are very unlikely to replace other EU funding tools. The TFs do not duplicate the existing mechanisms that provide bilateral funding to third countries. Rather, they fill the gaps in funding and allow to focus more on the current problems. TFs are seen as complementing the traditional aid channels, rather than replacing them. However, this may change in the future.[91] Faure et al. (2015) note that the multitude of already existing instruments created fragmentation at country level, leading to situations in which "*partner countries and regions have numerous programmes, each with different terms and conditions*".[92] This fragmentation is not attributed to the use of new tools. It is rather the result of years of proliferation in programmes and instruments in general. Reinsberg et al. (2015) note in a paper on TFs that there is no proof of less donor fragmentation, nor proof of increased fragmentation. This statement does not mean that the EU's external funding architecture is not fragmented. The TFs simply do not modify the already existing fragmentation of EU external funding instruments.

The Facility for Refugees in Turkey

As noted previously, the Facility was created precisely to coordinate EU funding. A small team based at DG NEAR is preparing the meetings of the steering committee of the Facility. It also coordinates with other donors regarding programming and liaises with MS. One of its objectives is to make sure that there is no overlap in the projects funded by the EU primarily, but also that this articulates well with what MS and non-EU donors are funding. Ensuring coordination and coherence with other instruments takes the form of agreements, for example, that ECHO focuses on informal education, leaving formal education to be funded by other instruments financed through the Facility. Funds are then managed like regular projects by the corresponding instruments. However, for visibility purposes, it is made clear when the contract is signed with the implementing partner that the project is part of the Facility. The main impact of the creation of the Facility for the instruments is an increased amount of funding (because of the additional EUR 2 billion coming from the MS).

Blending facilities

The quantity of EU blending facilities adds to the complexity around the EU budget and might contribute to fragmentation. As far as regional blending facilities are concerned, the ECA considers it "appropriate to have eight different regional investment facilities instead of one global investment facility".[93] The facilities have different structures for combining the funding from different donors and channelling it to projects. Moreover, the instruments providing grants have different legal bases and the regional focus of blending facilities corresponds to the allocation of responsibilities for geographic zones in the EC and IFIs. The parties represented in the governance bodies may also vary from region to region. However, if other mechanisms (thematic, ACP Investment Facility, etc.) are added, the picture of EU blending becomes difficult to oversee. Moreover, some regional investment facilities, are rather

[90] Faure et al. (2015), p9
[91] Reinsberg et al. (2015)
[92] Faure et al. (2015), p 20
[93] European Court of Auditors (2014), p. 13.

small in terms of number of projects and grants. For instance, the Investment Facility for the Pacific (IFP) has granted approval for two EIB-lending operations since 2012.[94]

The blending frameworks are a step towards consolidation of regional blending facilities. Blending frameworks related to the grant-providing instrument (DCI, ENI, IPA, EDF) provide common rules and guidelines for the facilities. However, in some cases frameworks risk adding just an additional layer of governance structures and coordination requirements. For instance, the framework of the ENI only covers the NIF. In contrast, the WBIF does without the distinction between framework and facility. In other cases, frameworks do not include all EU blending facilities operating in the concerned region. For instance, the EDF framework covers the AfIF, the CIF and the IFP, but not blending in the ACP Investment Facility.

The EFSD, including the AfIF and the NIF with a possible extension to other regional blending facilities, might have the potential to bring more coherence into the complex landscape of blending facilities. In the future, it could be considered to review the scope for re-organisation and consolidation of blending facilities, which would also depend on other issues (e.g. the future of the EDF).

At the level of decision-making and implementation, blending facilities serve a clear purpose of facilitating coordination among diverse stakeholders in projects. There are also opportunities involved to achieve greater aid effectiveness by pooling and matching of funds and better coordination among the EC, MS and IFIs.[95]

The European Fund for Sustainable Development
As a "one-stop-shop", the EFSD is clearly designed with the ambition to improve coherence and coordination. By serving as an umbrella for different mechanisms for blending and risk sharing to support investments, the EFSD has the potential to enhance coherence and coordination among these mechanisms. On the basis of the current proposal, this ambition would only be partially fulfilled as many external, investment-related facilities and initiatives would still be outside the remit of the EFSD (EIB Resilience Initiative, ACP Investment Facility, etc.). Under the current proposal, the EFSD strategic board would have the task to ensure coherence and coordination with these other mechanisms. In the long term, the EFSD could also have strong potential to improve coherence by extending its scope beyond the EU neighbourhood and Africa in support of the SDGs globally.

