DOCUMENTI

No. 25|15 (December 2025)

How to Fund European Ambitions? Opportunities and Challenges for the Next MFF

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The European Commission's proposal for the next Multiannual Financial Framework 2028-2034 reflects two interconnected ambitions: responding to international challenges and innovating the way in which the European Union works. Against this background, national promotional banks and institutions (NPBIs), public development banks (PDBs) and development finance institutions (DFIs) can play a crucial role, by putting at policymakers' disposal their expertise in identifying investment opportunities, multiplying the effect of EU funding by responding to the needs of regional, national and European spending centres, and mobilising adequate resources. This discussion paper explores the policy principles – and related trade-offs – shaping the Commission's proposal (flexibility, simplification, conditionality and diversification) and analyses how bridging the external and internal dimension of EU funding may contribute to relaunching strategic investments in European competitiveness, while highlighting the challenges ahead.

Executive summary

The European Commission's proposal for the next Multiannual Financial Framework 2028-2034 reflects two interconnected ambitions: *responding to international challenges* and *innovating the way in which the European Union works*. The attempt of the Commission to *simplify the structure* of the next budget and to *enhance complementarities* in both the internal and external dimensions will steer the negotiations toward the key topic of *strategic investments*. National promotional banks and institutions (NPBIs), public development banks (PDBs) and development finance institutions (DFIs) can play a crucial role, by putting at policymakers' disposal their expertise in *identifying investment opportunities*, *multiplying the effect of EU funding* by responding to the needs of regional, national and European spending centres, and *mobilising adequate resources*.

The main challenge to which the next MFF must respond is the long-term *investment gap* suffered by the European economy in order to relaunch European competitiveness, while investing in European defence and security vis-à-vis increasing international competition and preserving long-term support to Ukraine. The MFF cannot be the sole response to each structural problem affecting the EU. However, it must constitute a key step towards a *renovated European governance* and a *forward-looking investment strategy*. To do so, the Commission's proposal follows cross-cutting policy principles, which imply several trade-offs for EU's governance.

- It seeks to enhance *flexibility* across all headings to enable rapid crisis response and strategic reallocation of resources. Such agility should be balanced with *predictability* to safeguard long-term investment planning, ensure stable financing for major initiatives and maintain coherence among instruments – requiring multiannual frameworks, clear governance and

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early involvement of implementing partners such as NPBIs.

- It advances *simplification* by consolidating programmes and streamlining procedures. However, real simplification will depend on *outcome-relevant indicators* and *proportionate reporting* within the shift to performance-based management; otherwise, the risk of replacing old compliance burdens with new ones and weakening multi-level governance could emerge. Early involvement of NPBIs/PDBs/DFIs is essential to preserve efficiency and protect social investment.
- It mainstreams *conditionality* by extending performance-based disbursements, strengthening budget-protection and control mechanisms, and broadening rule-of-law enabling conditions, which increase accountability, but also raise risks of administrative overload and *centralisation*. Proportionate safeguards and the involvement of implementing partners would be crucial to preserve delivery capacity and long-term effectiveness of EU investment policies.
- It emphasises the *diversification of funding sources* to underpin the MFF's objectives, aiming to expand EU's *Own Resources* to both reduce the fiscal burden on member states and increase the Union's financial autonomy beyond national contributions.

The Commission has identified in the relaunch of European *competitiveness* a priority bridging the internal dimension of the next MFF and its external projection. In particular:

- The proposal suggests the establishment of a *European Competitiveness Fund* (ECF), whose objective is the reduction of the current fragmentation of resources across multiple spending programmes. The Commission intends to preserve InvestEU, renaming it "*ECF InvestEU Instrument*". It would support higher-risk investments and direct a significant share of its funds to enterprises with high technological potential. In accordance with the principle of *open architecture*, the Commission foresees the elimination of the current 75-25 split, without assigning a predefined amount of resources to the European Investment Bank (EIB).
- The Commission foresees greater attention to the strategic interests of the EU. The *Global Europe Instrument* would be adopted in order to strengthen the sustainability and resilience of supply chains. In the allocation of funds, the Commission plans to follow the *Team Europe* approach and to involve export credit agencies (ECAs) among the implementing partners.
- Several *challenges* have already emerged for the implementing partners. Among them, the potential difficulty in ensuring the respect of the principles enshrined in the EU Treaties while pursuing geostrategic objectives and the need for clarification regarding *procurement limitations* introduced in the model outlined by the European Commission and the way in which the *pillar assessment* procedure – which is required to become implementing partners – will be "streamlined."

The diverse set of challenges that will affect the negotiations between EU institutions and member states can thus be condensed in a set of open questions about:

1. *Flexible, but predictable, investment governance in the internal dimension* – How to better manage a more pronounced top-down governance in the internal dimension, underpinned at the EU level by the flexibility granted to the Commission and at the national level by an enhanced planning role for central governments? How to preserve a certain level of predictability through long-term programming, also thanks to an active involvement of implementing partners?
2. *A trade-off between an external geoeconomic agenda and long-term EU values* – How can NPBIs, PDBs and DFIs reconcile a geoeconomic interest-driven agenda and the pursuing of investments aligned with long-term European values in the open architecture framework characterising the external dimension? How to manage development cooperation and mutually-beneficial partnerships with third countries while embedding a more strategic agenda?
3. *Maintaining accountability vis-à-vis a simplified governance* – How to provide accountability in the face of increased flexibility, a centralised

approach and a simplified governance? Would innovative governance solutions be a promising way forward, by devising institutional arrangements providing for the involvement of NPBIs, PDBs and DFIs in the planning and disbursing phases within the NRPP, the ECF and Global Europe?

4. *Financing European security and defence through innovative multi-level instruments* – Can the EU leverage the role of NPBIs to strengthen Europe's security and defence capacity in a way that complements frameworks such as the ECF and the European Defence Fund? Building on emerging national experiences – where NPBIs have been used to manage dedicated security and defence funds or mobilise market-based financing – could a European network of promotional banks contribute to pooling resources, integrating public and private capital, and supporting technological and industrial resilience in the security and defence sectors, while maintaining coherence with EU rules and the Union's strategic partnerships with NATO?
5. *Supporting Ukraine in the long-term with feasible funding solutions* – How can the next budget provide for long-term support for Ukraine as the conflict drags on and the country faces the challenge of closing a budget gap on annual bases? How can implementing partners contribute to building and rolling over predictable funding tools beyond emergency solutions?

Introduction

The proposal for the next *Multiannual Financial Framework 2028-2034* has stirred the waters of the European public debate. Issued at a time of heightened geopolitical tensions and increasing polarisation in several member states, the project for the next budget of the European Union launched by the European Commission reflects two interconnected ambitions: on the one side, facing *international challenges* and, on the other, *innovating the way in which the Union works*.

