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European Parliament

The next Multiannual Financial Framework (MFF) and its Duration

Budgetary Affairs

Policy Department for Budgetary Affairs
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The next Multiannual Financial Framework (MFF) and its Duration

Abstract

The study focuses on the characteristic features of the MFF and on how to implement the EU budget more effectively in the future. The analysis concentrates on 3 possible options in connection with the duration of the next MFF. The main advantages and disadvantages of 5-year, 7-year and 10(5+5)-year scenarios are examined from the point of view of predictability (stability) and responsiveness (flexibility), and, in addition, from the perspective of political cycles and implementation time tables.

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This document was requested by the European Parliament's Committee on Budgets. It designated Ms Isabelle Thomas (MEP) and Mr Jan Olbrycht (MEP) to follow the study.

AUTHOR(S)

Dr Ákos KENGYEL
E-mail: akos.kengyel@uni-corvinus.hu

RESPONSIBLE ADMINISTRATOR

Ms Minna Ollikainen
Policy Department on Budgetary Affairs
European Parliament
B-1047 Brussels
E-mail: poldep-budg@europarl.europa.eu

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poldep-budg@europarl.europa.eu

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LIST OF ABBREVIATIONS

CAP	Common Agricultural Policy
CEF	Connecting Europe Facility
COM	European Commission
ECA	European Court of Auditors
EDF	European Development Fund
EFSI	European Fund for Structural Investments
EP	European Parliament
ESIF	European Structural and Investment Funds
GDP	Gross Domestic Product
GNI	Gross National Income
MFF	Multiannual Financial Framework
TEN	Trans-European Networks

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EXECUTIVE SUMMARY

Background

The preparation for the post-2020 Multiannual Financial Framework (MFF) requires a comprehensive analysis of the characteristic features of the EU budget. One of the main issues is to evaluate the impact of the duration of the MFF on the implementation of the EU's strategies and main policies. The duration of the MFF has not received much attention in academic analyses, however, the duration should have strategic importance from the point of view of achieving strategic goals and implementing policies in the most effective and efficient way. Member States are not very interested in the duration of the MFF: it seems they have become accustomed to the 7-year period of planning. Nor have the EU institutions prepared detailed analyses of the optimum duration of the MFF. There are only a small number of documents on the MFF with a few references to duration-related considerations.

Aim

The study aims to examine long-term changes linked to the Multiannual Financial Framework of the European Union. A critical analysis of characteristic features of the EU budget is particularly important, in view of the fact that the 2014-2020 MFF maintains the "old" problems; thus a long-term reform should be prepared in time. The analysis focuses on the characteristic features and functions of the EU budget and on how to implement a multiannual framework more effectively. The analysis concentrates on 3 possible options related to the duration of the MFF. The advantages and disadvantages of 5-year, 7-year and 10(5+5)-year scenarios are examined and their consequences are analysed.

Based on the statements and commitments of the European Parliament and the European Commission to review the duration of the post-2020 MFF, it is time to analyse the main advantages and disadvantages of the different scenarios from the point of view of predictability (stability) and responsiveness (flexibility), and, in addition, from the perspective of political cycles and implementation timetables.

In this analysis the 5-year, 7-year, and 5+5-year options will be evaluated. Any sort of "transitional solutions", which would mean prolongation of the current MFF for a couple of years, could cause serious legal and operational problems in the implementation of the majority of policies and programmes – especially in the case of multiannual programmes. This is why this study does not take into account any theoretical possibility of a transitional solution before launching a new MFF.

1. GENERAL APPROACH FOR THE NEXT MFF – LESSONS TO BE LEARNED

KEY FINDINGS

- **The EU budget has different functions compared to national budgets.** The EU budget is basically an "investment budget", which can play a crucial role in improving competitiveness and sustainable development.
- The **economic stabilisation function has remained almost exclusively in the hands of national governments.** At the same time, the size of the EU budget in itself makes it unsuitable for playing a role in macroeconomic stabilisation. Changes in the governmental functions of the EU might arise in connection with ensuring the adequate functioning of the Economic and Monetary Union.
- **Changes** to the EU budget's resources and expenditure structure *are* **viable through a technocratic, bureaucratic, rule-based decision making system**, which slowly reacts to change and new challenges. This means that a subsequent MFF can be a continuation of the current system after certain modifications.
- **The budgetary headings** in the MFF 2014-2020 **follow the former structure under new terms**. Although remarkable shifts were agreed in connection with some policy areas, **the main structure reflects the traditionally developed division of expenditure**: overall, 72% of expenditure is being spent on agricultural and cohesion policies in the 2014-2020 period.
- Even in the current MFF, **there is some flexibility and possibility to adjust** to the new circumstances, **however** the total package of **the mid-term review did not change the overall proportion of expenditure** allocated to each heading.
- In case of no, or insufficient, own resources **the EU budget depends almost exclusively on national budgets**. In this situation, it is not surprising that the overriding concern of the Member States is their net position in the EU budget. A **definite shift towards real own resource based financing would be the only way to provide a firm foundation** for effective budgetary expenditure at the EU level.