The EFSD also provides the context for proposed amendments to the FR to bring financial instruments, budgetary guarantees and financial assistance under a single regulatory framework.[96] The main objective is to ensure consistency and facilitate the combination of instruments. The current proposal plans to regroup common principles under a new Title X and to introduce more specific rules for budgetary guarantees and financial assistance. A number of common principles would apply to financial instruments, budgetary guarantees and financial assistance (establishment by a basic act, possibility of other contributions, application of the rules related to indirect implementation). Further common principles would exist for financial instruments and budgetary guarantees.

[94] http://ec.europa.eu/europeaid/regions/latin-america/caribbean-investment-facility_en [accessed 09/01/2017]
[95] Bilal and Krätke (2013, October), p. 5.
[96] European Commission (2016b), COM(2016) 605.

3.4. FLEXIBILITY AND SIMPLIFICATION

Achieving more flexibility and simplification is one of the declared ambitions of proposals related to the mid-term review of the MFF and the FR. The objective is to make the budget more agile in responding to new challenges and unforeseen crisis.

3.4.1. The proposals to increase flexibility of the EU budget

The introduction of "flexibility cushions" in the DCI, ENI and IPA raises questions about the predictability and long-term commitment of the EU's geographic cooperation instruments. The initial purpose of these instruments is to finance stable cooperation programmes, enabling the ownership and involvement of partner countries and different stakeholders in these countries. The performance of these instruments relies on a sustained, long-term effort to promote development and reforms in partner countries.

Other instruments are endowed with a more appropriate mandate to flexibly address short- to mid-term challenges and crisis management. These include humanitarian assistance, the CSDP budget and thematic instruments such as the IcSP. Alternatively, an expansion of the DCI's thematic programmes could be an option as these programmes are suited for flexible adjustments. For instance, they can be used in all geographic areas of the DCI, ENI and the EDF. In particular, the DCI's Global Public Goods and Challenges (GPGC) programme could be used to enhance the EU's ability to address new challenges.

Overall, current proposals, including the expansion of special instruments, would increase flexibility across a broad range of instruments in the EU budget. This will improve the EU's ability to respond to new challenges and unforeseen crises. Yet, future decisions on increasing flexibility should be based on a thorough analysis of which instruments are best suited, by their mandate and intervention logic, to achieve flexibility. Moreover, more reflection and strategic orientation on the right balance between flexibility and long-term cooperation is needed. Reducing long-term development cooperation with partner countries for the benefit of ad hoc measures might only increase the likelihood of crises in the future.

EDF budgetisation might also contribute to increased flexibility in funding development cooperation. In particular, budgetisation could expand the scope to react to shifting priorities between countries and regions and managing overlaps between different geographic zones. The EDF's current advantages in terms of flexibility (carrying funds over several years and accumulating reserves) are diminishing in the light of EC proposals for maximising the use of margins and carry-overs of unallocated funds in the EU budget. According to these proposals, the ceilings in any given year could be exceeded as long as the overall ceilings for the whole period are respected. According to the ECA, these proposals would add to the complexity of the system and call into question key principles of the EU budget (annuality, use of funds for different purposes than determined by the initial assignment).[97]

[97] European Court of Auditors (2016b), p. 12.

