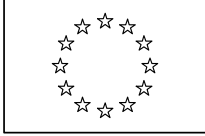

EUROPEAN COMMISSION

Brussels, 29.6.2011
COM(2011) 500 final

PART I

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

A Budget for Europe 2020

{SEC(2011) 867 final}
{SEC(2011) 868 final}

Foreword

The European Union works everyday to help realise the aspirations of our 500 million people. I believe it can be a force for the renewal of the highly competitive social market economy in Europe and globally. To do this, we need a budget that is innovative. A budget that is attuned to the new realities of globalisation. A budget that responds to today's challenges and creates opportunities for tomorrow.

This is an innovative budget. I invite you to look beyond the traditional headings and focus on how throughout the budget we will deliver the Europe 2020 goals that we have collectively defined. That is why we break from the culture of entitlement where some public authorities expect to spend funds as they wish. Now every request must be clearly linked to the goals and priorities that we have commonly agreed. That is how every euro spent will be a multi-purpose euro. A euro can strengthen cohesion, boost energy efficiency and the fight against climate change, and promote social targets, increase employment and reduce poverty at the same time. It can have a major leverage effect in many areas.

All across Europe, governments, businesses and families are choosing carefully where to spend their money. It is a time to think carefully about where to cut back and where to invest for the future. We need to be rigorous and, at the same time, we also need investment for growth in Europe.

The European Union must also live within its means while investing for the future. We have a relatively small budget of only around 1% of Europe's wealth (measured by GNI) which represents one fiftieth of the budgets of Member States. But we must make a big impact with it, and use every single euro to its full potential.

Today we are making those choices for the period from 2014 to 2020.

The EU budget we propose will not cost taxpayers more than at present. But it will give them more in return. We are modernising the European budget to make savings in some areas so we can spend more in the priority areas that really matter. I am putting forward an ambitious budget in areas where Europe can make a difference. It is a budget based on a pan-European logic, which focuses on where we can exploit synergies by pooling money and which funds actions that would be more expensive to fund separately at national level.

The new budget will be simpler, more transparent and fairer. We propose a budget with the ability to mobilise private finance. And we propose that the way the budget is financed changes with new revenue streams being created to partially replace contributions based on the gross national income of each Member State. We believe that this will give families and governments a better deal. It will make it a truly European budget. A budget for integration. A budget that avoids duplication of expenditure by Member States and that brings added value through the synergy of action that we can decide at European level that cannot be implemented without this European perspective.

A large part of the budget will be aimed at getting people into work and the economy growing, tied in with the Europe 2020 strategy for smart, sustainable and inclusive growth. For example, a Connecting Europe Facility will finance the missing links in energy, transport and information technology, thus strengthening the integrity of the internal market, linking the East with the West and the North with the South, and

creating real territorial cohesion to the benefit of all. The budget will invest in Europe's brains by increasing the amounts allocated to education, training, research and innovation. These areas are so crucial for Europe's global competitiveness so that we can create the jobs and ideas of tomorrow. In a world where we are competing with other blocs, Europe's best chance is to pool the resources at our disposal, so we can deliver a highly competitive social market economy that meets our Europe 2020 targets. With our economies now more interdependent than ever before, we all have a stake in strengthening economic recovery in each and every one of our Member States.

In the same vein, the share of the budget dedicated to agriculture underpins a true common European policy of strategic importance, where more than 70% of the funding is no longer national and where EU funding is less expensive than 27 national agriculture policies. The Common Agricultural Policy will be modernised to deliver safe and healthy food, protect the environment and better benefit the small farmer. It illustrates how one euro can and must serve many goals.

The world is becoming a smaller place. Shifting alliances and emerging new powers mean that Europe must do more to make its voice count. The money invested in helping Europe engage with the world will be increased. There will be more money for our neighbourhood, and more money delivering on our commitments to help the poorest in the world. If we face tough times at the moment, they face the toughest of times all of the time.

The theme of solidarity is enshrined throughout this proposal - solidarity with the poorest Member States and regions, solidarity in tackling together the challenges of migration, solidarity in terms of energy security and solidarity with people in third countries.

The common perception that Europe spends most of its money on civil servants and buildings is wrong. It is actually only 6 per cent of the budget. But I do believe that the European institutions should also show solidarity with European citizens, in an era where rigorous cost savings and maximum efficiency are demanded at all levels. That is why there will be no increase in administrative expenditure and a 5 per cent cut in European staff over the next seven years.

I believe we are presenting ambitious but responsible proposals. We cut in some areas and increase in the priority areas. We have resisted the temptation to make small adjustments that would result in the same kind of budget. Most of all, we aim to give value for money for Europe's citizens.

The European Parliament, the Member States and the Commission now need to come together to turn these proposals into an agreement. I expect many difficult debates in the months to come, but with a real European spirit on all sides, I believe we can reach agreement on an ambitious and innovative budget that can make a real impact on people's lives.

Jose Manuel Durão Barroso

President of the European Commission

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PART I

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

A Budget for Europe 2020

{SEC(2011) 867 final}
{SEC(2011) 868 final}

1. CONTEXT

In preparing its proposals for the future budget of the European Union, the Commission has faced the challenge of being able to fund the growing number of policy areas where the EU can be more effective by acting through the EU level in the current climate of national austerity and fiscal consolidation. This has led it to propose a budget with a strong pan-European logic, designed to drive the Europe 2020 growth strategy. This proposal is innovative in terms of the quality of its spending proposals and also in terms of how the EU budget should be funded in future, potentially easing the direct impact on national budgets and making it a truly European budget.

In the wake of the economic and financial crisis, the European Union has taken significant steps to improve coordination of economic governance to underpin recovery. The European Parliament and the Member States have recognised the benefits of managing the EU's interdependence through the structured approach set out in the European semester of economic policy coordination. The next Financial Framework has been designed to support this process. It provides a long term vision of the European economy going beyond the current fiscal difficulties of some Member States. The EU budget is not a budget for "Brussels" - it is a budget for EU citizens. It is small in size and is a budget that is invested in the Member States in order to produce benefits for the European Union and its citizens. It helps to deliver the EU's growth strategy because it has a strong catalytic effect, in particular when harnessed to meeting the targets of the Europe 2020 strategy.

Smart, sustainable and inclusive growth is the leading theme for this proposal. The Commission is proposing to increase the amounts allocated to research and innovation, education and SME development. It is proposing to unlock more of the potential of the Single Market by equipping it with the infrastructure it needs to function in the twenty first century. It is proposing to make the Common Agricultural Policy more resource efficient, so that it not only delivers high quality food but also helps to manage our environment and fight climate change. The theme of solidarity also runs through this proposal – solidarity with the poorest Member States and regions by concentrating the biggest part of cohesion spending on their needs, solidarity in tackling together the challenges of migration and in coping with disasters, solidarity in terms of energy security and solidarity with people in third countries who need our support for their immediate humanitarian needs and their long term development.

The Commission shares the concern of the European Parliament[1] that "the way the system of own resources has evolved … places disproportionate emphasis on net balances between Member States thus contradicting the principle of EU solidarity, diluting the European common interest and largely ignoring European added value". In making these proposals, the Commission is seeking to put the EU's finances on a different track – to begin moving away from a budget dominated by contributions based on gross national income by giving the EU budget a share of genuinely "own resources", more in line with the Treaty provisions, which state that the budget shall be financed wholly from own resources.

In drawing up this proposal for the next multiannual financial framework (MFF), the Commission has examined the impact of current spending instruments and programmes, has

[1] European Parliament Resolution of 8 June 2011 on 'Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe'.

consulted widely with stakeholders[2] and has analysed options for the design of instruments and programmes under the next multiannual financial framework[3].