It should be emphasized that, despite its political significance and growing attention during negotiations among the Member States and EU institutions, the size of the EU budget is rather modest: expenditure makes up around 1% of the EU's gross national income (GNI). Both the size and structure of the EU budget have changed dramatically since the beginning of the integration process. *(Annex 1)* However, this 1% ceiling can be considered an extremely low level of redistribution, especially in view of the continual deepening of integration and the growing number of strategic objectives to be financed at EU-level.

During the preparations for the post-2020 MFF some general features and considerations should be taken into account.

1. **Path dependence**. The preparation and changes within the EU budget are viable through a technocratic, bureaucratic, rule-based decision making system, which slowly reacts to change and new challenges. This is why future shifts are determined by the present structure. It means that a subsequent MFF be a continuation of the current system after certain modifications.
2. **The EU budget has different functions compared to national budgets**. The EU budget is basically an "investment budget". This is why some expenditure seems to be disproportionate. However, EU budgetary expenditure should be examined as part of the total public

expenditure and according to the competences of the EU. The basic issue is that we have common goals and we should decide how to finance them.

3. **Despite its limited size, where there are functions, the role of EU budgetary expenditure is significant**. In those spheres where significant responsibilities are exercised, arrangements are usually well established, and effective policy instruments – legal and financial – are usually available.
4. The main justification for EU level expenditure **should be based on European added value and mutual benefits**. There are mutual benefits of European integration and EU budgetary transfers for all Member States – the simple net budgetary positions are misleading. EU level budgetary intervention represents mutual benefits because of European added value, based on cross-border effects and the indirect impact on supply and demand, synergies and economies of scale, and the leverage effects of EU funding and financial instruments. These effects are not taken into account when Member States examine strictly budgetary transfers from the EU budget.
5. **Performance (efficient use of EU funds) should play a crucial role**. This implies the strict evaluation of single policies and programmes at both EU and Member State level. Competing for EU funding is partly justified (examples: performance reserves in the case of cohesion policy, or the EFSI). In a mid-term review, or during preparation for a succeeding MFF, former achievements should be evaluated and taken into account.
6. **Clearly defined conditionality and rules are needed**. The MFF should reinforce the link between the EU budget and essential administrative and structural reforms in the Member States by introducing strong conditionality. Simpler rules are needed in order to avoid delays and difficulties during the implementation of the programmes.
7. **Both stability and flexibility are needed**. An important asset for longer term planning is that the MFF provides stability of available resources for a longer period. On the other hand, it is necessary to have the possibility to revise budgetary expenditure and restructure priorities, as well as have access to reserves in the budget for unexpected events.

1.1. FUNCTIONS OF THE BUDGET AND UNSOLVED FINANCING PROBLEMS

There are no precise, legally determined procedural rules related to the governmental roles of the EU; the principle of subsidiarity is, perhaps, the only concept that gives us a guide. In this context, no competences should be given to the EU, unless all those concerned derive more benefit from supranational decision-making (Begg, 2009).

Traditionally, governments undertake the following functions, which entail different levels of budgetary responsibility (Kengyel, 2016):

- **Allocation function**: the government intervenes to make adjustments for the failure of the market to achieve allocation efficiency.
- **Distribution function**: in this case, intervention is not directed at the efficiency of the operation of the market, but at the distribution of achieved wealth.
- **Development function**: intervention plays an important role in improving preconditions of better economic performance, such as investment in infrastructure and human resources.
- **Stabilisation function**: governments use fiscal and monetary means to correct macroeconomic imbalances (inflation, unemployment, slow growth, current account problems etc.).
- **Regulatory function**: this includes the establishment and supervision of a framework to ensure the proper functioning of market forces and of systems of rules to regulate the behaviour of individuals.

- **Public service function**: national budgets provide public goods and services.

Relatively few of these functions are carried out at EU level, and only a few of them have budgetary implications. As EU budgetary transfers currently relate mostly to expenditure linked to the agricultural and regional policies, theoretically the EU performs allocative and distributor tasks. The dominance of agricultural subsidies and regional development expenditure, however, clearly indicates that the primary aim of the Member States is to use the EU budget for redistribution purposes, instead of supporting the achievement of other common objectives of the Union. In addition, a clear development function can be seen. Therefore, the current transfers are performed primarily with the aim of redistribution (fundamentally, funds are transferred from wealthier regions to poorer regions, or from consumers and taxpayers to farmers). Most policy areas of redistribution, however, are untouched. The EU budget is not concerned with welfare transfers (e.g. unemployment benefits), health insurance or public services, such as defence, to give a few examples. In addition to regional development transfers, the development functions are also supported by EU level expenditure spent on R&D activities, the construction of TENs, and the development of human resources through education programmes. On the other hand, the policies that fulfil allocative, distributor and development functions clearly reflect the fact that the EU budget is an "investment budget". Considering that these policies are linked to the Europe 2020 Strategy, EU budgetary expenditure can play a crucial role in improving competitiveness and sustainable development.