3.4.2. The advantages and drawbacks of flexibility and simplification with new instruments

As far as the new tools and mechanisms such as the TFs and the Facility are concerned, it is undeniable that they bring flexibility and allow for a rapid disbursement of funds. However, Castillejo (2016) points out that this rapidity and flexibility also comes with risks, such as, skewing incentives, short-cutting local consultations and responding more to EU political priorities than to the local context and needs. Finally, there is also a trade-off between acting fast and acting on the basis of sufficiently strong evidence.[98] For example, pursuing the objective of quick delivery of aid does not necessarily leave enough time for open calls for proposals and may lead to less inclusiveness, and potential loss of local ownership for some projects.[99] The use of special measures is also pointed out as "*doing away with some aspects of open competition*".[100]

There are also concerns regarding the contribution of the EU, notably with regard to the TFs and the Facility. The EU contribution comes from the EU budget and does not represent new funding in the EU budget but is the result of reorganising and relabeling some already existing funding. [101] The main concern in that regard is that funds from the EU budget destined to development aid be diverted through the TFs and funding projects that rather have a security than a development angle in dealing with migration. With regard to the area of migration, the border between what falls into development or security is not necessarily always clear. In order to respond to these concerns, it has been established that the funds drawn from the EDF, ENI and DCI must meet the requirements for Official Development Assistance (ODA) eligibility. Funds diverted from national or regional indicative programmes must respect their initial objectives, even when transferred to the trust fund. Equally, the funds from the IcSP must still apply the rules of the IcSP regulation. As it would not be possible to apply the regulations of each of the instruments contributing to the TFs without creating deadlocks, the EC introduced the notional approach. It means that TFs need to follow as close as they can the rules applying to the instrument that provided the initial funding. However, the risk of diversion of funding for non-ODA purposes is real, according to Castillejo (2016). She notes that regarding the Emergency Trust Fund for Africa it has not happened so far, although there are reasons to fear this might happen in the future.[102]

Another risk of the rapidity and flexibility of funding is that it may not serve as much the long-term development goals, because it becomes possible to address short-term and highly politicised issues. Funding channelled through the TFs often does not have a specific objective. However, as noted earlier, the objectives of the TF are quite broad (even though they match the objective of other instruments). There is a risk that funding tends to follow the political agenda and it is unclear how to make sure that some countries in need are not left aside because not high enough on the political agenda.[103] Den Hertog (2016) notes that "*the inherent logic of having rapid and flexible funding allocations leads to questions over whether such allocations will serve the long-term development interests of third countries or rather the short-term security interests of the EU*".[104] Faure et al. (2015) go even further saying that the answer to short-term issues through funding may even degrade relations with other countries that are not among the EU's top priorities. The paper takes the example of the Facility for Refugees in Turkey that will manage funding of at least EUR 3 billion, while the Emergency TF for Africa has a budget of

[98] Castillejo (2016)
[99] Den Hertog (2016), Hauck et al. (2015) and Castillejo (2016)
[100] Den Hertog (2016), p12
[101] Den Hertog (2016), p5
[102] Castillejo (2016)
[103] Castillejo (2016)
[104] Den Hertog (2016), p13

EUR 1.8 billion to address migration issues in 23 countries of Africa.[105] These might be inherent risks resulting from the establishment of TFs. More research on this would be needed to develop a clear picture of the mechanisms of aid allocation and whether development of aid diversion is taking place and how it could be tackled.

The existing shortcomings identified in some policy areas, such as identified in the ECA report on migration policies in the EU neighbourhood,[106] are unlikely to be addressed by tools created to respond to crisis in a more simplified and flexible way, as the rules are made more flexible, rather than strengthened.[107] However, the use of TFs is also seen as an opportunity to innovate and improve EU external funding in several ways: TFs create an opportunity to experiment different ways of working, and to work in different areas. This could lead, if the opportunity is taken to an improved policy and practice in the EU external funding.

The Facility is meant as a simplification mechanism, because it increases funding, without crowding out the already existing instruments for external policy. The EU contribution to the Facility comes from various instruments and could raise the question of diversion of funding. However, a stakeholder interviewed pointed out that little funds are actually diverted, because many of the instruments, such as the IPA, were already working on projects regarding migration. Besides, this does not mean that the EU is less engaged with what it was doing before.[108] Den Hertog (2016) notes that "*Concerning the EU budget contribution […] it does not include funding that could not already be budgeted under instruments that could benefit Turkey and its refugee reception capacities*".[109]

As for blending facilities, their use as delivery mechanisms does not offer immediate gains in terms of speed or flexibility when compared to using grants or loans directly. Blending involves long procedures requiring coordination with a broad range of stakeholders. However, lessons learned from past experiences are likely to contribute to making blending processes more efficient. As for the EFSD, its structure as a "one-stop-shop" could facilitate the flexible use and combination of different instruments. The proposed simplification and harmonisation of financial rules with regard to financial instruments, budgetary guarantees and financial assistance contributes to this objective.