The European Commission proposed a *total budget of 1,98 trillion euros*, equivalent to 1.26 per cent of the EU's gross national income (GNI). The proposal includes 168 billion euros to reimburse loans issued under the Resilience and Recovery Facility (RRF). When excluding such reimbursements, the proposed budget is only slightly higher than the current MFF at 1.15 per cent of GNI. The Commission's proposal simplifies the structure of the budget by aggregating existing headings and reducing their number from seven to four: (i) *Heading 1, on economic, social and territorial cohesion, agriculture, rural and maritime prosperity and security* with a budget of 1,062 billion euros, including 865 billion for the new *National and Regional Partnership Plans* (NRPP); (ii) *Heading 2, on competitiveness, prosperity and security* with a budget of 589.6 billion euros, including the allocation of 234.3 billion to the new *European Competitiveness Fund* (ECF); (iii) *Heading 3*, including *Global Europe* with a budget of 215 billion euros; (iv) and 117.9 billion euros allocated to *Heading 4*, for *Administration*.[1]

The proposal has provoked mixed reactions among experts and policymakers. For instance, the total amount has been judged either ambitious[2] or unsatisfactory.[3] The attempt of the Commission to *simplify the structure* of the next budget and to *enhance complementarities* in both the internal and external dimension will nonetheless steer the negotiations toward the key topic of *strategic investments*. It could also open new opportunities for *national promotional banks and institutions* (NPBIs), *public development banks* (PDBs) and *development finance institutions* (DFIs) to leverage their established expertise in investment support and managing different forms of funding in order to pursue the strategic priorities set by the proposal and bridge potential gaps between different levels of funding governance at the European and national level.

1 European Commission, *A Dynamic EU Budget for the Priorities of the Future. The Multiannual Financial Framework 2028-2034* (COM/2025/570), 16 July 2025, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52025DC0570.
2 Rubio, Eulalia, "The MFF Package: A Ambitious Proposal from a fragile Commission", in *Jacques Delors Institute Blog*, 17 July 2025, https://institutdelors.eu/en/publications/the-mff-package-a-ambitious-proposal-from-a-fragile-commission.
3 European Parliament, *Budget Proposal "Simply Not Enough" to Meet Europe's Challenges, Lead MEPs Say*, 16 July 2025, https://www.europarl.europa.eu/news/en/press-room/20250714IPR29630.

International and internal pressures shaped the project for the new budget. The main challenge to which the next MFF must respond is the long-term *investment gap* suffered by the European economy. The Draghi report already identified in 2024 an investment shortfall of 5 per cent of GDP, that Europe needed to address by *mobilising 750-800 billion euros per year* in order to compete on more equal terms with international competitors such as the US and China.[4] The proposal for the MFF 2028-2034 is one of the first answers to Draghi's call, also considering how recent estimates showed that only 11 per cent of actions recommended by the former Italian Prime Minister has already been implemented.[5] The MFF ambition is to reduce the European delay in mobilising resources in strategic sectors such as *defence, technology and decarbonisation*, especially when taking into account the investment gap that divides Europe from China and the US. Simply put, the EU must overcome its current undercapacity in spending and investing.[6]

Since the Draghi report came out last year, international competition has become even more pronounced. *Trade policies* promoted by *Donald Trump* affecting the EU and other key partners has shed new light on the difficulties faced by the European economy, and its governance. Deeper integration in the areas of *capital movements and investments* remains challenging, preventing the EU from leveraging one of its more promising assets: its massive *internal market*.

At the same time, the EU has been forced to mobilise more resources – or shift existing ones with more flexibility – to the defence and security sector, because of the new geopolitical context generated by the Russian full-scale aggression against *Ukraine*. The Commission's proposal devotes increased attention to this sphere not only devising a specific funding window under the ECF for defence and security, but also streamlining such objective throughout the entire structure of the budget, from the potential re-purposing of *cohesion funds under Heading 1* to the use of those earmarked to *military mobility under Heading 2*. While operating to enhance EU defence and security, the Union has been also called to progressively replace – or at least complement – US assistance to Ukraine. The provision of a beyond-the-ceiling 100 billion euros funding tool for Ukraine constitutes the Commission's response to the challenge of supporting Ukraine's defence effort, while tackling the long-term problem of handling Kyiv's budget gap.

The MFF cannot be the sole response to each structural problem affecting the EU. However, it must constitute a key step towards a *renovated European governance* and a *forward-looking investment strategy* able to tackle emerging political and economic challenges more effectively. In this new environment, NPBIs, PDBs and DFIs can play a crucial role, by putting at policymakers' disposal their expertise in *identifying investment opportunities*, *multiplying the effect of EU funding* by responding to the needs of regional, national and European spending centres, and *mobilising adequate resources* to fill the investment gap. However, in order to address their potential, they will require a careful balancing among different and potentially competing goals included in the new MFF, such as pursuing strategic investments for EU competitiveness while preserving EU actions on development cooperation and external finance in general. Likewise, fully exploiting the new flexibility granted by the budget in the internal sphere without harming the predictability required by effective investment plans will pose another challenge.

Against this background, this paper will go through the main policy principles shaping the Commissions' proposal, reflecting on their implications for the role of NPBIs, PDBs and DFIs. It will then analyse the interconnections between the internal and the external dimension of new funding instruments envisioned in the proposal. The conclusions will reflect on the state of the negotiations at the EU level and will assess a number of implications and questions left open by the proposal.

4 Darvas, Zsolt, "EU Budget Proposal: Right Priorities, Too Little Ambition", in *Bruegel At a Glance*, 17 July 2025, https://www.bruegel.org/node/11093.

5 Hancock, Alice et al., "Europe Drags Its Heels on Draghi Plan as Global Rivals Surge", in *Financial Times*, 10 September 2025, https://www.ft.com/content/4423db1a-dda1-471e-875e-f5b6356bc937.

6 Lausberg, Philipp et al., "Financing Europe's Future: Can the Commission's MFF Proposal Deliver?", in *EPC Compedium*, 17 July 2025, https://www.epc.eu/publication/Financing-Europes-Future-Can-the-Commissions-MFF-proposal-deliver.

1. Cross-cutting policy principles shaping the Commission's MFF proposal

While the Commission's MFF proposal must still navigate an extensive and intricate negotiation process and will therefore undergo revisions and adjustments, cross-cutting policy principles spanning various programmes can already be identified, such as i) *flexibility*; ii) *simplification*; iii) *conditionality*; iv) *diversification*. Each one presents new opportunities and challenges for NPBIs, PDBs and DFIs.

1.1 Flexibility: Balancing agility with predictability

Directing investments toward the Union's strategic priorities, as outlined in the Commission's objectives, would necessitate *flexibility in resource allocation*. Consequently, flexibility emerges as a cross-cutting policy principle throughout the Commission's proposal, conceptualised as *reducing structural rigidities* that previously hindered fund deployment across the MFF and the *streamlining of strategic priorities*, starting with defence and competitiveness, through different headings and programmes. Recent crises, from the pandemic to the war in Ukraine, have demonstrated the Union's need for greater agility in resource utilisation to address unforeseen challenges and evolving requirements. However, flexibility should not come at the expense of *predictability*, which remains essential for the effective implementation of financial instruments and for the planning of long-term investments. The next MFF would therefore aim to strike a balance between agility in crisis response and the stability required to design, manage and execute complex financial tools. While flexibility would support the EU as a political and economic strategic actor, it may also open *uncertainties* over the predictable disbursement of resources.