The economic stabilisation function is almost exclusively in the hands of national governments – with the exception of the single monetary policy and, partly, cohesion policy. In order to promote the European economy's balanced and more dynamic growth, the effectiveness of the stabilisation function needs to be improved. This would require a comprehensive reform of EU-level fiscal competences and fiscal capacities (Fabbrini, 2017; Hübner et al., 2017). Changes in the EU's governmental functions might arise in connection with ensuring the adequate functioning of the Economic and Monetary Union, as it is uncertain whether economic policy coordination among the Member States will prove to be adequate in the long run in managing the monetary union and solving the serious problems which have emerged in the euro zone. Based on Member States' attitudes, even within the gradual reform of the frameworks of European economic governance (Juncker et al., 2015), it seems unrealistic that the stabilisation function will, in future, be exercised through the EU budget. The macroeconomic revitalisation of the sluggishly growing European economy will, therefore, remain the task of strengthened economic policy coordination (and monitoring) among the Member States, supplemented perhaps by a few EU level initiatives. The size of the EU budget itself makes it unsuitable for playing a decisive role in macroeconomic stabilisation. As the single market develops, the EU's regulatory function is becoming more and more significant, yet this has very few budgetary implications.

In the reflection paper on the future of EU finances, the Commission summarised the functions in another way and emphasised the role in investment in public goods. "*The three basic functions of any public budget are investment in public goods, redistribution and macroeconomic stabilisation. The EU budget performs these functions, albeit to differing degrees. For instance, it finances public goods through programmes managed directly at the European level, such as Horizon 2020 for research or instruments like the Connecting Europe Facility for infrastructure investment, and together with Member States and regions through the investment co-financed under cohesion policy. It achieves a redistribution (coupled with the financing and provision of public goods) through cohesion policy, which promotes economic convergence as well as social and territorial cohesion, and through support for rural development and via the support to the income of farmers under the common agricultural policy (CAP). The stabilisation function is only covered indirectly. The EU budget has some stabilising effects for some Member States, notably due to its stability over 7 years, which provides a constant level of investment independent of the economic cycle. At the same* *time, a Member State's contributions are linked to economic performance, so that contributions to the budget will go down in a recession. However, the EU budget was not conceived to provide for macroeconomic shock absorption.*" (European Commission, 2017, pp. 14-15.)

The most important function of the EU budget will remain, unquestionably, to support strategic goals and common policies. The implementation of EU level policies requires the establishment of appropriate support mechanisms. Once a policy has been established, it is not so easy to ensure a "fair" share of the EU budget for all Member States, unless the given policy is distorted to the point that the original objective is undermined. Member States naturally consider the appropriate balance between contributions and transfers received to be of great significance.

It is fair to expect the net balance, i.e. the difference between payments and subsidies, of a given country to be in line with its level of development. The implementation of this, however, raises several problems, because even if all Member States take part in financing the budget proportionally to their economic performance, the automation that characterises the operation of most common policies makes it difficult to determine, in advance, a proportional distribution rate among Member States. If it should prove impossible to arrive at an acceptable system for financing the EU budget that would ensure proportional financing and successful implementation of policies, then future deals on compensation packages might determine the result of negotiations on the MFF, which would not be a desirable element at all in the normal operation of the EU budget.

Having genuine own resources, which would give a kind of financial autonomy to the EU, would be of great importance for the appropriate operation of the EU budget. In the case of no, or insufficient, own resources the EU budget depends almost exclusively on national budgets and the political will of the Member States. Because of the gradual decrease of revenue from traditional own resources, EU budget revenue is increasingly linked to GNI-based gross contributions. The small proportion of 'real' own resources undermines the own resources-based budget finance principle and the EU's financial autonomy. The reason for this is that Member States are clinging to the independence of their national fiscal policies and are protecting their own tax policies and tax revenue. In this situation, it is not surprising that almost the only concern of the Member States is their net position within the EU budget. Unfortunately, under these circumstances we cannot expect, even in the long run, to have a more significant budget that is able to fulfil more functions.

Although several proposals have been developed during past MFF negotiations, for the time being no general agreement has been reached concerning new own resources. For example, among others, even Agenda 2000 made several justified proposals (European Commission, 1997), and a detailed study on possible tax-based own resources commissioned by the European Parliament was published in 2007 (European Parliament Directorate General Internal Policies of the Union, 2007.) The Commission's original proposal for the MFF 2014-2020 included a new, more transparent and fairer system of financing the EU budget that would reduce GNI-based contributions due to new proceeds from a future financial transaction tax for the EU budget, and a new modernised VAT-based resource. The Commission also proposed simplifying the correction mechanisms that apply to a number of Member States, through lump sum gross reductions of their GNI contributions. The negotiations brought no significant changes to the way EU budgets are financed, and this is the reason a high-level group on own resources was established. The group delivered its final recommendations at the end of 2016 (Monti et al., 2017). The proposals should be taken into account during the preparation of the next MFF.

It can be stated that the EU budget is no longer fundamentally determined by the real objectives of common policies, but the other way round – the available resources determine the financing of policies, and the attainment of a net position takes precedence over all other considerations.