3.5. DEMOCRATIC OVERSIGHT AND BUDGETARY SCRUTINY

The growing complexity of the budgetary setup poses a challenge for democratic oversight and budgetary scrutiny. This section summarises the mechanisms for oversight and scrutiny with regard to the elements discussed in this briefing and points to potential challenges.

Challenges within the EU budget

Within the EU budget, increasing the share of funds for flexible spending purposes (i.e. "flexibility cushions" in geographic instruments, increase of special instruments) draws part of the resources away from multiannual programming and implementation cycles. In practice, the ability of the EP to exercise oversight might decrease as the EP development committee tends to be more closely involved in the usual programming processes. In 2014, for instance, the EC put in place a strategic dialogue on DCI programming with the EP's development committee. This dialogue made possible an early

[105] Faure et al. (2015)

[106] European Court of Auditors (2016c), EU external migration spending in Southern Mediterranean and Eastern Neighbourhood countries until 2014, Special report 09/2016.

[107] Den Hertog (2016)

[108] Interview

[109] Den Hertog (2016), p6

involvement of the EP before programming documents are finalised.[110] More generally, the EP is well informed of the preparation of multi-annual cooperation plans by the EC and the relevant committees. It can also discuss Country Strategy Papers with the EC and can question the EC on issues related to implementation. This type of informal involvement is likely to be less pronounced in areas where spending becomes more speedy and flexible.

The EDF

Due to the intergovernmental structure of the EDF, the EP has a more limited role than with development cooperation instruments in the EU budget.[111] The EP does not intervene in the establishment of the EDF and the allocation of resources. However, the EP is the discharge authority, except for the Investment Facility managed by the EIB. Drawing on sources such as the ECA's annual report and special reports, the EP decides whether to grant discharge to the EC for its management of the EDF. The EP participates in the Joint ACP-EU Parliamentary Assembly (JPA). The JPA is part of the institutional structure created by the Cotonou agreement, which also includes the Joint ACP-EU Council of Ministers and the ACP-EU Committee of Ambassadors. Through the JPA, the EP can exert some limited scrutiny over issues such as Country and Regional Strategy Papers (i.e. the programming documents agreed with ACP countries). However, the role of the JPA is purely consultative. Finally, the EP can vote resolutions on the EDF. For instance, the EP has used resolutions to call for the budgetisation of the EDF.

The EU external Trust Funds

The EP is not consulted for the creation of TFs. However, it has a right of scrutiny when the draft implementing act is related to a basic act adopted under the ordinary legislative procedure.[112] As the TFs operate outside of the EU budget, the EP has no oversight. However, when funds are transferred from an existing EU instrument to the TF, the normal procedure for funding is followed. For example, for the EDF, the EP is consulted and gives its agreement when funds are transferred to a TF. The idea with the TFs is to increase the flexibility and rapidity of funding disbursement to react to unforeseen situations. However, the consultations with the EP may take some time if this needs to be done for every project. The TF are also subject to an external audit every year. The ECA and the EC's internal auditor exercise the same powers as for the other activities of the EU. Regarding reporting, the EC has to inform the EP when a TF is created and it also needs to report annually to the EP.[113] These reports shall include information on the activities of each TF and their implementation, as well as information on the performance and financial accounts of the TF. Those annual reports are submitted in the framework of the discharge procedure. Finally, the EP can request the EC to discontinue appropriations or liquidate a specific TF.