Flexibility permeates various programmes. Under Heading 1, and in particular for *NRPP*, beyond programme redesign, the proposal establishes unallocated reserves to enable *investment reprogramming* within major programmes when circumstances require. Specifically, around a quarter of each country's funding package remains unallocated as a "*flexibility amount*", creating discretionary space to address sudden developments and shifting investment priorities during crises, natural or human-made disasters, and to tackle emerging policy requirements like the ones that have severely influenced the allocation of the current MFF. However, while this architecture can increase responsiveness, *excessive short-term reprogramming* or overly prescriptive work programmes may undermine the long-term orientation required for the effective use of financial instruments, especially when coupled with a certain degree of *centralisation* in the hands of central national authorities when it comes to the drafting of NRPP. Predictability could instead be ensured through multiannual programming and *ex ante* allocations, coupled with open and competitive calls for implementing partners, which would preserve adaptability without sacrificing stability. This approach is aimed on paper at balancing adaptive flexibility with member states' certainty regarding available resources.[7]

Under Heading 2, the *ECF* adopts a similar methodology, as it has been structured around *broad policy windows with indicative allocations* and integrated mechanisms enabling *fund transfers* within and between categories. Under *Global Europe*, within Heading 3, each macro-region receives indicative financial allocations alongside unprogrammed actions, including humanitarian aid, crisis response, resilience, and competitiveness measures (cfr. *infra*). These mechanisms must demonstrate responsiveness to fragility, crisis management, the humanitarian-development-peace nexus, reconstruction, recovery needs and balance-of-payment challenges.[8]

The balance between agility and predictability is particularly relevant for the external dimension of the MFF. Excessive discretion in *reallocating resources* under Global Europe, for example, may generate uncertainty for large-scale infrastructure initiatives, such as those supported through *Global Gateway*. Also, the potential redeployment

7 European Commission, *Commission Staff Working Document accompanying the document A Dynamic EU Budget for the Priorities of the Future. The Multiannual Financial Framework 2028-2034* (SWD/2025/570), 16 July 2025, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025SC0570.

8 Ibid.

without significant constraints of humanitarian funding following the emergence of new global challenges could produce a similar degree of uncertainty. Establishing multiannual and predictable funding frameworks would therefore be key to ensuring continuity and credibility in the EU's external investment strategy.

The provision of a *395 billion euro emergency mechanism* outside the budget, funded with common borrowing, will probably face an uphill battle during negotiations, but constitutes another signal of the Commission's commitment to equipping the Union with crisis response capabilities.[9] Also in this case, flexibility should be accompanied by *structural preparedness* and by *clear coordination* between instruments to prevent overlaps and fragmentation. In fact, recent experience demonstrates increasing frequency, severity and complexity of crises, emphasising the importance of structural preparedness with flexible and adequate response tools.[10]

Such enhanced flexibility in all Headings is coupled with *complementarity* between different instruments and programmes, *avoiding duplications* while creating synergies between different funding sources. The Commission emphasises coordination mechanisms that enable seamless *integration between financial instruments* such as grants, loans, guarantees and fully-funded equity, in both the internal and external dimensions, ensuring that flexible allocations amplify rather than fragment the Union's investment capacity.[11] Ensuring coherence between these instruments will be crucial to preserving the balance between a dynamic and predictable budgetary framework.

A policy-based investment planning implied by a more flexible budget would require the *active inclusion of implementing partners in the governance of NRPP and the ECF*, as they could contribute to more effective funding solutions and reducing uncertainties over resource allocation. Their early involvement in the design of financial instruments activated within NRPP and the work programmes of the ECF could enhance both responsiveness and market relevance. Such participation could be enabled by further stressing the discretion granted to member states for the *selection of implementing bodies* of financial instruments within the NRPP, as NPBIs (and other publicly owned banks or institutions) are eligible to participate alongside the EIB group and international financial institutions (IFIs) in which a member state is shareholder. NPBIs, PDBs and DFIs can contribute through their practical expertise and market intelligence, helping policymakers identify funding gaps and calibrate instruments to local needs, while ensuring that EU resources are channelled effectively toward strategic investment priorities.

Furthermore, NPBIs may fully explore the potential of a *diversified set of financial instruments* such as guarantees, loans, equity and blending facilities (cfr. *infra*), as a more flexible framework will require their expertise to help policymakers and economic actors navigate through different options to strategically multiply the impact of EU funding. Actually, the importance of *advisory services* to the European Commission and support to member states in project development will probably grow, presenting NPBIs with new opportunities to scale up their multiphase involvement in EU funding. The recognition of a certain degree of discretion for implementing partners in the choice of the most suited financial instruments based on the needs that they map during their activities would also be a significant development.

In sum, the next budget would thus have to reconcile enhanced investment capacities in strategic sectors facilitated by a flexible approach with the predictability needed by European economic actors to plan their own investment choices.

1.2 Simplification: A streamlined, but demanding budget

Novelties in Headings 1 and 2, such as the NRPP, as well as actions funded under the new ECF, not only respond to the need for the EU to compete internationally and be ready in case of sudden crises, but also reflect the political will of

9 Darvas, Zsolt, "EU Budget Proposal", cit.
10 Van Damme, Philippe, "Effective Aid Programming in the next MFF (part2): Simplification and Governance", in *ECDPM Briefing Notes*, No.196 (July 2025), https://ecdpm.org/work/effective-aid-programming-next-mff-part-2-simplification-and-governance.
11 Barana, Luca, "An Ambitious Budget for a Stronger Europe" (in Italian), in *AffarInternazionali*, 5 August 2025, https://www.affarinternazionali.it/?p=113721.

simplifying the European governance, an argument that has emerged as a winner card during the last elections for the European Parliament in 2024. Calls to unburden European companies of heavy regulations, to nuance European commitments on the green transition and to strategically invest in economic sectors with technological added value so as to enhance competitiveness have surely influenced the proposal. However, such actions have to be considered carefully, as they risk *legitimising political calls for deregulation* that would put in doubt a number of key policies, starting with the commitment to the fight against climate change, while producing an impact on European economic performances that is far from certain. Therefore, simplification should not be understood as deregulation, but as a means to make rules clearer, coordination stronger and processes more efficient, ensuring that investments can be planned and implemented in a timely and predictable way.

Despite such risks, the simplification principle permeates the Commission's proposal in all Headings through *structural consolidation and procedural streamlining*, and it is strictly related to flexibility. The framework consolidates fifty-two programmes into sixteen, with the aim to streamlining procedures and creating a more coherent architecture that should reduce administrative burden and accelerate decision-making processes. Yet simplification should go beyond institutional rationalisation and translate into the streamlining of *procedures for planning, disbursement and accountability*, especially for financial instruments that depend on multiannual programming and predictable resources.