1.2. CHARACTERISTICS OF THE EXPENDITURE STRUCTURE: LACK OF RADICAL REFORM IN THE MFF 2014-2020

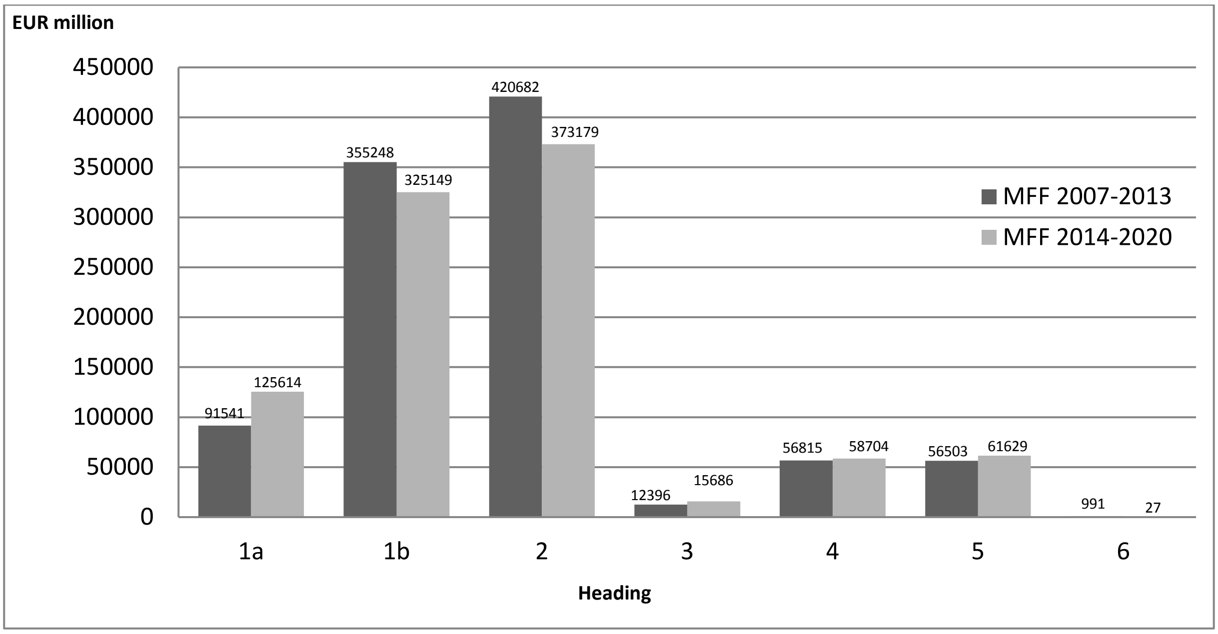
The proposals and harsh debates on the MFF 2014-2020, and the final shifts among expenditure headings, reflect a very similar situation to former debates (Kengyel, 2013). The budgetary debates required two and a half years of intense negotiations from June 2011 to November 2013 (the Parliament's consent). Finally, the Council regulation was published in December 2013 (European Commission, 2011; Council of the European Union, 2013). Negotiations were concluded under heavy constraints caused by the effects of the international economic and financial crisis and Member States' serious budgetary imbalances.

According to the final agreement, the commitment ceiling amounts to 1.00% of EU gross national income for the period 2014-2020, compared to 1.12% for the 2007-2013 MFF. The ceiling for payments equates to 0.95% of EU gross national income, compared to 1.06% for 2007-2013. The declining ratios clearly reflect a low level of solidarity and the effects of serious national budgetary problems. The MFF enables the European Union to spend up to EUR 960 billion in commitments and EUR 908.4 billion in payments over the seven years. This is 3.5% and 3.7% respectively less than under the MFF 2007-2013.

It can be observed that the new headings follow the former structure under new terms (Figure 1):

- **Smart and Inclusive Growth** (47%):
  - Competitiveness for growth and jobs (13%): includes research and innovation; education and training; trans-European networks in energy, transport and telecommunications; social policy; development of enterprises etc.
  - Economic, social and territorial cohesion (34%): covers regional policy, which aims at helping the least developed regions catch up with the rest, strengthening all regions' competitiveness.
- **Sustainable Growth: Natural Resources** (39%): includes market related interventions and direct payment (29%) and rural development (9%) within the common agricultural policy; common fisheries policy; and environmental measures.
- **Security and citizenship** (2%): includes justice and home affairs, border protection, immigration and asylum policy, public health, consumer protection, culture, youth, information and dialogue with citizens.
- **Global Europe** (6%): covers external actions such as development assistance or humanitarian aid, with the exception of the European Development Fund (EDF).
- **Administration** (6%): covers the administrative expenditure of all the European institutions, pensions and European Schools.

Figure 1: **The MFF 2007-2013 and MFF 2014-2020 (commitment appropriations, EUR million, 2011 prices)**



Notes:

1a: Competitiveness for growth and jobs; 1b: Economic, social and territorial cohesion; 2: Sustainable Growth: Natural Resources; 3: Security and citizenship; 4: Global Europe; 5: Administration; 6: Compensations for Bulgaria and Romania in 2007-2009 and for Croatia in 2014.