The Facility for Refugees in Turkey

Regarding the Facility, strategic guidance on the overall priorities, types of actions to be supported, and the instruments to be used is decided by the Facility Steering Committee, which is made up of MS and Turkey. The EP does not have a specific scrutiny role regarding the Facility. However, it has a role in the supervision of the individual instruments mobilised by the Facility. The EC has to report to the EP and the Council on a regular basis according to its legal base. From the implementation of the Facility in January 2016 to December 2016, there have been four reports on the implementation of the EU-Turkey statement, which is the framework in which the Facility was created. The reports contain

[110] Valerie Ramet (2016), A general survey of development policy, Fact Sheets on the European Union, European Parliament.
[111] D'Alfonso (2014), pp. 21-23.
[112] D'Alfonso et al. (2015)
[113] Interview

information on the status of the Facility, the implementation of projects and the next steps. The EC shall also report annually to the EP on the implementation of the Facility.

The EU blending facilities

Title VIII of the FR ("financial instruments") applies to blending facilities. According to these provisions, the EC reports annually to the EP and the Council on the activities relating to financial instruments (Art. 140-8 FR). Moreover, the EP or the Council can request the EC to discontinue financial instruments that do not achieve their objectives effectively (Art. 140-9 FR). The key challenge remains the verification of additionality in blending activities. To this end, blending activities rely on ex-ante assessments, monitoring systems and evaluation. They are subject to scrutiny by the ECA, which published a Special Report on EU blending facilities in 2014.

The EP has an observer status in the EUBEC. In view of enhancing the EP's ability to oversee complex blending activities, the EP might assess further options to improve its scrutiny over blending activities. A close involvement in the numerous regional blending facilities seems unrealistic and does not correspond to the EP's role. However, the EP could acquire observer status in the four blending frameworks that shape the strategic orientation of the EU's blending activities. In this regard, the role of standing rapporteur on blending could be used. This involvement would complement the EP's more general call to *"democratise the governance structure of the EU Blending Platform and the regional blending facilities*".[114]

In view of maximising its capacity to process information and reports made available by the EC, the ECA or other sources, the EP could further develop in-house capacity on blending in the EP research service. On this basis, the EP would also be better placed to request evaluations of blending facilities. More generally, this type of capacity is likely to become more important in view of the EFSD and the increasing use of funds from the EU budget to support investments outside the EU.

The European Fund for Sustainable Development

The EFSD will include blending platforms and guarantees. In this context, the EC proposes a set of common principles for financial instruments, guarantees and financial assistance. These proposals envisage comprehensive provisions on transparency, accounting, treasury management based on the annual financial statement in compliance with EU accounting rules and the International Public Sector Accounting Standards (IPSAS).

With regard to the EFSD, the control of contingent liabilities is central. Contingent liabilities have increased and will further increase under proposed changes. The ECA has stressed the need to "strengthen risk management and reporting on the increasing contingent liabilities of the EU".[115] The EFSD guarantee and lending covered by the Guarantee Fund for external actions generate a contingent liability for the EU. A contingent liability is a potential liability that may (or may not) occur, depending on whether guarantees provided by the EU are called upon. Contingent liabilities are therefore subject to uncertainty and need to be backed by the provisioning of funds to make available a liquidity cushion allowing the budget to react to potential payment obligations without drawing on extra funding.

Managing contingent liabilities requires a framework for authorisation and monitoring to ensure that annual budget ceilings are respected. This is also relevant for the credit rating of the Union. Contingent

[114] European Parliament (2016b).
[115] European Court of Auditors (2016b), p. 11.

liabilities have to be defined in the relevant basic act (which has to be adopted by co-decision, i.e. with approval of the EP). However, only part of such amount is actually financed – a provisioning rate is set in the basic act. The EU budget in combination with other sources, such as reflows, should contribute to provisioning.

The increasing use of instruments bearing contingent liabilities requires a considerable amount of payment appropriations to be mobilised and provisioned. As a way to optimise provisioning, the EC proposes pooling provisions into a common provisioning fund. "The common provisioning fund should hold all those resources set aside to provide a cash cushion needed to honour the financial liabilities of the EU".[116] The provisioning rate will be determined by risk assessments, which will also include an annual assessment of the sustainability of contingent liabilities in the context of the annual budgetary procedure. The EC also proposes the establishment of an early warning mechanism to avoid a shortage of provisions. The EC would regularly report on the financial exposure of the Union. The common provisioning fund would be managed by the EC directly in order to ensure consistent and efficient treasury management and accounting, as well as full transparency towards the budgetary authority.