The commitment to simplify access to the new funding tools envisioned by the Commission manifests through concrete operational improvements: a unified information portal covering all funding opportunities, a single gateway to facilitate access to programme details, and a digital-first approach designed to reduce application and approval timeframes.[12] The proposal aims to establish a simplified, coherent *monitoring and evaluation framework* for expenditure tracking and budget performance, streamlining planning, disbursement, and accountability procedures. This simplification also aims to enhance efficiency by maximising community investment impact.[13]

The proposal's commitment to a unified information portal and a digital-first approach is a step forward, but true simplification depends on *continuity and proportionality* in monitoring and reporting. Implementing partners and beneficiaries, as well as the Commission itself, have already invested human and technological resources in existing systems for collecting and presenting data requested by the current monitoring framework, and these should be preserved wherever possible. The focus should therefore be on *eliminating redundant indicators*, reducing reporting frequency and avoiding the introduction of new or overlapping obligations that would increase fixed administrative costs.

Additionally, the proposal maintains only two *non-thematic Special Instruments* (the Flexibility and Single Margin Instruments). This restructuring serves dual purposes: enhancing predictability for member state contributions while simplifying implementation procedures.[14] However, this administrative streamlining may create inherent tensions, since excessive centralisation of management may weaken multi-level governance and reduce regional participation. The concentration of management procedures at EU and national levels in both Headings 1 and 2 may reduce regional intermediation in structural fund programming and implementation, potentially affecting the principle of *subsidiarity*.[15] Therefore, ensuring a clear division of responsibilities, proportionate controls and the early involvement of implementing partners would help maintain delivery capacity and responsiveness to local investment needs. Their early participation would ensure that simplification improves alignment with market needs rather than creating gaps or overlaps.

12 European Commission, *Commission Staff Working Document*, cit.

13 Ibid.

14 Pari, Marianna and Stéphanie Pradier, "EU Budget 2028-2034. Overview of the Commission's Proposal", in *EPRS Briefings*, September 2025, https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2025)775885.

15 Fattibene, Daniele, "Navigating Global Ambitions: The EU's Development in the Next MFF 2028-2034", in *ETTG Articles*, 25 July 2025, https://ettg.eu/?p=11646.

In this context, NPBIs are best suited to support the funnelling of resources in projects with concrete added value for European competitiveness under Headings 1 and 2. They are also in the best position to *assist national and regional public officials* that will probably struggle with the new governance of the MFF, especially when it comes to planning, managing and disbursing innovative investment plans within the NRPP and other new funding envelopes. In the same fashion, a simplified monitoring framework under Heading 3 could likely support projects beneficial for EU competitiveness also in the external dimension and create broader room for an active role of PDBs and DFIs. However, it also highlights potential trade-offs between responding to the specific needs of external partner countries and measures to support European companies.

Broadly speaking, the shift toward *performance-based disbursement methodology* (cfr. *infra*), while improving accountability, also introduces new complexities for subnational and civil society beneficiaries who must adapt to more stringent performance criteria and reporting requirements. This evolution requires *enhanced technical capacity* at all governance levels to navigate the reformed framework effectively.

NPBIs, PDBs and DFIs are thus positioned to play a crucial *bridging role* in this simplified yet demanding environment. Their expertise in implementing complex financial instruments and coordinating multiple funding sources enables them to support both national policymakers and regional authorities in adapting to streamlined procedures while ensuring that projects demonstrate concrete added value. An active role for implementing partners during the *drafting of all work programmes* under the ECF InvestEU Instrument (cfr. *infra*) would make their *technical assistance and risk assessment capabilities* a useful tool to translate the benefits of administrative simplification into more effective project delivery at the territorial level. As already mentioned, implementing partners could also be formally involved in the design of work programmes under the ECF and in the NRPP architecture. Their early participation would ensure that simplification improves alignment with market needs rather than creating new overlaps.

NPBIs can also play a bridging role between EU and local actors, thanks to their proximity to territorial ecosystems and their experience with complex financial instruments. They would also be best placed to assure that simplification attempts do not translate in unrestrained deregulation by contributing to *preserve funding for the social dimension*, whose portion of the budget is at risk of being curtailed to pursue other strategic priorities, especially under the ECF. Their contribution is particularly valuable for infrastructure – including social infrastructure – which remains essential to Europe's competitiveness and cohesion.

The external dimension requires similar attention. Streamlined procedures under *Global Europe* should be accompanied by multiannual programming to give public authorities and investors sufficient visibility for large-scale infrastructure initiatives, such as those supported through Global Gateway. This will be key to ensuring continuity and credibility in the EU's external investment policy. In this sense, PDBs and DFIs may leverage their established expertise in development-oriented projects in external countries to proactively contribute in the programming phases of interventions under Heading 3.

In conclusion, the shift towards performance-based management will only deliver real simplification if guidance is clear, indicators are outcome-relevant, and reporting remains proportionate to delivery models. Otherwise, the risk is to replace one set of compliance burdens with another, eroding efficiency rather than enhancing it.

1.3 Conditionality: Towards performance-based disbursements

The conditionality principle shapes the Commission's proposal, pursuing multiple interconnected objectives. It transpires along *three main trends* running through the proposal in each Heading.

First of all, it builds on the experience of disbursements in the framework of the *Recovery and Resilience Facility* (RRF), which are more tightly linked to performance and compliance – a shift that now extends beyond the NRPP. Lessons learned with the RRF have evidently affected the logic of the Commission's proposal, which is characterised by a "switch from the past" *from a "cost-based payments to performance-based disbursements"*.[16] The framework establishes a rigorous link between fund disbursement and reform implementation, an approach manifesting through national plan architecture and mirroring RRF methodology and governance. This approach is not limited to a single heading: it now permeates the internal programmes grouped under the NRPP, the competitiveness instruments (including the ECF) and, in different forms, the external dimension (for instance, the performance-oriented design of Global Gateway investment packages).[17] While these mechanisms shift *emphasis toward national governments* through multilevel governance arrangements that diminish territorial influence, they simultaneously strengthen the nexus between reform commitments and resource allocation.[18]

The conditionality framework thereby introduces *stronger accountability mechanisms*, ensuring that access to funding depends on *transparent performance criteria* and contributing to more reliable safeguards against misuse of resources. This is particularly true under the NRPP, as previously independent funds on agriculture, cohesion and migration would be folded under a single envelope with disbursements conditioned upon *pre-agreed reform plans*. As resources to key dossiers such as agriculture and cohesion will be likely reduced in real terms,[19] with allocations to agriculture decreasing from 386,6 billion euros in the current budget to the proposed 295,7 billion, this resulted in one of the most contentious details of the proposal, attracting obstruction from several member states since the first phases of the negotiating process.

In this context, conditionality should be applied in a way that preserves the Union's long-term investment capacity across all policy areas. Performance criteria should therefore reflect not only macroeconomic or fiscal outcomes, but also social and regional development objectives, ensuring that projects in education, health and care – which are essential to competitiveness and inclusion – remain fully eligible and financially viable. From this perspective, the role of implementing partners in advising and carrying out long-term strategic investment plans would also grant a '*social added value*' to EU funding, by monitoring that key areas, like social infrastructure, receive the adequate amount of political and financial attention not only under Heading 1, but also within Heading 2.