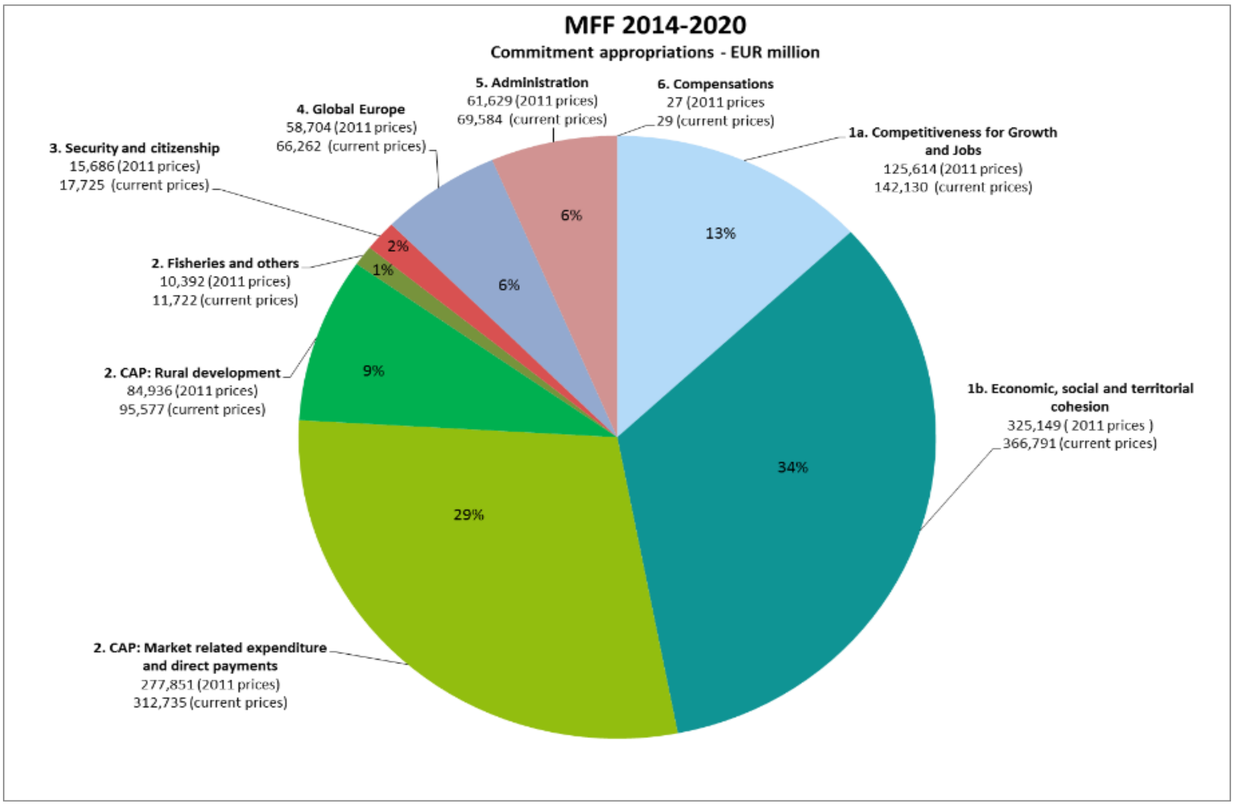
Source: European Commission (2013a)

In a positive shift, expenditure spent on Heading 1a increased from EUR 91.5 billion (9.2% of the budget) to EUR 125.6 billion (13.1% of the budget) expressed in 2011 prices. At the same time, this means that the share of this subheading, out of total expenditure, remains relatively modest. However, there are three fields within this heading where significant changes were agreed. (European Commission, 2013b) In the field of education and training policy the Erasmus+ programme has a budget of almost EUR 15 billion in current prices (13 billion in 2011 prices), which is more than 40% higher than former levels in real terms. The other important field is research and innovation policy, where the Horizon 2020 programme has a budget of almost EUR 80 billion in current prices (70 billion in 2011 prices), which represents around a 30% increase compared to the former framework in real terms. The third, most important, field worth mentioning is the new Connecting Europe Facility (CEF). The CEF supports strategic infrastructure investment at the European level in transport, energy or ICT with EUR 33.3 billion (26.3 billion for transport, 5.9 billion for energy, and 1.1 billion for digital infrastructure) in current prices (29 billion in 2011 prices). Its budget represents 50% higher expenditure than the former TEN budget.

Expenditure on Heading 1b has decreased by 8% from EUR 355 to 325 billion in 2011 prices. Heading 2 will receive EUR 373 billion, out of this EUR 278 billion or 29% for market-related expenditure and direct payments (pillar 1) and 85 billion or 9% for rural development (pillar 2) within the common agricultural policy. It is worth mentioning that, in 1984, the overall CAP still made up around 70% of the total EU budget. Thus, there has been a gradual decrease since that time, although the CAP's share is still among the highest expenditure. The other policy areas have retained their former share in the budgetary expenditure. *(Annex 2)*

In conclusion, we can recognize that remarkable shifts were agreed in connection with some policy areas, but the main structure of the EU level budgetary expenditure reflects the traditionally developed division of expenditure. This means that, overall, 72% of expenditure will be spent on agricultural and cohesion policies in the period 2014-2020 (Figure 2*)*.