2. THE PROPOSED MULTIANNUAL FINANCIAL FRAMEWORK

In deciding on the overall amount to propose for the next MFF, the Commission has taken account of the views of the European Parliament that "freezing the next MFF at the 2013 level…is not a viable option … [and that] … at least a 5% increase of resources is needed for the next MFF"[4]. It has also borne in mind the conclusions of the European Council[5] that it is essential that "the forthcoming Multi-annual Financial Framework reflect the consolidation efforts being made by Member States to bring deficit and debt onto a more sustainable path. Respecting the role of the different institutions and the need to meet Europe's objectives … [it is necessary] to ensure that spending at the EU level can make an appropriate contribution to this work".

The Commission is convinced of the added value of spending at EU level. Current MFF spending represents just over 1% of EU GNI and is small in relation to the pan-European needs regularly identified in the European Parliament and in the Council. The Commission proposes a financial framework with 1.05% of GNI in commitments translating into 1% in payments coming from the EU budget. A further 0.02% in potential expenditure outside the MFF, and 0.04% in expenditure outside the budget will bring the total figure to 1.11%: this includes financial amounts booked to respond to crises and emergencies (which cannot be foreseen, such as humanitarian interventions), and expenditures which benefit from *ad hoc* contributions from Member States (for instance, the EDF which has a contribution key which differs from that of the EU budget). In proposing this framework, the Commission has sought to strike the right balance between ambition and realism, given the time period in which the budgetary negotiations will take place.

In line with the established practice for the multiannual financial framework, the Commission presents its proposal expressed in terms of future financial commitments. It also provides details on the expected rhythm of payments so as to give greater predictability, which is of particular importance at a time of budgetary consolidation, which requires a tight control on the payment levels at the start of the next period.

The Commission has decided to propose the following multiannual financial framework for the period 2014-2020:

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[2] See, for example, the details on the consultation process prior to the adoption of the EU budget review, http://ec.europa.eu/budget/reform/issues/read_en.htm

[3] Details of the Commission's evaluation of spending under the 2007-2013 MFF and its analysis of the impacts of the current proposals are set out in the accompanying staff working document SEC (2011) 868.

[4] European Parliament Resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe.

[5] Conclusions of the European Council of 29 0ctober 2010.

MULTIANNUAL FINANCIAL FRAMEWORK (EU-27)

(EUR million - 2011 prices)

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
1. Smart and Inclusive Growth	**64.696**	**66.580**	**68.133**	**69.956**	**71.596**	**73.768**	**76.179**	**490.908**
of which: Economic, social and territorial cohesion	50.468	51.543	52.542	53.609	54.798	55.955	57.105	376.020
2. Sustainable Growth: Natural Resources	**57.386**	**56.527**	**55.702**	**54.861**	**53.837**	**52.829**	**51.784**	**382.927**
of which: Market related expenditure and direct payments	42.244	41.623	41.029	40.420	39.618	38.831	38.060	281.825
3. Security and citizenship	**2.532**	**2.571**	**2.609**	**2.648**	**2.687**	**2.726**	**2.763**	**18.535**
4. Global Europe	**9.400**	**9.645**	**9.845**	**9.960**	**10.150**	**10.380**	**10.620**	**70.000**
5. Administration	**8.542**	**8.679**	**8.796**	**8.943**	**9.073**	**9.225**	**9.371**	**62.629**
of which: Administrative expenditure of the institutions	6.967	7.039	7.108	7.191	7.288	7.385	7.485	50.464
TOTAL COMMITMENT APPROPRIATIONS	**142.556**	**144.002**	**145.085**	**146.368**	**147.344**	**148.928**	**150.718**	**1.025.000**
as a percentage of GNI	1,08%	1,07%	1,06%	1,06%	1,05%	1,04%	1,03%	1,05%

	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
TOTAL PAYMENT APPROPRIATIONS	**133.851**	**141.278**	**135.516**	**138.396**	**142.247**	**142.916**	**137.994**	**972.198**
as a percentage of GNI	1,01%	1,05%	0,99%	1,00%	1,01%	1,00%	0,94%	1,00%

OUTSIDE THE MFF	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
Emergency Aid Reserve	350	350	350	350	350	350	350	2.450
European Globalisation Fund	429	429	429	429	429	429	429	3.000
Solidarity Fund	1.000	1.000	1.000	1.000	1.000	1.000	1.000	7.000
Flexibility instrument	500	500	500	500	500	500	500	3.500
Reserve for crises in the agricultural sector	500	500	500	500	500	500	500	3.500
ITER	886	624	299	291	261	232	114	2.707
GMES	834	834	834	834	834	834	834	5.841
EDF ACP	3.271	4.300	4.348	4.407	4.475	4.554	4.644	29.998
EDF OCT	46	46	46	46	46	46	46	321
Global Climate and Biodiversity Fund	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.
TOTAL OUTSIDE THE MFF	**7.815**	**8.583**	**8.306**	**8.357**	**8.395**	**8.445**	**8.416**	**58.316**

	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
TOTAL MFF + OUTSIDE MFF	**150.371**	**152.585**	**153.391**	**154.725**	**155.739**	**157.372**	**159.134**	**1.083.316**
as a percentage of GNI	1,13%	1,13%	1,12%	1,12%	1,11%	1,10%	1,09%	1,11%

3. FINANCING THE EU BUDGET

The need for modernisation of the financial framework applies not only to the spending priorities and their design, but also to the financing of the EU budget, which has been increasingly called into question in recent years. The Treaty on the Functioning of the European Union reiterates the original intention that the EU budget shall be financed wholly from own resources. However, the reality of the situation is that today more than 85% of EU financing is based on statistical aggregates derived from Gross National Income (GNI) and VAT. These are widely perceived as national contributions to be minimised by Member States. This has given rise to a "my money back" attitude on the part of the net contributors, distorting the rationale for an EU budget and questioning the overarching solidarity principle of the Union. This has also led to over-concentration on net payments and balances and has prevented the EU budget from playing its full role in delivering added value for the EU as a whole.

The time has come to start re-aligning EU financing with the principles of autonomy, transparency and fairness and equipping the EU to reach its agreed policy objectives. The purpose of proposing new own resources is not to increase the overall EU budget but to move away from the "my money back" attitude and to introduce more transparency into the system. It is not about giving the EU fiscal sovereignty but rather about returning to financing mechanisms that are closer to the original intention of the treaties. Therefore, the Commission's proposal would lead to a reduction in direct contributions from Member State budgets.

In the budget review[6], the Commission set out a non-exhaustive list of possible financing means that could gradually replace national contributions and relieve the burden on national treasuries. It also listed several criteria to be applied to their consideration. The Commission has carried out extensive analysis of the options[7] and has decided to propose a new own resource system based on a financial transactions tax and a new VAT resource. These new own resources would partially finance the EU budget and could fully replace the existing complex VAT-based own resource, which the Commission proposes to eliminate, and reduce the scale of the GNI-based resource. The Commission's proposal for a Council Decision on new own resources is detailed in an accompanying legislative text[8]. In this context, the Commission supports the call made by the European Parliament for an inter-parliamentary conference with national parliaments to discuss the issue.

For the reasons highlighted above, the Commission is also proposing an important simplification to the problem of rebates and corrections. Attempts to even out differences between Member States' payments to the EU budget and receipts from different EU spending policies cause distortions in the budget and impair its capacity to deliver its added value. That is why the Commission is proposing, in line with the conclusions of the Fontainebleau European Council of 1984, to contain the contributions of those Member States that would otherwise face a budgetary burden which is excessive in relation to their relative prosperity.