Secondarily, enhanced budget protection has emerged as a central concern for the Commission, encompassing both *fraud prevention and purposeful fund utilisation*. For this reason, control mechanisms should be calibrated according to instrument delivery models, establishing clear sequencing and responsibility distribution between Commission and member state authorities. Such systems should remain proportionate and transparent to avoid administrative overload and conditionality "inflation" (cfr. *supra*). This systematic approach aims to ensure resources serve their intended objectives while maintaining appropriate oversight standards. At the same time, several member states have voiced reservations regarding an *excessive centralisation of fund management*, especially when it comes to Heading 2, arguing that such an approach may create operational inefficiencies and reduce national flexibility in implementation. In addition to this, it has been observed that mainstreaming conditionality and performance-based payments will increase the Commission's leverage over member states. Technical discussions have also underlined concerns that strengthened control and verification mechanisms could substantially increase *administrative burdens*, especially for smaller administrations and beneficiaries, unless accompanied by clearer guidance and capacity support measures.[20]

Finally, the relationship between EU fund utilisation and *rule of law* receives substantial reinforcement, maintaining stringent conditions

16 Lausberg, Philipp et al., "Financing Europe's Future", cit.
17 Jones, Alexei, "A Companion Guide to the Global Europe Instrument Proposal", in *ECDPM Briefing Notes*, No. 198 (July 2025), https://ecdpm.org/work/companion-guide-global-europe-instrument-proposal.
18 Maurice, Eric, "Conditionality vs. juste retour", in Lausberg, Philipp et al., "Financing Europe's Future", cit.
19 Rubio, Eulalia, "The MFF Package", cit.
20 European Court of Auditors (ECA), "Performance-Orientation, Accountability and Transparency. Lessons to Be Learned from the Weaknesses of the RRF", in *ECA Reviews*, No. 2/2025 (6 May 2025), https://www.eca.europa.eu/en/publications/RV-2025-02.

for accessing EU resources. One of the most striking examples concerns the NRPP under Heading 1. The Commission proposes *extending compliance requirements* with the rule of law principles and Charter of Fundamental Rights provisions as enabling conditions across all funds. This expansion could enable suspension of Common Agricultural Policy (CAP) payments for Charter violations – previously applicable only to cohesion and migration funding.[21] While this initiative aims to safeguard EU values and financial integrity, it has elicited mixed reactions. Some member states question the legal and political appropriateness of extending conditionality to new policy areas, warning of possible overlaps with existing mechanisms, and the risk of *politicising budgetary decisions* and of a conditionality overload potentially able to alienate partners.[22] These debates highlight the delicate balance between enforcing accountability and preserving the functional stability of EU funding instruments.

Implementation provisions would allow *partial or complete payment suspension* throughout programme execution, proportionate to breach characteristics, including nature, duration, severity and scope. The Plans will additionally promote reforms that strengthen member state rule of law frameworks and democratic protection measures, establishing closer connections between annual Rule of Law Report recommendations and budgetary support for related reforming measures. Furthermore, the Commission proposes introducing *horizontal rule of law conditionality across partnerships*. This mechanism would operate independently of Council approval, empowering Commission-initiated payment suspensions in case of serious rule of law violations.[23]

Despite almost certain opposition from several member states, the Commission's project clearly indicates a new perspective on *how the EU should work*, as a more reform- and policy-based budget would facilitate the streamlining of conditionality throughout the entire EU governance. Such a shift would require closer coordination between EU institutions, member states and implementing partners, ensuring that conditionality enhances coherence and accountability without undermining delivery capacity. In this stricter conditionality environment, implementing partners could provide *risk assessments*, *compliance due diligence* and *technical input* for project screening, development and implementation. However, their core mission remains in structuring and implementing financial instruments, ensuring technical soundness and supporting the long-term effectiveness of EU investment policies, especially when it comes to *innovative services* in the digital domain, competitiveness and ecological transition, that, not coincidentally, constituted a priority already under the RRF.

1.4 Diversification: The strive to Own Resources

The proposal places strong emphasis on *diversifying funding sources* to underpin the MFF's objectives, aiming to expand the EU's *Own Resources* to both reduce the fiscal burden on member states and increase the Union's financial autonomy beyond national contributions. To this end, it introduces new Own Resource streams aligned with policy priorities such as climate action, health and digital transformation, thereby also enhancing capacity for future crisis response. Several of these strategic priorities ultimately aim at the preservation and development of *European public goods*, such as a common defence, the development of strategic infrastructure and the relaunch of European technological prowess, so as to assure a more proactive and autonomous role for the EU.

The proposed sources[24] brough forward by the Commission are:

- *Emissions Trading System (ETS) revenue*: under the proposal, approximately 30 per cent of revenues from auctioned emissions allowances in the current ETS-1 will flow to the EU budget, with projected annual yields of around 9.6 billion euros over 2028-2034.
- *Carbon Border Adjustment Mechanism (CBAM)-*

21 Hansum, Romy et al., "Ripe for Reform. What's in the EU Budget Proposal and What Should Come Next", in *Jacques Delors Centre Policy Briefs*, 1 August 2025, https://www.delorscentre.eu/en/publications/detail/publication/ripe-for-reform-whats-in-the-eu-budget-proposal.

22 Fattibene, Daniele, "Navigating Global Ambitions", cit.

23 Rubio, Eulalia, "The MFF Package", cit.

24 Cassa Depositi e Prestiti, ELTI, JEFIC and NEFI, *Proposals of the European Commission for the Next Multiannual Financial Framework (2028-2034)*, 1 August 2025.

based resources: three-quarters of CBAM certificate sale revenues would flow to the EU budget, estimated at 1.2 billion euros annually for EU budget purposes throughout 2028-2034.
- *E-waste levy*: a roughly EUR 2/kg levy on uncollected electronic equipment intended to incentivise improved waste collection and recycling practices.
- *Tobacco Excise Duty Own Resource (TEDOR)*: applying a 15 per cent call rate on harmonised minimum excise duties on tobacco and related products.
- *Corporate Resource for Europe (CORE)*: fixed annual payments from enterprises with net revenues exceeding 100 million euros, implementing a tiered contribution system where payments scale from 100,000 to 750,000 euros according to revenue thresholds.