Figure 2: Commitment appropriations in the Multiannual Financial Framework 2014-2020 (EUR million, per cent)



Source: European Commission DG Budget (2015)

It should be mentioned that, even in the current MFF, there is some flexibility and the possibility to adjust to new circumstances. A good example of budget responsiveness is that, during the mid-term review of the MFF 2014-2020, the Commission identified a number of successful programmes and instruments which it proposed to reinforce with additional financial means. In particular, this included the European Fund for Strategic Investments as well as Horizon 2020, the Connecting Europe Facility, Erasmus+, COSME and the Youth Employment Initiative. In addition, the Commission called attention to the radically changed circumstances, which emerged during the implementation of the first years of the MFF, in order to address the internal and external dimensions of the migration and refugee crisis. It mentioned that, since the adoption of the European Agendas on Migration and Security, programmes under Heading 3 and Heading 4 had been refocused and reinforced in order to step up humanitarian action and rescue capacity and to address the root causes of migration. Even before the mid-term review "*in order to roughly double the initially programmed support to more than EUR 15 billion between 2015 and 2017, an array of measures were agreed.*" (European Commission, 2016b, p. 10.) However, it should be noted that the total package, of nearly EUR 13 billion, of the mid-term review did not change the overall proportion of expenditure allocated to each heading, although Heading 3 will increase by 23%.

It has become clear, as stressed in the Commission's reflection paper on the future of EU finances, that "*in the future, migration management, internal and external security, external border control, the fight against terrorism and defence will need to be budgeted within a longer-term perspective alongside continuing investment to support stability and sustainable development in our partner countries.*" (European Commission, 2017, p. 21.)

On the other hand, in relation to the mid-term review, the European Court of Auditors reached a very critical conclusion regarding the Commission's document and urged evidence-based future reform proposals. As the ECA stated "*the mid-term review of the MFF does not constitute a much needed comprehensive EU spending review of the performance and added value of the different areas of the EU budget and spending programmes. Such an exercise should be carried out before a new long-term financial plan is agreed, if the lessons of the current period are to be learned and available EU funds are to deliver better value-for-money in the future.*" (European Court of Auditors, 2016, paragraph 18)

In addition, it should be emphasised that the leverage effect of EU-level expenditure is significant. "*Under the current MFF, the EU budget has more than doubled its capacity to leverage additional public and private funds, through financial instruments, the European Fund for Strategic Investments and other new instruments such as trust funds.*" (European Commission, 2016b, p. 15.) These instruments should be further encouraged.

2. THREE SCENARIOS FOR THE DURATION OF THE MFF IN THE FUTURE

KEY FINDINGS

- **A 5-year MFF would allow each Commission to propose and each Parliament to negotiate a framework**, even if they would not take part in the full implementation process. This would put the EU budget more clearly at the centre of European politics. However, it would also imply that Institutions might end up in a permanent 'negotiating' mode.
- **It is assumed that a shorter duration would bring more flexibility** and make it easier to adjust to unexpected developments, reflect new needs and be more responsive to changes. **However, this flexibility and responsiveness can be expected only in the medium-term**.
- In the case of a 5-year MFF, the **preparation for a succeeding MFF would have to start at the very beginning of the previous one**, reducing the possibility of drawing lessons for the future.
- There **could be a negative impact on the life cycle of multiannual programmes**: a shorter term would hinder the development of long-term policies, such as cohesion, agriculture and TENs
- Because of the time-consuming implementation of several programmes and projects, **one can assume that most of the spending during a 5-year MFF would relate to the programmes initiated in the previous cycle**.
- **The 7-year duration is not synchronised with the 5-year terms** of the European Parliament and the Commission.
- A ***longer than 5-year MFF can provide greater predictability and stability*** for programmes. In addition, there is more time for design and implementation of strategic investments and more time for evaluation and making proposals for the next MFF.
- A 7-year period could be too long to react to the evolving environment: this is why **a mid-term review and other flexibility instruments or mechanisms are needed**. However, the mid-term review **can be based only on the experience of the first 2 years' implementation**. If there are delays in implementation then the review will be mainly based on the experiences of the former MFF or on assumptions.
- **The 10 (5+5)-year timeframe would align with the EP and Commission mandates**, so each Parliament and Commission could have a decisive role in medium-term budgetary issues.

- **The main advantage of a 10-year MFF would be its stability and predictability for the multiannual programmes and better compliance with strategic planning** requirements. It would provide an opportunity to bring long-term strategy and policy-making in line with the budgetary cycle and to translate the targets and priorities of political aspirations into operational objectives.
- Compared to the current mid-term review, after 3-4 years of implementation **there would be a better chance of having more experience and results available for a mid-term review**.
- **Performance benchmarks** have to be clearly defined in the legal bases of multiannual programmes, which are monitored and **would serve as a basis for the mid-term review and revision** of the framework.
- **The EU has adequate regulatory experience** in managing medium-term multiannual programmes. Horizon 2020, Erasmus+, CEF, or the cohesion policy regulations, as **stable frameworks, could be agreed for a 10-year cycle**. However, some flexibility for the second half of the period should be guaranteed.
- **The distribution of resources within headings, and the prioritisation within programmes and instruments could be left open, to some degree, for re-assessment** and substantial reserves and margins in all parts of the budget would be required. However, **it could be questionable how the appropriate level of reserves and margins could be estimated** so far in advance.