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[6] COM (2010) 700

[7] For details see the accompanying staff working document SEC (2011) 876

[8] COM (2011) 510

4. PRINCIPLES UNDERPINNING THE EU BUDGET

The EU budget is not like national budgets. The EU does not fund direct healthcare or education. It does not fund the police or defence forces as national budgets do. It has a pan-European, not a national, logic. Its comparatively small size allows it to be concentrated where it delivers high EU added value[9]. The EU budget does not seek to fund interventions that the Member States could finance by themselves. It exists because there are activities that need to be funded to enable the EU to function or because they can be done more economically and effectively through the collective funding of the EU budget. The EU budget exists to:

(a) fund the common policies that Member States have agreed should be handled at the EU level (for example, the Common Agricultural Policy);

(b) express solidarity between all Member States and regions, to support the development of the weakest regions, which also allows the EU to function as a single economic space (for example, through cohesion policy);

(c) finance interventions to complete the internal market – that not even the most prosperous Member States could finance on their own. The EU budget allows for a pan-European perspective rather than a purely national perspective (for example, by funding pan-European investment in infrastructure). It also helps to cut out expensive duplication between different national schemes pursuing partly the same objectives;

(d) ensure synergies and economies of scale by facilitating cooperation and joint solutions to issues that cannot be supplied by the Member States acting alone (for example, the pursuit of world class research and innovation, cooperation on home affairs, migration and justice);

(e) respond to persistent and emerging challenges that call for a common, pan-European approach (for example, in environment, climate change, humanitarian aid, demographic change and culture).

Against this background, in the design of the next MFF, the Commission has implemented the principles it outlined in the 2010 budget review:

- Focus on delivering key policy priorities
- Focus on EU added value
- Focus on impacts and results
- Delivering mutual benefits across the European Union

The EU budget expresses "policy in numbers". As such, the funding must go hand in hand with the existing regulatory environment and the policy priorities in the relevant areas. The funding must deliver the expected results – public authorities do not have an "entitlement" to receive funds to spend as they wish, rather they receive EU funding to help them deliver on

[9] For examples of the added value of EU spending see the accompanying staff working document SEC (2011) 867

commonly agreed EU objectives. Therefore, the programmes and instruments included in this MFF proposal have been redesigned to ensure that their outputs and impacts push forward the key policy priorities of the EU. Major hallmarks of the next set of financial programmes and instruments will be a focus on results, increased use of conditionality and the simplification of delivery:

- **Results** will be clearly related to the implementation of the Europe 2020 strategy and the achievement of its targets. This means concentrating programmes on a limited number of high profile priorities and actions that achieve a critical mass. Fragmentation and uncoordinated interventions must be avoided. Where possible, existing programmes will be merged (for example in areas such as home affairs, education and culture) and/or redesigned (such as research and cohesion) to ensure integrated programming and a single set of implementation, reporting and control mechanisms.

- **Simplification:** current funding rules have evolved not only in response to the need for accountability on how public money is spent but also to take account of previous problems. The result is a diversity and complexity that is difficult to implement and control. This complexity imposes a heavy administrative burden on beneficiaries as well as on the Commission and Member States, which can have the unintended effect of discouraging participation and delaying implementation. Work is currently underway to simplify both the general rules (Financial Regulation) and the sector specific rules.

- **Conditionality**: In order to sharpen the focus on results rather than on inputs, conditionality will be introduced into programmes and instruments. This is particularly relevant in the large spending blocs of cohesion policy and agriculture, where Member States and beneficiaries will be required to demonstrate that the funding received is being used to further the achievement of EU policy priorities. More generally the Commission will ensure coherence between the overall economic policy of the EU and the EU budget, in particular to avoid situations where the effectiveness of EU funding is undermined by unsound macro-fiscal policies.

- **Leveraging investment:** By working with the private sector on innovative financial instruments it is possible to magnify the impact of the EU budget, enabling a greater number of strategic investments to be made, thus enhancing the EU's growth potential. Experience in working most notably with the European Investment Bank (EIB) group, national and international public financial institutions has been positive and will be taken forward in the next MFF. Guarantees and risk sharing arrangements can allow the financial sector to provide more equity and lend more money to innovative companies, or to infrastructure projects. In this way, such financial instruments can also contribute to the overall development of post-crisis financial markets.

5. THE MAJOR NEW ELEMENTS

The Commission's ambition for the next EU budget is to spend differently, with more emphasis on results and performance, concentrating on delivering the Europe 2020 agenda through stronger conditionality in cohesion policy and greening of direct payments to farmers. The next budget should be modernised by reallocating resources to priority areas such as pan-

European infrastructure, research and innovation, education and culture, securing the EU's external borders and external relations policy priorities such as the EU's neighbourhood. It addresses cross-cutting policy priorities, such as environmental protection and the fight against climate change, as an integral part of all the main instruments and interventions. Full details of the approach in each policy area are provided in the accompanying part II of this Communication. The following section sets out the key changes that will be made in the main spending areas.

5.1. Horizon 2020: A Common Strategic Framework for research, innovation and technological development

The EU faces a significant innovation gap[10], which needs to be addressed if the EU is to compete with other developed economies and emerging, developing economies. The EU as a whole is lagging behind Japan and the United States in a number of key indicators, such as the number of patents registered, the number of medium-high and high-tech product exports and the percentage of GDP expenditure on research and development.

Research and innovation help deliver jobs, prosperity and quality of life. Although the EU is a global leader in many technologies, it faces increasing challenges from traditional competitors and emerging economies alike. Joint programmes pool research efforts and can thus deliver results that individual Member States cannot deliver on their own.

The challenge is to promote increased investment in research and development across the EU, so that the headline Europe 2020 target of 3% of GDP investment is reached. The EU must also improve its record of turning scientific knowledge into patented processes and products for use not only in high-tech industries but perhaps even more importantly in traditional sectors. This requires effort from the public authorities, the private sector and the research community. The Commission began a major overhaul of the EU's research governance structures with the creation of the European Research Council, which is now producing positive results. The Commission proposes to go further and reorganise the EU's current research and innovation funding instruments (notably the framework programmes for research and the Competitiveness and Innovation Programme) to create a stronger link with defined policy objectives and to simplify procedures for implementation. This will also alleviate the administrative burden on beneficiaries.

The Commission proposes that future research and innovation funding be based on three main areas that are firmly anchored in the Europe 2020 strategy:

- excellence in the science base;
- tackling societal challenges;
- creating industrial leadership and boosting competitiveness.

A common strategic framework (to be called Horizon 2020) will eliminate fragmentation and ensure more coherence, including with national research programmes. It will be closely linked to key sectoral policy priorities such as health, food security and the bio-economy, energy and climate change. The European Institute for Technology will be part of the Horizon 2020

[10] See the Innovation Union Competitiveness Report 2011, SEC (2011) 739.

programme and will play an important role in bringing together the three sides of the knowledge triangle – education, innovation and research – through its Knowledge and Innovation Communities. One feature of the new approach to research funding will be the increased use of innovative financial instruments, following the successful example of the Risk Sharing Finance Facility.

The Commission proposes to allocate €80 billion for the 2014-2020 period for the Common Strategic Framework for Research and Innovation.

This funding will be complemented by important support for research and innovation in the Structural Funds. For example, in the period 2007-2013 around €60 billion was spent on research and innovation across Europe's regions and similar levels of spending can be expected in the future.

5.2. Solidarity and investment for sustainable growth and employment

Cohesion policy is an important expression of solidarity with the poorer and weakest regions of the EU – but it is more than that. One of the greatest successes of the EU has been its capacity to raise living standards for all its citizens. It does this not only by helping poorer Member States and regions to develop and grow but also through its role in the integration of the Single Market whose size delivers markets and economies of scale to all parts of the EU, rich and poor, big and small. The Commission's evaluation of past spending has shown many examples of added value and of growth and job creating investment that could not have happened without the support of the EU budget. However, the results also show some dispersion and lack of prioritisation. At a time when public money is scarce and when growth enhancing investment is more needed than ever, the Commission has decided to propose important changes to cohesion policy.