While these proposals mark a shift toward greater financial resilience and autonomy, several proposed Own Resource mechanisms have generated initial member state concerns,[25] if not outright rejection, particularly tobacco and corporate levies, due to potential *investment disincentive effects*, lack of competitiveness and *burden on business activities*.[26] A broader debate surrounds the rationale for new revenue-raising mechanisms. According to proponents, since the EU lacks independent tax powers and most revenue originates from national budgets, the introduction of new Own Resources is justified because they help achieve *EU policy priorities* and mitigate the influence of net-balance calculations in budget negotiations.[27] On the contrary, concerns focus on the effect of levies and new contributions on competitiveness, the possible disincentive to private investment and the administrative burden associated with implementing new resource streams.[28]

While the debate has been so far focused on the total amount of Own Resources, the best taxing tools to raise them without hurting competitiveness, and how to better manage national contributions to the common budget, what is still lacking is a more strategic reflection on how a *more financially autonomous EU* could guarantee the production and protection of European public goods. Not only a sustainable ecological and digital transitions, the development of cross-border infrastructure and a more integrated defence would benefit from a more coordinated approach underpinned by more reliable common resources, but it is in member states' mutual interest to exploit a *cross-border dimension* to prepare, support and implement the production of services and policies that they would struggle to roll over on their own.

Negotiations for the next Multiannual Financial Framework (MFF) 2028-2034 are thus critical and could consider the measures proposed by the Commission as a *single package*, to avoid each member state adopting a pick-and-choose attitude with the objective of preserving their own narrow interests. If particular interests will prevail, the risk of an *unbalanced impact on specific member states or economic sectors* hit by the new taxing measures would be likely incremented.

This pathway appears complex. However, the EU would benefit from developing the funding capacity to back its own ambition as a cohesive bloc and an *autonomous international actor*. This is the reason why negotiations over the MFF should be accompanied not only by a reflection over how to raise new resources, but also about their *strategic use* and related governance mechanisms, while maintaining a certain *realism* about the effective reach of the common budget and its Own Resources. Policy-makers and implementing partners alike should consider how spending power alone can bring the EU only so far vis-à-vis the challenges of relaunching EU competitiveness (cfr. *infra*) and projecting its interests abroad. A truly integrated EU needs a clear vision over the vulnerabilities within its internal and international spheres and to develop the adequate

25 Darvas, Zsolt et al., "CORE Concerns: Why a Turnover-Based Levy Is Wrong for the EU Budget", in *Bruegel First Glance*, 22 July 2025, https://www.bruegel.org/node/11097.
26 Zuleeg, Fabian, "Own Resources: the EU's Proposed Levy on Companies Faces Hard Questions", in Lausberg, Philipp et al., "Financing Europe's Future", cit.
27 Darvas, Zsolt et al., "Bigger, Better Funded and Focused on Public Goods: How to Revamp the European Union Budget", in *Bruegel Blueprints*, No. 37 (10 July 2025), https://www.bruegel.org/node/11068.
28 "Taxation in EU Budget Proposal Sends 'Wrong Signal', German Minister Says", in *Reuters*, 17 July 2025, https://www.reuters.com/markets/europe/taxation-eu-budget-proposal-sends-wrong-signal-german-minister-says-2025-07-17.

policy responses accompanying *increased financial firepower* descending from strengthened Own Resources.

2. Bridging internal competitiveness and external projection of the EU

The MFF proposal lays the foundations for what should become, in the years to come, the EU's policies on *competitiveness and external projection*. From the Commission's legislative initiative emerges a programmatic agenda which, by outlining greater synergy between the action of European institutions and national governments, assigns an important role to the *European Investment Bank, NPBIs, PDBs and DFIs*. Such agenda would be pursued (not exclusively) through two key policy and funding tools: the ECF in Heading 2, mostly covering the internal dimension, and Global Europe under Heading 3, focusing on the external projection of EU competitiveness.

2.1 The innovations of the ECF

The EU's delay in strategic sectors of the contemporary economy has been highlighted by the Draghi report as well as by many other studies published in recent years.[29] As mentioned before, *lack of competitiveness* represents an existential threat for Europe: the fact that the EU, for at least a decade now, has not been able to develop innovation to the same extent as *China* and the *United States* risks downsizing its 'economic power' and, consequently, undermining its ability to safeguard its interests on the international stage. This gap with the other two main global economic actors can be traced back to several factors; among them – considering the elements directly attributable to the action of EU institutions – particular weight is given to the *fragmentation of resources* among too many spending programmes, *excessive risk aversion* in financing innovation (especially regarding funds granted to start-ups) and a very *heavy bureaucracy* that often makes the transfer of financial resources from Brussels to European productive realities ineffective. In its proposal, the European Commission seeks to address all these critical issues, identifying the ECF as the instrument intended to serve as the real engine of EU innovation.

With the *ECF* the Commission aims to consolidate several pre-existing investment programmes and create an overarching vision that currently seems to be lacking. Its investment lines would be fourfold: one concerning *Clean Transition and Industrial Decarbonisation*, one on *Health, Biotech, Agriculture and Bioeconomy*, one related to *Digital Leadership*, and finally one pertaining to *Resilience and Security, Defence Industry and Space* (with about 125 billion euros allocated, it would be the most significant). Although this innovative tool could constitute a turning point in EU financial programming, it would not entirely wipe out the past, instead reusing and updating mechanisms and programmes whose impact, it is estimated, has been (at least partially) positive. Among these, in particular, *InvestEU* stands out. In the legislative proposal presented by the Commission, it reappears as part of the ECF under the name *ECF InvestEU Instrument*.

InvestEU, the "heir" of the Juncker Plan,[30] enables selected implementing partners – EIB, IFIs and NPBIs – to provide *guarantees for strategic investments* amounting, in the period 2021–2027, to more than 29 billion euros, supporting investments for more than 420 billion euros. Draghi, in his report, had urged EU institutions to significantly increase the resources allocated to this programme and, likewise, to direct the funds conferred to it towards *higher-risk investments* (especially those in start-ups and small and medium-sized enterprises) capable of fostering *innovation*. Looking at the MFF proposal, it is reasonable to claim that, at least to a certain extent, Draghi's recommendations on this chapter have been followed.[31]

29 See, among others, Pinkus, David et al., "Coordination for EU Competitiveness", in *European Parliament Studies*, March 2024, https://www.europarl.europa.eu/thinktank/en/document/IPOL_STU(2024)747838.

30 Regarding the Juncker Plan, refer to Claeys, Grégory, "Juncker Plan: The EIB in the Driver Seat", in *Bruegel Blog*, 1 July 2025, https://www.bruegel.org/node/5346.