The EC's proposal for the FR aims at clarifying risk exposure and the amount of the financial liability to the EU budget. The EC will report annually to the EP and the Council on financial instruments, budgetary guarantees, financial assistance, contingent liabilities and the common provisioning fund through a single and comprehensive reporting document. This information would also be available to the ECA.[117]

[116] European Commission (2016b), COM(2016) 605.
[117] European Commission (2016b), COM(2016) 605.

4. CONCLUSION AND RECOMMENDATIONS

KEY FINDINGS

- Changes in the architecture for financing EU external policies have been driven by new challenges and unforeseen crisis.
- New tools and mechanisms and other changes have, in part, been the result of balancing innovation needed to react to new priorities with constraints and key principles of the EU budget.
- New tools such as TFs and mechanisms such as blending facilities should be considered as part of a more diversified toolbox of the EU's financing for external policies providing additional options.
- New tools and mechanisms such as TFs and blending facilities have the potential to provide distinct added value. TFs, for instance, enhance visibility and flexibility of EU external funding; blending facilities can mobilise additional resources for investments.
- The downside of a more diversified toolbox for external funding is increasing complexity. The shifting and complex landscape of EU external funding makes democratic oversight and budgetary scrutiny more challenging.
- The mid-term review of the MFF, the revision of the FR and the preparation of the next MFF provide the opportunity to consolidate the evolving architecture of EU financing for external policies and give it a stronger strategic orientation.

The section will present the main conclusions and policy/research recommendations.

4.1. CONCLUSIONS

Over the past years, the architecture for financing EU external policies has changed in the face of new challenges and unforeseen crisis. The mid-term review/revision of the current MFF and the revision of the FR have laid the ground for further changes. Moreover, the preparation of the next MFF is within eyeshot and calls for a broader reflection on the future of EU financing for external policies. Against this background, this briefing has provided an overview and taken stock of the current setup of EU financing for external policies and proposed changes.

The overview and assessment of this briefing cover a comprehensive range of issues related to the EU budget. These issues include changes inside the budget, the long-standing debate on the EDF's position outside the EU budget and the EU's increasing reliance on new tools and mechanisms such as trust funds and blending facilities. Moreover, the briefing includes recent proposals such as the EFSD. The instruments, tools and mechanisms covered by this briefing are very diverse and need to be considered in their own specific contexts. The table in Annex A summarises the main ideas from the assessment, structured according to the following aspects: added-value, coherence, flexibility and democratic oversight.

Recent and proposed changes in the area of EU financing for external policies represent a balancing act. The responses to new, urgent challenges require innovation, but are also subject to limits set by the EU budget. So far, this balancing act can be considered successful in that it has enhanced the EU's ability to respond to immediate, new priorities without infringing key principles of the EU budget. Moreover, new funding tools also provide opportunities to mobilise more resources for urgent financing needs, especially in the context of the migration crisis and related challenges in the EU neighbourhood and Africa.

The EU's toolbox for external financing is now more diversified and opening up new possibilities. New tools and mechanisms, such as trust funds and blending facilities, and the proposed EFSD can offer added value in different regards. Some of these innovations such as trust funds have improved the EU's ability to react more swiftly and flexibly to urgent challenges. New tools and mechanisms also have the potential to mobilise more resources and focus the efforts of a wide range of stakeholders on specific purposes.

At the same time, the growing complexity comes with challenges and trade-offs. Increasing speedy and flexible financing to respond to crises and new priorities might reduce resources for other long-term objectives and impinge on principles of aid effectiveness. New tools and mechanisms can bring together different stakeholders to pool resources, but also add an additional layer in the architecture of EU financing for external policies. Overall, these challenges can be overcome as long as new tools and mechanisms are well managed and targeted at specific purposes where they add distinct value. In the future, growing evidence and assessments on the use of trust funds and blending facilities will provide a stronger basis for the further development of the EU's financing for external policies.