Cohesion policy also has a key role to play in delivering the Europe 2020 objectives and targets throughout the EU. The Commission proposes to strengthen the focus on results and the effectiveness of cohesion spending by tying cohesion policy more systematically to the Europe 2020 objectives. In addition, it proposes to introduce a new category of region – '**transition regions**' to replace the current phasing-out and phasing-in system. This category will include all regions with a GDP per capita between 75% and 90% of the EU-27 average.

Unemployment and persistently high rates of poverty call for action at EU and national level. As the Union faces the growing challenges of shortfalls in skill levels, under-performance in active labour market policy and education systems, social exclusion of marginalised groups and low labour mobility there is a need both for policy initiatives and concrete supporting action. Many of these challenges have been exacerbated by the financial and economic crisis, demographic and migratory trends and the fast pace of technological change. Unless tackled effectively, they constitute a significant challenge for social cohesion and competitiveness. It is therefore essential to accompany growth enhancing investment in infrastructure, regional competitiveness and business development with measures related to labour market policy, education, training, social inclusion, adaptability of workers, enterprises and entrepreneurs and administrative capacity.

This is where the European Social Fund (ESF) has a key role to play and it is proposed that Member States be required to set out the way in which different funding instruments would contribute to delivering the headline targets of Europe 2020, including by establishing minimum shares of the structural funds support for the ESF for each category of region (25%

for convergence regions, 40% for transition regions, 52% for competitiveness regions, based on the Cohesion Fund continuing to represent one third of the cohesion policy allocation in eligible Member States, and excluding territorial co-operation). The application of these shares result in a minimum overall share for the ESF of 25% of the budget allocated to cohesion policy, i.e. €84 billion. The ESF will be complemented by a number of instruments directly managed by the Commission, such as PROGRESS and the EURES network to support job creation.

The European Globalisation Adjustment Fund (EGF) is a flexible fund, outside the financial framework, which supports workers who lose their jobs as a result of changing global trade patterns and helps them to find another job as rapidly as possible. The amounts which are needed vary from year to year, that is why the Commission is proposing to keep the EGF outside the financial framework.. The EGF can also be used to help those in the agriculture sector whose livelihoods could be affected by globalisation.

In order to increase the effectiveness of EU spending and in line with the territorial approach of the Lisbon Treaty, the Commission proposes to establish a common strategic framework for all structural funds, to translate the Europe 2020 objectives into investment priorities. This is designed to breathe life into the territorial cohesion objective of the Lisbon Treaty. In operational terms, the Commission proposes to conclude a partnership contract with each Member State. These contracts will set out the commitment of partners at national and regional level to utilise the allocated funds to implement the Europe 2020 strategy, a performance framework against which progress on commitments can be assessed.

There should therefore be a strong link to the national reform programmes and the stability and convergence programmes drawn up by the Member States, as well as the country-specific recommendations adopted by the Council on this basis. To ensure that the effectiveness of cohesion expenditure is not undermined by unsound macro-fiscal policies, conditionality linked to the new economic governance will complement the sector specific ex ante conditionality set out in each contract.

The contracts will set out clear objectives and indicators and establish a limited number of conditionalities (both *ex ante* and linked to the achievement of results so that they can be monitored), and include a commitment to give yearly account of progress in the annual reports on cohesion policy. Funding will be targeted on a limited number of priorities: competitiveness and transition regions would primarily devote their entire budgetary allocation, except for the ESF, to energy efficiency, renewable energies, SME competitiveness and innovation, while convergence regions would devote their allocation to a somewhat wider range of priorities (where necessary, including institutional capacity building).

To reinforce performance, new conditionality provisions will be introduced to ensure that EU funding is focussed on results and creates strong incentives for Member States to ensure the effective delivery of Europe 2020 objectives and targets through cohesion policy. Conditionality will take the form of both 'ex ante' conditions that must be in place before funds are disbursed and 'ex post' conditions that will make the release of additional funds contingent on performance. Lack of progress in fulfilling these conditions will give rise to the suspension or cancellation of funds.

Conditionality will be based on results and incentives to implement the reforms needed to ensure effective use of the financial resources. In order to strengthen the focus on results and

the achievement of the Europe 2020 objectives, 5% of the cohesion budget will be set aside and allocated, during a mid-term review, to the Member States and regions whose programmes have met their milestones in relation to the achievement of the programme's objectives related to Europe 2020 targets and objectives. The milestones will be defined in accordance with the regulations for cohesion policy.

Experience with the current financial framework shows that many Member States have difficulties in absorbing large volumes of EU funds over a limited period of time. Delays in the preparation of projects, commitments and spending are responsible for an important backlog of unused appropriations at the end of the present financing period. Furthermore, the fiscal situation in some Member States has made it more difficult to release funds to provide national co-financing. In order to strengthen absorption of funding the Commission is proposing a number of steps:

- to fix at 2.5% of GNI the capping rates for cohesion allocations
- to allow for a temporary increase in the co-financing rate by 5 to 10 percentage points when a Member State is receiving financial assistance in accordance with Article 136 or 143 TFEU, thus reducing the effort required from national budgets at a time of fiscal consolidation, while keeping the same overall level of EU funding
- to include certain conditions in the partnership contracts regarding the improvement of administrative capacity.

For the next MFF, the Commission proposes to concentrate the largest share of cohesion funding on the poorest regions and Member States. It also proposes to help those regions which move out of "convergence region" status by limiting the reduction in aid intensity that would occur if they were to move immediately to "competitiveness region" status. Therefore, the Commission is proposing that they should retain two thirds of their previous allocations for the next MFF period. These regions, together with other regions with similar levels of GDP (between 75 and 90% of EU GDP) would form a new category of "transition regions".

The Commission proposes to allocate €376 billion for the 2014-2020 period for spending in cohesion policy instruments.

This amount comprises:

- **€162.6 billion for convergence regions,**
- **€38.9 billion for transition regions,**
- **€53.1 billion for competitiveness regions,**
- **€11.7 billion for territorial cooperation**
- **€68.7 billion for the Cohesion Fund**

And €40 billion for the Connecting Europe facility (see 5.3 below)

The European Social Fund (based on the 25/40/52 formula per category of regions) will represent at least 25% of the cohesion envelope, not taking into account the Connecting Europe facility, i.e. €84 billion

Outside the MFF:

- **€3 billion for the European Globalisation Adjustment Fund**
- **€7 billion for the European Solidarity Fund**

5.3. Connecting Europe

A fully functioning single market depends on modern, high performing infrastructure connecting Europe particularly in the areas of transport, energy and information and communication technologies (ICT).

It is estimated that about €200 billion is needed to complete the trans-European energy networks, €540 billion needs to be invested in the trans-European transport network, and over € 250 billion in ICT for the period 2014-2020. While the market can and should deliver the bulk of the necessary investments, there is a need to address market failure – to fill persistent gaps, remove bottlenecks and ensure adequate cross-border connections. However, experience shows that national budgets will never give sufficiently high priority to multi-country, cross-border investments to equip the Single Market with the infrastructure it needs. This is one more example of the added value of the EU budget. It can secure funding for the pan-European projects that connect the centre and the periphery to the benefit of all.

Therefore, the Commission has decided to propose the creation of a Connecting Europe Facility to accelerate the infrastructure development that the EU needs. These growth enhancing connections will provide better access to the internal market and terminate the isolation of certain economic "islands". For example, those parts of the EU that are not yet linked to the main electricity and gas grids depend on investments made in other Member States for their energy supply. The Connecting Europe Facility will also make a vital contribution to energy security, by ensuring pan-European access to different sources and providers inside and outside the Union. It will also help to implement the new concept of territorial cohesion introduced in the Lisbon Treaty. Europe-wide availability of high-speed ICT networks and pan-European ICT services will also overcome the fragmentation of the single market and would assist SMEs in their search for growth opportunities beyond their home market.

The Connecting Europe Facility will fund pre-identified transport, energy and ICT priority infrastructures of EU interest, and both physical and information technology infrastructures, consistent with sustainable development criteria. A preliminary list of the proposed infrastructures (the missing links) accompanies the present proposal.