31 In recital 15 of the draft Regulation on establishing the ECF, the Commission explicitly refers to what is stated in the Draghi report with regard to InvestEU. See European Commission, *Proposal for a Regulation on Establishing the European Competitiveness Fund ('ECF'), Including the Specific Programme for Defence Research and Innovation Activities*

In addition to the existing provision of guarantees, implementing partners involved in this programme would also be able to employ other tools, such as *loans or fully-funded equity investments*. Likewise, the Commission has envisaged within this programme a *scale-up facility* specifically aimed at companies – SMEs, small mid-cap companies and mid-cap companies – with high technological potential. However, uncertainty remains regarding the overall size of the budget allocated to the ECF InvestEU Instrument. According to the proposal, "the maximum amount of the budgetary guarantee under the EU Compartment of the ECF InvestEU Instrument shall be EUR 70 000 000 000 in current prices".[32] Nevertheless, this sum could be reached only through a significant transfer of funds from the four policy windows to this instrument. At present, therefore, the amount that will certainly be channelled towards this instrument corresponds to the minimum budget envisaged by the proposal – 17 billion euros.[33]

A significant innovation in the proposal for the MFF also concerns the role of EIB and NPBIs. With regard to these entities, the new ECF InvestEU Instrument would *supersede the current 75-25 split*,[34] thus potentially granting national implementing partners a more prominent role than at present. In this way, the Commission demonstrates its intention to follow the concept of *open architecture*, strengthening a widespread network that enhances the contribution of entities operating in closer proximity to local territories. In addition, to reduce existing bureaucracy and speed up the deployment of investments, the Commission foresees that institutions which have already passed the pillar assessment – a procedure required to become implementing partners – will form the starting structure for the development of ECF InvestEU Instrument.[35] The new legal framework opens to a prominent role for *commercial lenders*, if pillar assessed. Legislators will thus have to reconcile the ambition to involve more commercial and investment banks with the need to protect the use of citizens' money through the prioritisation of institutions operating with a *public service mission*.

2.2 Global Europe pursuing EU competitiveness

Competitiveness is addressed in the MFF proposal also with regard to the EU's external projection in Heading 3. With *Global Europe*, in fact, the Commission explicitly links the protection of the Union's economic interests to the operations carried out with EU funds outside the European continent. This connection is described in emblematic terms in several passages of the proposed Regulation. Particularly noteworthy is the emphasis placed by recital 32 of the legislative proposal on the need to employ Global Europe in order to strengthen "the sustainability, resilience and *diversification of value and supply chains*" – an objective that has become of the utmost importance in light of the growing *geopolitical fragmentation* and high Europe's *dependence* on other countries (above all, China) in key sectors of the contemporary economy.[36]

When dealing with the external action of the EU, the Commission's initiative inevitably takes into account the *new US foreign policy*, as well as the war that continues to devastate Ukraine, a country for which approximately 100 billion euros in loans are planned for the period 2028-2034. At the same time, the MFF outlined by the Commission follows, on migration, the security-oriented approach that has become predominant among member states and focuses on the need to incentivise *returns of irregular migrants*: indicative in this sense is the provision to block funding (excluding humanitarian aid) to countries that do not comply with the readmission agreements

(COM/2025/555), 16 July 2025, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52025PC0555R(01).

32 According to Article 21.3 of the draft Regulation on establishing the ECF.

33 This is included in Article 21.4 of the draft Regulation: "The minimum amount of the Union support from ECF delivered through ECF InvestEU Instrument shall be EUR 17 000 000 000, to be used in support of the general and specific objectives set out in Article 3. This minimum amount shall be increased by the contributions from the work programmes set out in Article 15".

34 In accordance with InvestEU Regulation, 75 per cent of the resources were allocated to the EIB, while the remaining share went to the national implementing partners.

35 This is established by recital 69 of the aforementioned draft Regulation.

36 On Europe's dependence on China, and the need to overcome it, see García-Herrero, Alicia and Abigaël Vasselier, "Updating the EU Strategy on China: Co-Existence while Derisking through Partnership", in *Bruegel Policy Briefs*, 31 October 2024, https://www.bruegel.org/node/10423.

concluded with the EU.[37]

In general, the Commission plans to concentrate its work on *five geographical areas*: Middle East, North Africa and the Gulf (I), Asia and Pacific (II), Americas and Caribbean (III), Europe (IV) and Sub-Saharan Africa (V).[38] In doing so, the Commission aims to structure its action on the basis of the *Team Europe* approach,[39] thus seeking to create synergies and coordination between what is carried out by individual member states and what is implemented by Brussels. In this area too, the Commission plans to follow the open architecture approach; therefore, *no ex-ante allocation of budgetary guarantees is established* among the European Investment Bank, national PDBs/DFIs and Export Credit Agencies (the latter involved for the first time among potential implementing partners). On certain aspects, however, the EIB retains a more prominent role compared to national actors: for example, the EIB alone will be included within the governance of the *Global Europe Investment Board*, a body that, in the Commission's intentions, would be responsible for "guiding" the allocation of guarantees and blending operations.[40]

2.3 The challenges of bridging the internal and external dimension

While the proposal introduces several steps to further integrating the internal and external dimensions and facilitating strategic investments, especially those aimed at relaunching European competitiveness, a number of challenges would arise in case of approval in its current fashion. The explicit call to connect new funding instruments under the *Global Europe Initiative* with the need for a *more strategic use of budget resources* would constitute a new challenge for PDBs and DFIs within development cooperation and external investments, by, *de facto*, introducing a *new interpretation of policy coherence* and more easily envisioning exceptions to the goal set by the Treaties about the *eradication of poverty*.

The new regulation requires *consistency* and coherence between actions funded under Global Europe and trade, investments and the ECF. Coherence *per se* is a welcome objective for an external funding framework still affected by a certain degree of fragmentation. However, financial actors will be called to carefully identify and develop new projects responding to two potentially competing goals: respecting the Treaties on poverty eradication and *embedding industrial policy* in the external action.

Moreover, *Official Development Assistance* (ODA) may also be exposed to an excessive level of flexibility, as new regulations set only one quantitative target (at least 90 per cent of the expenditure), while providing the Commission with the discretion to modify such benchmark without amending the whole regulation. The temptation to exploit such flexibility to divert resources from the Treaties' goal on poverty to respond to emerging challenges affecting EU's other strategic interests, and the broadly-defined goal of 'pursuing EU competitiveness', could be challenging. The Team Europe approach may also be undermined, as national institutions, including NPBIs, would face increased *unpredictability* descending from a fluctuating target. Too much flexibility would also contradict the declared goal of a clearer planning and disbursement for investments.[41]

There also remain elements to be clarified regarding the *procurement limitations* introduced by the model outlined by the Commission. On

37 This is provided for in Article 12.3 of the draft Regulation concerning Global Europe. See European Commission, *Proposal for a Regulation of the European Parliament and of the Council Establishing Global Europe* (COM/2025/551), 16 July 2025, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52025PC0551.

38 According to the Commission's proposal, approximately 60 billion euros are expected to be allocated to Sub-Saharan Africa, 43 billion to Europe, 42 billion to the Middle East, North Africa and the Gulf, 17 billion to Asia and the Pacific, and 9 billion to the Americas and the Caribbean.

39 Article 11 of the draft Regulation concerning Global Europe is devoted to the need to operate according to the Team Europe approach.

40 According to Article 25.6 of the draft Regulation concerning Global Europe, "the Investment Board shall be composed of representatives of the Commission and of the High Representative, of all Member States and of the EIB". Implementing partners such as DFIs may, under certain circumstances, be granted observer status. Some entities have already requested to include, within the Board, the European Bank for Reconstruction and Development (EBRD), the development finance institutions and the Joint European Financiers for International Cooperation (JEFIC) as permanent observers.