Innovations in the EU budget and new tools and mechanisms also need to be firmly anchored in democratic oversight and budgetary scrutiny. From a formal perspective, this is not a major issue as budgetary reforms and new tools and mechanisms can be traced back to legal acts decided by the EP and the Council. They pursue agreed objectives and fulfil requirements set in these acts. Democratic control and budgetary oversight is ensured by provisions for transparency and monitoring, audit, respect of accounting standards and regular reporting to the EP. In some respects, the strong visibility of new tools might even contribute to more transparency and subject them to higher public scrutiny than other parts of the EU's financing for external policies. However, overseeing complex funding structures as well as speedy and flexible disbursements can be challenging in practice and requires adequate capacity.

The EU financing for external policies has a lot to gain by embracing reforms to the EU budget and innovative tools and mechanisms. However, current innovations born out of crisis mode and path dependencies must also be thought together with the evolution of the EU budget in the long term. In view of the preparation of the next MFF, there is a chance to consolidate and clarify the architecture of the EU's financing for external policies by applying a more strategic approach.

4.2. RECOMMENDATIONS

1. Future reforms in the EU's financing for external policies should be closely linked to the EU's strategic objectives. Recent and proposed changes are considerably driven by the need to respond to immediate crises. The EU should strengthen its ability to respond to crises as part of a broader set of strategic and policy objectives set in the EU's Global Strategy and other policy documents.

2. The preparation of the next MFF presents an opportunity for a comprehensive review of the EU's financing instruments in the EU budget. Recent and proposed changes were constrained by the limits of adjusting the MFF mid-way. The next MFF can anchor required changes more solidly in the EU budget and reduce the need for ad hoc adjustments in the future.

3. MS should bring the long-standing debate on the budgetisation of the EDF to a conclusion. The EC is committed to proposing budgetisation as of 2021 and the EP has repeatedly called for the EDF's inclusion into the budget. A clear and sustainable decision on budgetisation is necessary before deciding on the shape of the external financing instruments in the next MFF. Developing a clear perspective for the EDF will also strengthen the EU's position in the negotiations with ACP states on a successor agreement to the Cotonou Partnership Agreement, scheduled to enter into force in 2021.

4. In view of the next MFF, the right balance between flexibility and long-term predictability of the EU's funding for external policies should be clarified more explicitly. Injecting more flexibility into the EU budget should be based on an assessment of which financing instruments are most suitable for enhancing flexibility based on their intervention logic and way of functioning. Current proposals would insert more flexibility across a broad range of instruments, including the geographic instruments of the EU budget, which have originally been designed for long-term cooperation with partner countries. The use of other instruments could be expanded to enhance flexibility, in particular humanitarian assistance and the IcSP. Some flexibility in geographic instruments might also be necessary and could, for instance, be achieved by adjusting the thematic programmes in the DCI, which have a flexible geographic reach.

5. The potential of new funding tools such as TFs and mechanisms such as blending facilities should be further explored. Growing experience and assessments should strengthen the evidence base on the use of these tools and mechanisms.

6. In view of enhancing the EP's ability to oversee blending activities, the EP should consider steps to strengthen its involvement in the governance of these activities. The EP could seek observer status in the four blending frameworks of the DCI, ENI, IPA and EDF. This could be achieved, for instance, via the role of standing rapporteur for blending. The EP should enhance its ability to process reports from the EC and other sources and to request evaluations by strengthening in-house capacity on blending.

7. The EC should review the scope for re-organisation and consolidation of the landscape of EU blending facilities. The quantity of investment facilities using blending is very high, including the eight regional blending facilities, the ACP Investment Facility and thematic blending facilities. Blending frameworks supersede the regional blending facilities. In addition, the AfIF and NIF will become the Regional Blending Platforms of the EFSD. A simpler and clearer architecture of the EU's blending facilities could improve coherence, visibility and oversight of the EU's blending activities.