The Connecting Europe Facility will be centrally managed and will be funded by a dedicated budget and through ring fenced amounts for transport in the Cohesion Fund. Co-financing rates from the EU budget will be higher where the investments take place in 'convergence' regions than in 'competitiveness' regions. Local and regional infrastructures will be linked to the priority EU infrastructures, connecting all citizens throughout the EU, and can be (co-) financed by the structural funds (cohesion fund and/or ERDF, depending on the situation of each Member State/region). Considering the infrastructure deficit of the new Member States, the Commission has decided to propose a relatively unchanged allocation for the Cohesion Fund. This will help boost transport investment in eligible regions and support links between them and the rest of the EU.

The Connecting Europe Facility offers opportunities for using innovative financing tools to speed up and secure greater investment than could be achieved only through public funding. The Commission will work closely with the EIB and other public investment banks to combine funding of these projects. In particular, the Commission will promote the use of EU project bonds[11] as a means of bringing forward the realisation of these important projects.

Some of the infrastructure projects of EU interest will need to pass through neighbourhood and pre-accession countries. The Commission will propose simplified means of linking and financing them through the new facility, in order to ensure coherence between internal and external instruments. This implies the existence of integrated sets of rules so that the financing of the relevant projects can be made available from different headings of the EU budget.

The Commission proposes to allocate €40 billion for the 2014-2020 period for the Connecting Europe Facility to be complemented by an additional €10 billion ring fenced for related transport investments inside the Cohesion Fund.

This amount comprises €9.1 billion for the energy sector, €31.6 billion for transport (including €10 billion inside the Cohesion Fund) and €9.1 billion for ICT.

5.4. A resource-efficient Common Agricultural Policy

The Common Agricultural Policy (CAP) is one of the few truly EU common policies. It is designed to deliver a sustainable agricultural sector in Europe by enhancing its competitiveness, ensuring an adequate and secure food supply, preserving the environment and countryside while providing a fair standard of living for the agricultural community. As such, it replaces 27 different national agriculture policies and represents savings for national budgets because direct support to farmers is provided through the EU budget without national co-financing.

Through the changes it is proposing to the funding of the CAP, the Commission is bringing it more fully inside the Europe 2020 strategy, while ensuring stable levels of revenue for European farmers. In future, not only will the agriculture budget be used to increase agricultural productivity, ensure a fair standard of living for the agricultural community, stabilise markets, assure the availability of supplies and ensure that they reach the consumer at reasonable prices, but it will also support the sustainable management of natural resources and climate action and support balanced territorial development throughout Europe. The three strands of Europe 2020 – smart, sustainable and inclusive growth – will be woven into the next phase of development of the CAP.

The changes proposed by the Commission are designed to lead to a fairer and more equitable system of support across the EU, linking agriculture and environment policy in the sustainable stewardship of the countryside and ensuring that agriculture continues to contribute to a vibrant rural economy. Over the years, a number of obligations and duties have been included in the CAP which more properly belong in other policy areas. The Commission will take the opportunity of the new MFF to refocus the CAP on its core and new activities. Thus, for example, the funds devoted to food safety have been moved to Heading 3 of the budget and in future food aid for the most deprived people will be funded out of Heading 1 where it fits more appropriately with the poverty reduction target of the Europe 2020 strategy. The

[11] For further details see the accompanying staff working document SEC (2011) 868

Commission will propose to extend the scope of the European Globalisation Fund to include assistance to farmers whose livelihoods may be affected by globalisation.

The basic two pillar structure of the CAP will be maintained. The main changes proposed by the Commission are as follows:

Greening of direct payments: to ensure that the CAP helps the EU to deliver on its environmental and climate action objectives, beyond the cross-compliance requirements of current legislation, 30 % of direct support will be made conditional on "greening". This means that all farmers must engage in environmentally supportive practices which will be defined in legislation and which will be verifiable. The impact will be to shift the agricultural sector significantly in a more sustainable direction, with farmers receiving payments to deliver public goods to their fellow citizens.

Convergence of payments: to ensure a more equal distribution of direct support, while taking account of the differences that still exist in wage levels and input costs, the levels of direct support per hectare will be progressively adjusted. This will be achieved in the following way: over the period, all Member States with direct payments below the level of 90% of the average will close one third of the gap between their current level and this level. This convergence will be financed proportionally by all Member States with direct payments above the EU average. Equally, the allocation of rural development funds will be revisited on the basis of more objective criteria and better targeted to the objectives of the policy. This will ensure a fairer treatment of farmers performing the same activities. To enable the CAP to respond to the challenges that are linked with the economic, social, environmental and geographical specificities of European agriculture in the 21st century and to effectively contribute to the Europe 2020 objectives, the Commission will make proposals to permit flexibility between the two pillars.

Capping the level of direct payments by limiting the basic layer of direct income support that large agricultural holdings may receive, while taking account of the economies of scale of larger structures and the direct employment these structures generate. The Commission proposes that the savings be recycled into the budgetary allocation for rural development and retained within the national envelopes of the Member States in which they originate.

The Commission considers that these new elements can be accommodated under the current two pillar structure of the CAP. The future CAP will therefore contain a greener and more equitably distributed first pillar and a second pillar that is more focussed on competitiveness and innovation, climate change and the environment. Improved targeting of policy should lead to a more efficient use of the available financial resources. The second pillar of the CAP, covering **rural development**, will continue to contribute to specific national and/or regional needs, while reflecting EU priorities, and will be subject to the same Europe 2020 performance-based conditionality provisions as the other structural funds. In the post-2013 period, the European Agricultural Fund for Rural Development (EAFRD) will be included in the common strategic framework for all structural funds and in the contracts foreseen with all Member States. By emphasising the territorial dimension of socio-economic development and combining all available EU funds in a single contract, the economic development of rural areas across the EU will be better supported in future.

Finally, the Commission proposes to restructure the market measures which are currently in the first pillar of the CAP. Today, European agriculture faces a variety of challenges, in particular the need to react to unforeseeable circumstances or to facilitate the adaptations

required by international trade agreements. For these reasons, the Commission proposes the creation of two instruments outside the multiannual financial framework which will be subject to the same fast-track procedure as the Emergency Aid Reserve (EAR): an emergency mechanism to react to crisis situations (for instance a food safety problem) and a new scope for the European Globalisation Fund.

The Commission proposes to allocate €281.8 billion for Pillar I of the Common Agricultural Policy and €89.9 billion for rural development for the 2014-2020 period. This funding will be complemented by a further €15.2 billion:

- **€4.5 billion for research and innovation on food security, the bio-economy and sustainable agriculture (in the Common strategic framework for research and innovation)**
- **€2.2 billion for food safety in Heading 3**
- **€2.5 billion for food support for most deprived persons in Heading I**
- **€3.5 billion in a new reserve for crises in the agriculture sector**
- **Up to €2.5 billion in the European Globalisation Fund**

5.5. Investing in human capital

The Europe 2020 headline targets on increasing tertiary education and reducing early-school leaving will not be reached without a stronger investment in human capital. The biggest financial contribution from the EU budget in investing in people comes from the European Social Fund. Beyond its activities, there is scope to increase EU support for all levels of formal education and training (school, higher, vocational, adult) as well as informal and non-formal education and training activities. One of the main successes of the current Lifelong Learning Programme (LLP), Erasmus Mundus and Youth programmes is the growth of transnational learning mobility. In order to raise skills and to help tackle the high levels of youth unemployment in many Member States the actions currently supported by the Leonardo programme, which helps people benefit from education and training in another EU country in areas such as initial vocational education as well as to develop and transfer innovative policies from one Member State to another, will be boosted in the next MFF period. At present there is very little financial support available for those who wish to study at Masters level in another Member State. The Commission will propose to develop, with the involvement of the EIB, an innovative programme to provide guarantees for mobile masters students. Therefore, the Commission proposes to strengthen Community programmes for education and training and to increase the funding allocated for these activities.

