PISM | POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 89 (1160), 13 July 2018 © PISM

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End of a Separate European Neighbourhood Instrument? The Risks of the Commission's Proposal

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In the EU's next budget, the multiannual financial framework (MFF), the European Commission (EC) wants to merge the European Neighbourhood Instrument (ENI), the most important source of EU assistance to Eastern Partnership and North African countries, with a new funding tool. The risk of unfavourable institutional change and the unpredictability of funding may reduce neighbouring countries' level of cooperation with the EU.

The Commission's Proposal. On 14 June, the EC presented proposals changing financial instruments used in the EU's external relations for the years 2021-2027. It plans to combine the ENI, Development Cooperation Instrument (DCI), European Development Fund (EDF) and several other programmes into one, large Instrument for Neighbourhood, Development and International Cooperation (NDICI), with a budget of €89.2 billion. The geographic distribution of funds to various regions: the neighbourhood, Sub-Saharan Africa, South and Central America, and the majority of Asian and Pacific states play a key role and would amount to €68 billion, or 76% of the NDICI budget. The geography "pillar" is complemented by others, such as a thematic one, including, for example, human rights or global challenges (€7 billion), rapid reaction (€4 billion), and investment aid. However, the NDICI governance structure at the level of EU institutions was not specified.

The proposal envisions the creation of a financial reserve for unexpected crises of €10.2 billion, which might be supplemented by unspent NDICI funds (with the possibility of using them in the following year) and raising the ceilings on transfers of funds. Member States would only be informed about the changes made by the EC.

The interests of European Neighbourhood Policy (ENP) countries, i.e., those in the Eastern Partnership or from North Africa, have been secured mainly by determining the budget for this region (€22 billion, an increase of 24% compared to the previous period). The NDICI provisions also define the main features of the ENP, which do not change, e.g., approximation of economic standards with the EU (Annex II), policy differentiation towards neighbours, an incentive approach (so-called "more for more"), criteria for the allocation of funds, and the specificity of cross-border cooperation.

Risks. Despite the increase in the ENP budget and maintaining its main principles in NDICI, merging ENI with the new fund could have negative consequences. From the ENP countries' perspective, this change lowers the rank of their relationship with the Union, which may lessen their involvement in cooperation efforts. For the EU, it is particularly important to create policy formats and solutions that confirm the validity of these relationships because the ENP, which does not offer an EU membership perspective, puts the emphasis on social and political transformation. In addition, NDICI mainly deals with development aid, which means that ENP could be excluded from the current portfolio of the Commissioner for ENP and Enlargement Negotiations as well as Directorate General (DG) NEAR, responsible for ENP and Enlargement

Policy, and included in DG DEVCO (development assistance). This would undermine the efforts of the 2014 reconstruction when the portfolio of the Commissioner for ENP and Enlargement Negotiations was created to ensure the visibility of the ENP and its convergence with other EU policy objectives, rather than strictly developmental ones. So far, Georgia, Moldova, and Ukraine officially have expressed opposition to the EC proposal. In a joint letter to EU institutions in April, they pointed out that ENI's absorption may not only demonstrate EU disinterest in the region but also feeds Euroscepticism and anti-Western propaganda and disinformation.

The inclusion of ENI into NDICI also involves the possibility of a transfer of funds for crisis-related EU actions away from the neighbourhood to other regions, and vice-versa. While this creates the opportunity to supplement the ENP budget with additional funds, thanks to the inclusion of large development-aid instruments into NDICI, it also poses some risk. NDICI addresses many unstable regions and the international situation until 2027 is certainly unpredictable. By using existing solutions, the EC already can flexibly transfer funds to crisis-related actions from its so-called "performance reserve", or from financial allocations for given countries by launching a procedure of special measures. Moreover, there is no guarantee that the funds from the new NDICI financial reserve (supplemented by unspent funds) will be spent on ENP goals. According to Article 15 of the regulation, the reserve can finance EU responses to almost any type of global crisis (e.g., natural, humanitarian, migration, etc.) as well as new EU priorities. Thus, from the ENP countries' perspective, it is better to have a smaller reserve under ENI, but a guarantee that it will be disbursed in those countries neighbouring the EU.

The EC's Arguments. The Commission highlights that the creation of NDICI is needed to increase cohesion, funding flexibility, and savings in EU external assistance. The reform is justified because there are several financial instruments in which there are irregularities in this area, strictly related to development aid. However, in relation to ENI, the conclusions of its mid-term evaluation in 2017 do not contain any evidence confirming the need to merge it into the new instrument. ENI is already compatible with the programmes to be included in NDICI. Second, the source of the problem in financing an EU response to a crisis is mainly the low ENI budget, further curtailed by procedural limits. Third, ENI is already the most cost-effective among the EU geographic programmes in terms of the share of administrative costs to expenditure (2-2.5%), such as the Instrument for Pre-Accession Assistance, or IPA (2.8%), DCI (3.5%), or EDF (3.8%). Given all this, the only EC argument for including ENI in NDICI is to increase the ENP crisis-related budget through access to a large financial reserve, although no guarantee in the regulation's provisions is given in this regard.

The EC's proposal does not address the individual needs of the ENP region even though it will keep the IPA separate due to the programme's specificity. In March, Estonia, Lithuania, Latvia, Poland, Romania, and Slovakia, in a joint letter to EU institutions, argued that the EU should prioritise its neighbourhood according to Article 8 TEU and the European Global Strategy and, therefore, it should pursue a special approach towards the ENP countries. Unlike development aid, which generally aims to reduce poverty, EU cooperation with ENP countries relies heavily on approximating legislation to EU standards according to various agreements. For example, Georgia, Moldova, and Ukraine have signed Deep and Comprehensive Free Trade Agreements and is in negotiations with Tunisia on one, while Georgia, Israel, Jordan, Morocco, and Moldova have concluded agreements on the European Common Aviation Area, with negotiations held with Azerbaijan, Lebanon, Ukraine, and Tunisia on this issue. Hence, EU assistance in the ENP region is complex and constitutes a specific model of cooperation. For example, with the aim to support reform, the EU applies budget support in medium- and high-income ENP countries (one fifth of the ENP budget in 2015), combined with investment aid and advisory missions, such as twinning and TAIEX (Technical Assistance and Information Exchange), mainly implemented within enlargement and neighbourhood policy.

The Negotiations. Given the insufficient EC arguments for merging ENI into NDICI, it seems reasonable to maintain it as a separate programme. The improvements related to the standardisation of procedures with other external instruments and the flexibility of financing can be introduced to the scope of ENI. The financial resources to cope with crises should be obtained by the EU through reform of current crisis mechanisms (e.g., flexibility instrument, contingency margin, etc.).

In this regard, the different positions of the Member States and the European Parliament (EP) are presented. On one hand, Poland, the Baltic states, Romania, and Slovakia favour a separate ENI. This demand, in a report on reform of external instruments and in the opinion of the Committee on Foreign Affairs on the MFF, was also endorsed by the EP (whose consent is required as part of the EU's budget adoption procedure). On the other hand, Germany supports the EC's proposal. Therefore, the positions of France and Spain, both interested in EU relations with North African countries, will be of key importance. Despite these states' declared approval for a separate ENI, no strong opposition to the EC proposal should be expected because of the significant role of development aid in their foreign policy. In this light, if ENI is included in NDICI, it will be important to maintain its current management structure and to ensure in the NDICI regulation that the ENP region is the priority for the financial reserve and that the EC may transfer ENP-related funds only for purposes in this region.