The duration of the MFF has not received much attention in academic analyses. There are practically no available studies dealing with the desirable duration of a medium-term budget of the EU. However, the duration should have strategic importance from the point of view of achieving strategic goals and implementing policies in the most effective and efficient way. Studies on the EU budget focus mainly on the reform of own resources or desirable shifts on the expenditure side. Research papers concentrate mainly on the functions of the budget and investigation of the meaning of European public goods or European added-value and how to improve the efficiency of EU budgetary spending. Other articles deal with the importance and implementation of single EU policies.

Member States are not interested in the duration of the MFF: it seems that they are accustomed to the 7-year period of planning and more or less the only concern is their net position and conditions for receiving EU funds, or such issues as the n+2 or n+3 de-commitment rules of implementation of co-funded programmes. Nor have EU institutions prepared detailed analyses of the optimum duration of the MFF. There are only a few comprehensive documents on the MFF where one can find some references to duration-related considerations.

Concerning the legal background, Article 312 of the Treaty on the Functioning of the European Union transformed the Multiannual Financial Framework from an interinstitutional agreement into a legally binding act. The TFEU declared that the MFF shall be established for a period of at least five years. This means that the Treaty allows further discussion on the optimum duration.

In the October 2010 Communication on the Budget Review, the option of a ten-year MFF post-2020 with a "*substantial mid-term review*" ("*5+5*") was presented as the "*most attractive one*" by the European Commission. According to the Commission, this option would provide stability and predictability for the financial programming period but also the opportunity for a major re-prioritisation: "*overall ceilings and the core legal instruments would be fixed for ten years. But the distribution of resources within headings, and the prioritisation within programmes and instruments, would be left open for re-assessment*". (European Commission, 2010, pp. 22-23.)

The European Parliament has repeatedly called for aligning the MFF period with the terms of office of the EP and the Commission. In its decision on the conclusion of an interinstitutional agreement on budgetary discipline and sound financial management in May 2006, the EP expressed its opinion that "*all future financial frameworks should be established for a period of five years compatible with the mandates of the Parliament and the Commission*" (European Parliament, 2006, point 9). As summarised in a reflection paper from December 2010, the European Parliament expressed that the MFF "*should ensure the right balance between stability and medium-term predictability, and flexibility, in order to better respond to developments and new needs. … The longer the duration of the MFF, the more critical the need to foresee possibilities to adapt to new situations; and the shorter the period, the higher the flexibility.*" (European Parliament, 2010, pp. 3-4.) In its resolution of June 2011 on the MFF 2014-2020, the European Parliament opted for a 7-year period as the "*preferred transitional solution*", at the same time stressing that this "*should not pre-empt the possibility of opting for a 5 or 5+5 year period as of 2021*". (European Parliament, 2011)

As part of the agreement on the 2014-2020 MFF, it was declared that "*in the context of the mid-term review/revision of the MFF, the European Parliament, the Council and the Commission agree to jointly examine the most suitable duration for the subsequent MFF before the Commission presents its proposals with a view to striking the right balance between the duration of the respective terms of office of the members of the European Parliament and the European Commission - and the need for stability for programming cycles and investment predictability.*" (Council of the European Union, 2013, recital 3, p. 884.)

In its latest documents, the EP has clearly expressed that a 5+5-year cycle could be seriously considered as a possible solution for the post-2020 period. In its resolution on the preparation of the post-electoral revision of the MFF 2014-2020, adopted in July 2016, the European Parliament pointed out that, "*given the rapidly changing political environment and with a view to ensuring greater flexibility, some elements of the MFF should be agreed for five years while others, notably those related to programmes requiring longer-term programming and/or policies foreseeing complex procedures for the establishment of implementation systems, should be agreed for a period of 5+5 years with compulsory mid-term revision.*" (European Parliament, 2016, point 75)

In the Mid-Term Review of September 2016 the Commission stressed that "*the current duration of seven years is not well synchronised with the five year terms of the mandate of the European Parliament and of the Commission. The challenge is how to reconcile the requirements and time needed for preparing and implementing EU funds, in particular those under shared management, with the duration of the MFF.*" (European Commission, 2016b, p. 14.)

The Commission Staff working document, accompanying the mid-term review communication of the Commission in September 2016, recalled the three main options that had emerged in the past for the duration: (a) alignment with the political mandates (five years), (b) sticking to the seven years, or (c) considering a period of ten years with a substantial/compulsory review after five years ("5+5"). (European Commission, 2016a, p. 36.) As the document stresses, "*identifying the challenges for the next MFF will also require a thorough analysis of the medium-term challenges over a 10-year horizon, a major difficulty given the rapidly changing circumstances of our globalised world. A financial framework which has to bridge the gap between a stable investment horizon and catering to acute emergencies will require inbuilt resilience and flexibility from the very outset*". (European Commission, 2016a, p. 35.)