EU funding for culture and media activities supports the common cultural heritage of Europeans and works to increase the circulation of creative European works inside and outside the EU. The current programmes play a unique role in stimulating cross border co-operation, promoting peer learning and making these sectors more professional. The growing economic role of the culture and creative industries sector is very much in line with the objectives of the Europe 2020 strategy.

However, the current architecture of the programmes and instruments is fragmented. They have been characterised by a proliferation of small-scale projects and some of them lack the

critical mass to have a long lasting impact. There are also some overlaps between actions – this has led to increased management costs and has confused potential applicants.

Therefore, the Commission proposes to rationalise and simplify the current structure by proposing a single, integrated programme on education, training and youth. The focus will be on developing the skills and mobility of human capital. For the same reasons synergy will also be brought into the culture related programmes.

The application processes and the monitoring and evaluation of projects will be simplified, including through the management of projects by national agencies.

The Commission proposes to allocate €15.2 billion in the area of education and training and €1.6 billion in the area of culture for the 2014-2020 period.

This funding will be complemented by important support for education and training in the Structural Funds. For example, in the period 2007-2013 around €72.5 billion was spent on education and training across Europe's regions and similar levels of spending can be expected in the future.

5.6. Responding to the challenges of migration

Home affairs policies, covering security, migration and the management of external borders, have grown steadily in importance in recent years. This is also one of the areas which has seen important changes under the Lisbon Treaty. Their importance has been confirmed by the Stockholm Programme[12] and its Action Plan[13].

The goal of creating an area without internal borders, where EU citizens and third-country nationals with legal rights of entry and residence may enter, move around, live and work confident that their rights are fully respected and their security assured is of paramount importance. At the same time, public concern about irregular immigration and integration has grown. A forward-looking legal immigration policy and integration policy is crucial to enhancing the EU's competitiveness and social cohesion, enriching our societies and creating opportunities for all. The completion of a more secure and efficient Common European Asylum System which reflects our values remains a priority. Overall, this is an area where there is obvious added value in mobilising the EU budget.

For the next multiannual financial framework, the Commission proposes to simplify the structure of the expenditure instruments by reducing the number of programmes to a two pillar structure – creating a Migration and Asylum Fund and an Internal Security Fund. Both funds will have an external dimension ensuring continuity of financing, starting in the EU and continuing in third countries, for example concerning the resettlement of refugees, readmission and regional protection programmes. The Commission also foresees a move away from annual programming towards multi-annual programming, resulting in a reduced workload for the Commission, the Member States and the final beneficiaries.

The Lisbon Treaty foresees EU cooperation in the fight against criminal networks, trafficking in human beings and the smuggling of weapons and drugs as well as in civil protection to ensure better protection of people and the environment in the event of major natural and man-made disasters. The increase in disasters affecting European citizens calls for more systematic

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[12] Council document 17024/09.
[13] COM (2010) 171.

action at European level. Therefore the Commission proposes to increase the efficiency, coherence and visibility of the EU's disaster response.

The Commission proposes to allocate €8.2 billion for the 2014-2020 period in the area of home affairs and €455 million for civil protection and the European Emergency Response Capacity.

5.7. The EU as a global player

What happens outside the borders of the EU can and does directly affect the prosperity and security of EU citizens. It is therefore in the interest of the EU to be actively engaged in influencing the world around us, including through the use of financial instruments.

The Lisbon Treaty marks a new departure in the EU's relations with the rest of the world. The creation of the post of High Representative who is also a Vice President of the Commission, with a strong co-ordinating role, comes from a desire to have a united and effective interaction with our international partners, based on the guiding principles of democracy, the rule of law, human rights and fundamental freedoms, human dignity, equality and solidarity, and respect for the principles of the United Nations Charter and international law. The EU will continue to promote and defend human rights, democracy and the rule of law abroad. It is a major aspect of EU external action in defending its values.

Another key priority is to respect the EU's formal undertaking to commit 0.7% of gross national product (GNP) to overseas development by maintaining the share of the EU budget as part of the common effort made by the EU as a whole by 2015, thus making a decisive step towards achieving the Millennium Development Goals. A pan-African instrument under the Development and Cooperation Instrument (DCI) will be created to support the implementation of the Joint Africa Europe Strategy, focusing on the clear added value of cross regional and continental activities. It will be flexible enough to accommodate contributions from EU Member States, African states, financial institutions and the private sector. In addition, the Development and Cooperation Instrument (DCI) will focus on poverty eradication and the achievement of the Millennium Development Goals (MDGs) in the relevant regions of the world.

The EU's engagement needs to be tailored to individual circumstances. Our partners range from development economies to the least developed countries in need of specific assistance from the EU. In line with its recent European Neighbourhood Policy communication[14], the EU is committed over the long-term to establishing an area of stability, prosperity and democracy in its own neighbourhood. The historic developments in the Arab World also require a sustained investment to support the transformation that is so clearly in our and their interest. The EU will step up its work on crisis prevention in order to preserve peace and strengthen international security.

Our instruments can also facilitate the EU's engagement with third countries on issues that are of global concern, such as climate change, environmental protection, irregular migration and regional instabilities, and allow the EU to respond rapidly and effectively to natural and man-made disasters around the world. The EU is committed to contribute financially to meeting its international commitments on climate change and biodiversity. A major rationalisation of the instruments took place in 2003 and has begun to deliver more effective results. The Commission does not consider that another major alteration of the legislative architecture is

[14] COM (2011) 303

necessary for the next MFF period, although some improvements are being proposed and the overall investment is being stepped up.

To reflect international changes that are underway, the Commission proposes to reorientate funding of programmes in industrialised and emerging countries and instead to create a new Partnership Instrument to support our economic interests in the rest of the world. This can deliver increased opportunity for EU businesses through the promotion of trade and regulatory convergence in those cases where funding can contribute to strengthening the EU's economic relationships around the world. It will ensure European businesses can benefit from the economic transformation happening in many parts of the world which create unparalleled opportunity but where competition is also very intense.

The EU's humanitarian aid is now recognised in the Lisbon Treaty as a self standing policy in the area of the EU's external action, bringing a high level of added value. A coherent, complementary and coordinated EU approach to the provision of humanitarian aid ensures that scarce resources are used efficiently to meet identified needs and supports the drive to more effective international humanitarian response. The increase in the number of natural and man-made disasters and their economic impact calls for systematic action at European level to strengthen preparedness and to enhance response capacities, both inside and outside the EU. The Commission proposes that crisis response, prevention and management be pursued with the Humanitarian Aid Instrument, and the Civil Protection Mechanism responding to natural and man-made disasters, which will continue as the effects of climate change make themselves felt.

The Commission believes that the financing instruments in some internal policy areas, such as education and migration, should be used also to support actions in third countries, due to the obvious benefits from streamlining and simplifying the approach.

The Commission proposes to allocate €70 billion for the 2014-2020 period for external instruments.

And outside the MFF:

- **European Development Fund (ACP countries), €30 billion**
- **European Development Fund (overseas countries and territories), €321 million**
- **Global Climate and Biodiversity Fund**
- **Emergency Aid Reserve, €2.5 billion**

5.8. Items with a specific status

There are different ways of financing activities that are carried out in the name of the EU or as part of EU policies. For several reasons, some activities are financed by a different budget key or by only some Member States. In this MFF proposal, the Commission also draws attention to a number of expenditure proposals with a specific status.