8. The EC should assess the possibility to gradually maximise the EFSD's role as a "one-stop-shop". As an umbrella covering blending platforms and guarantees, the EFSD can foster coherence among the EU's investment-related instruments. So far, this is only partially the case. The EFSD does not include all relevant investment instruments in the EU Neighbourhood and Africa (e.g. ACP Investment Facility, Resilience Initiative). Moreover, the possibility of extending the EFSD to other regions could markedly enhance its ability to foster coherence. One longer-term option could be to gradually develop the EFSD into the EU's global investment framework for sustainable development.

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ANNEX A

	EDF (budgetisation – yes or no?)	EU Trust Funds	EU-Turkey Facility	Blending facilities	EFSD
Does the instrument have a distinct **added value** (e.g. mobilise additional resources)?	The EDF has a distinct character outside the EU budget based on the legally binding ACP-EU institutional framework. However, increasing alignment with the EU budget have also reduced differences. Uncertainties remain about level of EU development funding in case of budgetisation, the funding of the African Peace Facility and the future of the ACP-EU relationship.	Visibility of EU funding, efficiency gains through pooled funding, faster spending, cooperation in difficult contexts (e.g. fragile states). Variable success in mobilising additional resources (matching by MS has not occurred).	Main added value is the visibility and additional funding to respond to the refugee crisis in Turkey. The Facility allows fast action.	Blending facilities mobilise additional resources provided that the blending process is properly designed and managed.	Main added value is to serve as a "one-stop-shop", i.e. a single entry point for financial institutions and public or private investors. The EFSD provides an umbrella for regional blending facilities and guarantees directed at the EU neighbourhood and Africa
Does the instrument make EU **funding more coherent or less?**	Gains from budgetisation should not be overestimated. Budgetisation could rationalise committee structures and improve management of overlaps between instruments responsible for different geographic zones.	Trust funds facilitate pooling and coordination. They also add an additional intermediary layer. On balance the impact of trust funds on coherence appears to be neutral.	Main purpose is coordination and visibility. It is too soon to say whether the Facility has been efficient as a coordination mechanism. It seems that there has been no big overlap so far.	EU blending facilities include 8 regional blending facilities and other facilities (e.g. ACP Investment Facility, thematic facilities). Blending frameworks improve coherence, but do not cover all facilities and add an additional layer.	Umbrella function can contribute to coherence. Potential to increase coherence if more comprehensive and global in covering relevant investment instruments and regions.
Does the instrument provide more **flexible and simpler funding**?	Outside the budget, the EDF can carry funding over several years and accumulate reserves. But changes in EU financial rules will also allow use of margins and carrying over funds.	Yes. The process of funding is faster because of the absence of programming phase.	The flexibility allows fast contracting and disbursing of funds. Once funds have been allocated to an instrument, the procedure is the same as usual.	Flexibility and simplification are not key purposes of blending facilities. Blending processes require more complex procedures and coordination than providing grants or loans alone.	The proposed common rules for financial instruments, guarantees and financial assistance can facilitate use of instruments and their combination.
Does the instrument ensure **adequate democratic oversight and budgetary scrutiny**	EDF budgetisation would improve democratic oversight and budgetary control, as well as further EU integration in the field of development policy.	The EC needs to report on TF to the EP, and those reports feed in the discharge procedure. The EP can ask the EC to liquidate a TF.	The procedure regarding oversight depends on the instrument through which funds are channelled. The Facility is not overseen by the EP, but the EC has obligations to report to the EP.	EC reports annually to EP and Council. EP and Council can ask to discontinue facilities. ECA scrutiny. Demonstrating additionality is a key challenge (use of ex-ante assessments and monitoring systems).	Annual EC reporting to EP in a single reporting document. ECA scrutiny. Proposed provisions for controlling contingent liabilities.

The paper provides an overview of the current set-up of tools contributing to the funding of the EU external policies. The focus is on the recently established instruments and how they relate to the previously existing ones. The paper provides a first assessment of the current and envisaged set up of tools with regards to the following key aspects: added-value, coherence, flexibility and simplification, and democratic oversight of EU funding for external action.

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