41 Jones, Alexei, "A Companion Guide to the Global Europe Instrument Proposal", in *ECDPM Briefing Notes*, No. 198 (July 2025), https://ecdpm.org/work/companion-guide-global-europe-instrument-proposal.

this issue, it will be necessary to find suitable instruments to adequately balance the EU's strategic interests with the creation of tangible benefits for partner countries; in this perspective, the idea of promoting a "*no dumping*" policy, in order to foster the quality of products and services, stands out.

Implications of pillar assessment processes for indirect management also deserve attention, especially when it comes to the connections between the internal and external spheres. While streamlining procedures can be a positive factor in accelerating the transfer of resources from Brussels to implementing partners, it is equally true that omitting such a process – as in the case of indirect management within Global Europe involving certain entities – could affect the efficient allocation of funds. Furthermore, with regard to the role of Export Credit Agencies (ECAs), it would be important to take into account the specific nature of the function performed by these actors in order also to enhance already existing *synergies* arising from their cooperation with PDBs and DFIs. However, the involvement for the first time of ECAs as implementing partners poses the question of their pillar assessment: a procedure that, with the aim of preserving the efficient allocation of resources, should not be overlooked.

Finally, by providing the implementing partners of the ECF InvestEU Instrument with higher-risk tools than simple guarantees (such as fully-funded equity investments), it will be important to operate on the basis of a jointly developed *planning framework* at the European level, in order to maximise synergies and improve implementation. Moreover, it would be critical to rely on existing rules that require all implementing entities to operate within a context of fairness. For these reasons as well – with regard both to the ECF InvestEU Instrument and to the overall ECF and Global Europe – strengthening the role of the implementing partners in the *design phase* of the process appears increasingly useful, in order to consolidate a shared overall vision and make the transfer of resources to territories more effective.

3. Conclusions: Innovating, but…

The Commission's proposal introduces several *innovations* to the governance of the MFF, as this paper has shown, through a multilayered approach that permeates the entire budget with the objective of making it *more flexible, simple and performance-based*. However, the new budget would also reflect developments already unfolding within the EU. One could argue that the first example of *path dependency* is reflected in the immediate opposition of influential member states, starting with Germany and the Netherlands, to an increase in the total budget due to its implementation costs, as well as in the refusal of several other EU countries to accept cuts or constraints in the use of EU funding in politically sensitive sectors, such as agriculture and cohesion. A chain of events already experienced during past negotiations for the EU budget.

In the same fashion, the request from several parliamentary groups for an enhanced role of the *European Parliament* in setting funding priorities was to be expected. In an attempt to nuance early opposition from the assembly – which would hinder the approval of the total budget, but also of single headings – the Commission has already offered a number of tweaks to its original proposal without compromising its core elements. Some of the changes, such as the introduction of "*regional checks*" to preserve the role of local authorities and the ringfencing of 10 per cent of NRPP for farmers, focus mainly on Heading 1 and tackle some of the trade-offs between, on the one side, *flexibility, conditionality and simplification*, and, on the other side, *predictability, the importance of pursuing local investments needs and avoiding new costs*. However, as this paper has highlighted, similar challenges condition also Heading 2 and 3, and will have to be solved during the negotiating process.

Beyond the foregone beginning of a complex process, with the *Danish presidency* ready to instil momentum in negotiations by presenting leaders with the possibility to discuss the next MFF already during the European Council in December, the proposal itself contains several *instances of continuity*. First of all, it has already been mentioned how *lessons learned from the RRF* permeate the entire structure of the proposal. In the same fashion, the importance of preserving past successful funding initiatives like InvestEU has been confirmed through *the launch of ECF InvestEU Instrument* in order to strengthen European competitiveness.

Moreover, the consolidation of programmes in more *simplified funding envelopes* constitutes a step further from previous attempts, especially in the external dimension. The new Global Europe Initiative (GEI) had already been anticipated under the current MFF, when ten external instruments were merged within a single envelope, the *Neighbourhood, Development and International Cooperation Instrument* (NDICI). The GEI takes the effort of consolidation a step further, by incorporating NDICI in the same package with other key funding instruments such as the *Instrument for Pre-Accession* (IPA III) and the *Humanitarian Aid instrument* into a single 200 billion euro fund.

Finally, the focus on a *more assertive geoeconomic role* for the EU reflects a long-term trend in European policymaking that privileges the pursuing of strategic interests in the external action. Such 'pragmatic' approach has been a political trait of *Ursula von der Leyen* since her first term, when her cabinet was labelled as a "*geopolitical Commission*" driven by European interests even before the emergence of more recent crises, such as the Russian full-scale aggression against Ukraine, or the US shift from reliable ally to a more diffident partner. The current budgetary proposal has been shaped by such institutional path dependency, and then compounded by recent international developments, as discussed above. However, such approach exposes underlying tensions in the proposal: on the one side, the *pursuing of a 'pragmatic' geoeconomic agenda*, both internally and externally (by facilitating investments in competitiveness capacities); on the other side, the *preservation of established EU policy (and normative) goals* to assure the allocation of resources to those more in need in both spheres, for instance through cohesion funds and development cooperation.

As such, the proposal for the next MFF presents a number of challenges that will affect the two-year negotiating process between EU institutions and member states. Such challenges, as discussed in this paper, can be condensed in a set of open questions about:

1. *Flexible, but predictable, investment governance in the internal dimension* – How to better manage a more pronounced top-down governance in the internal dimension, underpinned at the EU level by the flexibility granted to the Commission and at the national level by an enhanced planning role for central governments? How to preserve a certain level of predictability through long-term programming, also thanks to an active involvement of implementing partners?
2. *A trade-off between an external geoeconomic agenda and long-term EU values* – How can NPBIs, PDBs and DFIs reconcile a geoeconomic interest-driven agenda and the pursuing of investments aligned with long-term European values in the open architecture framework characterising the external dimension? How to manage development cooperation and mutually-beneficial partnerships with third countries while embedding a more strategic agenda?
3. *Maintaining accountability vis-à-vis a simplified governance* – How to provide accountability in the face of increased flexibility, a centralised approach and a simplified governance? Would innovative governance solutions be a promising way forward, by devising institutional arrangements providing for the involvement of NPBIs, PDBs and DFIs in the planning and disbursing phases within the NRPP, the ECF and Global Europe?
4. Financing European security and defence through innovative multi-level instruments – Can the EU leverage the role of NPBIs to strengthen Europe's security and defence capacity in a way that complements frameworks such as the ECF and the European Defence Fund? Building on emerging national experiences – where NPBIs have been used to manage dedicated security and defence funds or mobilise market-based financing – could a European network of promotional banks contribute to pooling resources, integrating public and private capital, and supporting technological and industrial resilience in the security and defence sectors, while

maintaining coherence with EU rules and the Union's strategic partnerships with NATO?

5. *Supporting Ukraine in the long-term with feasible funding solutions* – How can the next budget provide for long-term support for Ukraine as the conflict drags on and the country faces the challenge of closing a budget gap on annual bases? How can implementing partners contribute to building and rolling over predictable funding tools beyond emergency solutions?

updated 15 December 2025

Istituto Affari Internazionali

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