5.8.1. The European Development Fund

The European Development Fund (EDF) finances development assistance for the EU's developing country partners. It has traditionally been financed outside the EU budget to

reflect the particular historical relations that certain Member States have with different parts of the world. The Commission considers that, in the current circumstances, with the Cotonou agreement (on the basis of which the EDF provides support to ACP countries) due to expire in 2020, the conditions for integrating the EDF fully into the budget are not yet met. However, in order to create a perspective of future inclusion, the Commission will consider proposing to bring the EDF contribution key closer to the key used for the EU budget. This will also contribute to the visibility of the absolute amounts provided in development aid. It is also proposed to improve democratic scrutiny of the EDF by bringing it into line with the DCI, whilst taking into account the specificities of this instrument.

5.8.2. Large scale projects

Experience over the years has shown that large scale projects of interest to the EU tend to be disproportionately expensive for the small EU budget. As their specific nature means they often overrun initial cost projections, the subsequent need to find additional funding triggers a need to redeploy funds that have already been earmarked for other priority needs. This is not a sustainable solution and the Commission has therefore decided to make alternative proposals for the future funding of large scale scientific projects, making a distinction between Galileo and other projects.

The EU is the sole owner of the Galileo project and a sufficient budget for its future needs is proposed as part of this package. Continued efforts will be necessary to keep costs under control. This will be ensured in the Regulation laying down the MFF. The full deployment phase and the operational stage of the project should be reached at the beginning of the next financial framework, at which point new governance arrangements should be considered for the longer term.

For projects such as ITER and GMES, where the costs and/or the cost overruns are too large to be borne only by the EU budget, the Commission proposes to foresee their funding outside the MFF after 2013. This will enable the EU to continue to fully meet its international commitments.

6. INSTRUMENTS AND IMPLEMENTATION

6.1. Simplification to improve delivery

Implementation procedures and control requirements of EU programmes need to be effective in ensuring accountability but they also need to be cost effective. Changes over the years have given rise to a system that is now widely regarded as too complicated and often discouraging participation and/or delaying implementation. Against this background, the Commission has decided to propose radical simplification across the whole future MFF. In this context, it is important that the future legal bases of all sectoral programmes strike the right balance between the policy objectives, the means of delivery and the cost of administration and control. In particular, the conditions for the achievement of policy objectives will be set up in a cost-effective way while ensuring clear eligibility conditions, accountability and an appropriate level of control that limits risk of errors and exposure to fraud to a reasonable level at a reasonable cost.

Any meaningful simplification of the use of EU funding will require the combined efforts of all the institutions in reviewing both the general rules in the Financial Regulation and the

sector-specific rules under preparation. However, simplification efforts at EU level will not produce their full effect if they are not accompanied by parallel efforts at national level, for instance in the area of shared management. The Commission will issue a dedicated Communication on simplification at the end of 2011 once all of its sector specific proposals have been tabled.

6.1.1. Reducing the number of programmes

A first way of achieving this objective is to reduce the number of separate programmes and instruments; multiple policy objectives can be attained without unnecessarily multiplying the number of instruments to deliver them and without huge differences in management rules from one programme to another. Complex programmes which have not been successful will either be redesigned in a simplified and more effective form or discontinued. This approach is being proposed in some areas - maritime affairs and fisheries, justice and fundamental rights, home affairs, education and culture.

6.1.2. Putting different instruments under a single framework

Another way to simplify the management of programmes is to put them under a single framework with common rules, keeping any exceptions or specificities to the minimum. For example:

- The Commission proposes to bring together the three main sources of funding for research and innovation (the current 7th Framework Programme, the current innovation part of the competitiveness and innovation programme and the European Institute of innovation and technology (EIT)) within a single Common Strategic Framework for Research and Innovation (CSF).

- For funds under shared management - the ERDF, the ESF, the Cohesion Fund, the European Agricultural Fund for Rural Development and the future European Maritime and Fisheries Fund - a Common Strategic Framework will replace the current approach of establishing separate sets of strategic guidelines for the different instruments.

6.1.3. Externalisation

The Commission is also proposing to use the option of more extensive recourse to existing executive agencies. As the Court of Auditors confirmed, these agencies provide better service delivery and enhance the visibility of the EU. This instrument is particularly relevant for the continuation of current smaller programmes that have not yet been externalised and which involve a critical mass of homogenous or standardised operations, thus achieving economies of scale. This does not mean creating new executive agencies, but reviewing as necessary the mandate of the existing ones. This approach is being followed for example in proposals for the education and culture programmes.

6.1.4. Mainstreaming priorities across policies

The optimal achievement of objectives in some policy areas - including climate action, environment, consumer policy, health and fundamental rights - depends on the mainstreaming of priorities into a range of instruments in other policy areas. For example, climate action and environment objectives need to be reflected in instruments to ensure that they contribute to

building a low-carbon, resource efficient and climate resilient economy that will enhance Europe's competitiveness, create more and greener jobs, strengthen energy security and bring health benefits. In the area of development cooperation, climate and environment, notably biodiversity, will be mainstreamed in all relevant programmes.

Consequently, the relevant share of the EU budget will increase as a result of effective mainstreaming in all major EU policies (such as cohesion, research and innovation, agriculture and external cooperation). Since the same action can and should pursue different objectives at once, mainstreaming will promote synergies in the use of funds for various priorities and result in increased consistency and cost-efficiency in spending.

6.1.5. More efficient administration

Administrative expenditure currently accounts for 5.7% of current spending. This budget finances all of the European Union's institutions – the European Parliament (20%), the European Council and the Council (7%), the Commission (40%) and the smaller institutions and bodies (15%). For its part, the Commission has made considerable efforts in the past ten years to reform the management of its human and budgetary resources, and to ensure more efficiency in their use. The reform of 2004 alone has brought savings of €3 billion since 2004 and, as the reform process works its way through, will deliver a further € 5 billion in the years up to 2020. As part of its ongoing commitment to limit the costs of administering EU policies, the Commission has been operating on the basis of 'zero growth' in human resources since 2007.

The Commission proposes to simplify and rationalise further the administration of the EU institutions, agencies and bodies to make it a modern, effective and dynamic organisation in line with the objectives of Europe 2020. Mindful of the pressures on Member States' budgets and having regard to cut backs in national public administrative expenditure, the Commission has reviewed administrative expenditure across the institutions to identify further sources of efficiency and cost reduction. It has decided to propose a 5% reduction in the staffing levels of each institution/service, agency and other body, as part of the next MFF. Together with other efficiencies, this will keep the share of administrative costs in the next MFF to a minimum.

Without waiting until 2014 when the next MFF will begin, the Commission has decided to propose a number of changes to the staff regulations applicable to EU civil servants in the EU institutions. These include a new method for calculating the adaptation of salaries, an increase in working hours (from 37.5 to 40 hours a week) without compensatory wage adjustments, an increase of the pension age and the modernisation of certain outdated conditions in line with similar trends in Member State administrations. The Commission is preparing a draft Regulation which will first be discussed with the staff representatives as part of the normal social dialogue process and then presented formally to the European Parliament and the Council for adoption as soon as possible.

7. DURATION, STRUCTURE AND FLEXIBILITY OF THE MULTIANNUAL FINANCIAL FRAMEWORK

Taking into consideration the position of the European Parliament, the Commission has decided to propose a seven year timeframe for the next MFF. This will strengthen the link to the achievement of the Europe 2020 targets in time. The Commission will present in 2016 an

assessment of the implementation of the financial framework accompanied, where necessary, by relevant proposals. The Commission proposes that the headings used under the 2007-2013 framework are reshaped to reflect the objectives of the Europe 2020 strategy.

The Commission agrees with the European Parliament that more flexibility within and across budgetary headings is necessary to enable the European Union to face new challenges and to facilitate the decision-making process within the institutions. The Commission therefore proposes five instruments outside the financial framework (the Emergency Aid Reserve, the Flexibility Instrument, the Solidarity Fund and the Globalisation Adjustment Fund, and a new instrument to react to crisis situations in agriculture) plus some additional changes that are presented in the accompanying proposals for the MFF Regulation and the new Inter-institutional Agreement on cooperation in budgetary matters and sound financial management. Furthermore, the future legal bases for the different instruments will propose the extensive use of delegated acts to allow for more flexibility in the management of the policies during the financing period, while respecting the prerogatives of the two branches of the legislator.

On the other hand, the management of programmes has to take more into account the need for a more rigorous planning of future spending and avoid that the backlog of future payments increases too much. The Commission will therefore propose measures to ensure more stringent rules for the financial planning and management of EU funded programmes, in particular in structural funds, also taking into consideration the Member States' responsibilities in the management of these funds.

8. CONCLUSION

The Commission proposes in accompanying legislative texts a Regulation adopting a new multiannual financial framework, an inter-institutional agreement (IIA) on budgetary matters and sound financial management, and for a Decision on own resources (with relevant implementing legislation).

In the months to come before the end of 2011, the approach outlined in this Communication will be set out in detail in the legislative proposals for the expenditure programmes and instruments in the individual policy areas.

The European Parliament and the Council are invited to endorse the orientations set out in this Communication and to take the necessary steps in the negotiation process to ensure that the relevant legislative acts, including the sectoral expenditure programmes and instruments, have been adopted in time to allow for the smooth implementation of the new multiannual financial framework on 1 January 2014. The Commission will propose the necessary adjustments to this framework if, as expected, the Republic of Croatia becomes a Member State of the European Union before the next Multiannual Financial Framework enters into force.

MULTIANNUAL FINANCIAL FRAMEWORK 2014-2020 (IN COMMITMENTS)

2011 prices	2013	2014	2015	2016	2017	2018	2019	2020	2014-2020
HEADING 1 Smart and Inclusive Growth									
Galileo	2	1.100	1.100	900	900	700	900	1.400	7.000
Nuclear safety + decommissioning	279	134	134	134	134	55	55	55	700
CSF research and innovation	9.768	10.079	10.529	10.979	11.429	11.879	12.329	12.776	80.000
New Competitiveness/SME	177	235	270	305	340	375	410	445	2.380
Single Education, Training, Youth and Sport	1.305	1.423	1.673	1.923	2.173	2.423	2.673	2.923	15.210
Social development agenda	119	121	121	121	121	121	121	124	850
Customs-Fiscalis-Anti Fraud	107	120	120	120	120	120	120	120	840
Agencies	258	237	291	290	291	265	326	331	2.030
Other	308	267	267	267	267	267	267	267	1.868
Margin	49	513	533	553	573	593	613	633	4.009
Energy	22	973	1.233	1.033	1.173	1.303	1.503	1.903	9.121
Transport	1.552	2.299	2.499	2.899	3.099	3.499	3.699	3.700	21.694
ICT	3	642	782	1.182	1.442	1.512	1.712	1.913	9.185
Connecting Europe Facility	1.577	3.914	4.514	5.114	5.714	6.314	6.914	7.516	40.000
Regional convergence	30.692	22.032	22.459	22.836	23.227	23.631	24.012	24.393	162.590
Transition regions	1.963	5.549	5.555	5.560	5.565	5.570	5.574	5.579	38.952
Competitiveness	6.314	7.592	7.592	7.592	7.592	7.592	7.592	7.592	53.143
Territorial cooperation	1.304	1.671	1.671	1.671	1.671	1.671	1.671	1.671	11.700
Cohesion fund	11.885	9.577	9.620	9.636	9.708	9.888	10.059	10.222	68.710
Outermost and sparsely populated regions	249	132	132	132	132	132	132	132	926
Cohesion policy	52.406	46.554	47.029	47.428	47.895	48.484	49.041	49.589	336.020
H1 TOTAL	**66.354**	**64.696**	**66.580**	**68.133**	**69.956**	**71.596**	**73.768**	**76.179**	**490.908**
HEADING 2 Sustainable Growth: natural resources									
Subceiling CAP (direct payments + market expenditures)	43.515	42.244	41.623	41.029	40.420	39.618	38.831	38.060	281.825
Rural Development	13.890	13.618	13.351	13.089	12.832	12.581	12.334	12.092	89.895
EMFF (incl. market measures) + FPA's + RFMO's	984	945	950	955	955	960	960	960	6.685
Environment and climate action (Life+)	362	390	415	440	465	490	515	485	3.200
Agencies	49	49	49	49	49	49	49	49	344
Margin	230	140	140	140	140	140	140	139	979
H2 TOTAL	**59.031**	**57.386**	**56.527**	**55.702**	**54.861**	**53.837**	**52.829**	**51.784**	**382.927**
HEADING 3 Security and citizenship									
Migration Management Fund	487	490	490	490	490	490	490	493	3.433
Internal Security	604	528	548	568	588	608	628	648	4.113
IT systems	132	104	104	104	104	104	104	105	729
Justice	44	44	50	55	60	65	70	72	416
Rights and Citizenship	35	41	45	50	55	60	65	71	387
Civil protection	20	35	35	35	35	35	35	35	245
Europe for Citizens	29	29	29	29	29	29	29	29	203
Food safety		330	323	317	311	305	299	293	2.177
Public Health	54	57	57	57	57	57	57	54	396
Consumer protection	24	25	25	25	25	25	25	25	175
Creative Europe Programme	181	182	197	212	227	242	257	273	1.590
Agencies	387	431	431	431	431	431	431	431	3.020
Other	155	106	106	106	106	106	106	106	743
Margin	57	130	130	130	130	130	130	129	909
H3 TOTAL	**2.209**	**2.532**	**2.571**	**2.609**	**2.648**	**2.687**	**2.726**	**2.763**	**18.535**
HEADING 4 Global Europe									
Instrument for Pre-Accession (IPA)	1.888	1.789	1.789	1.789	1.789	1.789	1.789	1.789	12.520
Eur. neighborhood Instr. (ENI)	2.268	2.100	2.213	2.226	2.265	2.340	2.439	2.514	16.097
EIDHR	169	200	200	200	200	200	200	200	1.400
Stability(IfS)	357	359	359	359	359	359	359	359	2.510
Security (CFSP)	352	359	359	359	359	359	359	359	2.510
Partnership Instrument (PI)	70	126	130	135	141	148	156	164	1.000
Development Coop Instr. (DCI)	2.553	2.560	2.682	2.808	2.938	3.069	3.202	3.338	20.597
Humanitarian aid	841	930	925	920	915	910	905	900	6.405
Civil Protection (CPFI) + ERC	5	30	30	30	30	30	30	30	210
EVHAC	0	20	22	25	29	33	38	43	210
Instrument for Nuclear Safety Cooperation (INSC)	76	80	80	80	80	80	80	80	560
Macro-financial assistance	132	85	85	85	85	84	84	85	593
Gurantee fund for External actions	250	236	231	226	195	157	128	84	1.257
Agencies	20	20	20	20	20	20	20	20	137
Other	141	134	134	189	134	134	134	134	995
Margin	101	374	388	396	422	439	458	523	3.000
H4 TOTAL	**9.222**	**9.400**	**9.645**	**9.845**	**9.960**	**10.150**	**10.380**	**10.620**	**70.000**
HEADING 5 Administration									
Pension expenditures and European Schools	1.522	1.575	1.640	1.687	1.752	1.785	1.839	1.886	12.165
Adminstrative expenditure of the institutions	6.802	6.812	6.869	6.924	6.991	7.074	7.156	7.239	49.064
Margin	510	155	170	185	200	215	230	247	1.400
H5 TOTAL	**8.833**	**8.542**	**8.679**	**8.796**	**8.943**	**9.073**	**9.225**	**9.371**	**62.629**
TOTAL	**145.650**	**142.556**	**144.002**	**145.085**	**146.368**	**147.344**	**148.928**	**150.718**	**1.025.000**
in % of GNI	**1,12%**	**1,08%**	**1,07%**	**1,06%**	**1,06%**	**1,05%**	**1,04%**	**1,03%**	**1,05%**