In the Reflection Paper on the Future of EU Finances of June 2017, the Commission emphasised that there is a need to find the right balance between the stability and flexibility of financing. Concerning the duration of the MFF, the Commission drew attention to the fact that most Member States and stakeholders are accustomed to operating within the 7-year period. The reflection paper warns of "*reducing the current 7-year duration to 5 years would reduce the predictability of financing. This could be* *a problem in particular for investments that require more time*." On the other hand, it mentions "*a 5-year timeframe would align with the mandates of the European Parliament and the Commission. This would strengthen the democratic debate on the EU's spending priorities and put the EU budget more clearly at the centre of European politics*." (European Commission, 2017, p. 25.) However, this latest Commission document dealing with the EU budget does not propose scenarios for the desirable or optimum solution for the duration of the next MFF.

Concerning the duration, it should be mentioned that, in its briefing paper on the mid-term review of the MFF 2014-2020, the European Court of Auditors pointed out that "*it is worth noting that the whole MFF cycle is actually over 13 years, as proposals are first made two years before the next period and the eligibility for programme spending extends three years after the programming period ("n+3") and programmes are not closed until 1.5 years after that eligibility period ends*". The ECA paper also drew attention to the practical consequence of shortening the period of the MFF on the implementation of the EU budget, namely: "*if the current MFF is followed by a new 5-year MFF (and no other substantial changes are made), most of the spending during the new period will relate to 2014-2020 programmes*". (European Court of Auditors, 2016, paragraph 37)

Based on these statements, and the European Parliament's and the European Commission's commitment to review the duration of the post-2020 MFF, it is time to analyse the main advantages and disadvantages of the different scenarios from the point of view of predictability (stability) and responsiveness (flexibility), and, in addition, from the point of view of political cycles and implementation timetables. In this analysis the 5-year, 7-year, and the 5+5-year options will be evaluated. Any kind of "transitional solutions", which would mean prolongation of the current MFF for a couple of years, could cause serious legal and operational problems in the implementation of the majority of the policies and programmes – especially in the case of multiannual programmes. This is the reason why this study does not take into account any theoretical possibility of a transitional solution before launching a new MFF.

2.1. OPTION 1: 5-YEAR MFF

The 5-year timeframe would align with the mandates of the European Parliament and the Commission. A 5-year MFF would allow each Commission to propose and each Parliament to negotiate a framework, even if they would not take part in the full implementation process. This would strengthen the democratic debate on the EU's spending priorities and put the EU budget more clearly at the centre of European politics.

In practice, in the case of preparation for the MFF post-2020, the 5-year framework would start in 2021 and finish in 2025. Preparation for the period has already started with the mid-term review of the current framework: the Commission communication was published in September 2016, and regulatory changes were passed in June 2017. The Commission proposal is expected to be published in mid-2018. Therefore, the negotiations among the Member States and the institutions could start from that time on. From experience, the discussion requires 1.5-2 years before the final agreement can be concluded. Practically it means that the new MFF regulation can be passed by mid-2020. The only problem could emerge as a result of the mid-2019 EP elections and the setting up of the new Commission. This could cause delays in the process, although the Council could continue the discussion without any delay. In any case, the post-2020 MFF negotiations will be based on the proposal prepared by the current Commission and will be concluded during the term of the next Commission and Parliament.

The newly elected Commission would have only one year (2021), after which it should immediately start to prepare the review of the MFF 2021-2025 and prepare the new proposal for the MFF 2026-2030. Because of the limited period, the review and the new proposal should be prepared simultaneously during 2022 in order to be able to start negotiations on the new MFF from 2023. The discussion would last for 2 years (2023-2024) and the regulatory framework should be accepted by mid-2025 at the latest. Again, in the meantime, a new Parliament and a new Commission will be elected in mid-2024.

This “busy” timetable clearly reflects the fact that, in the case of a 5-year MFF cycle, the actual duration of the MFF would run from mid-point to mid-point of the political mandates (elections in mid-2019, mid-2024, and mid-2029; the starting years of the MFFs would be 2021, 2026, 2031). It would also imply that Institutions might end up in a permanent ‘negotiating’ mode. *(See Annex 3)*

Advantages: Better democratic legitimacy with the alignment of the MFF term with the European Parliament and Commission mandates. It is assumed that a shorter duration would also bring more flexibility and make it easier to adjust to unexpected developments, reflect new needs and be more responsive to changes. However, this flexibility and responsiveness can be expected only in the medium-term: because of the 5-year duration, a complete revision can be done, but there is no guarantee of greater flexibility within the 5-year period. It should be noted that, as the mid-term review of the current MFF emphasises, nowadays about 80% of the EU budget is pre-allocated, which limits the budget's responsiveness to evolving needs. A crucial issue is whether this situation can be changed through a more flexible approach and regulatory changes in the future. Simpler and more flexible rules would be needed to accelerate the implementation of the multiannual programmes, particularly in connection with the ESI Funds.

Disadvantages: One of the most important effects would be continuous negotiations on the medium-term budget. Shorter durations could imply less predictability. It would also cause a problem over the long-term in that preparations for a succeeding MFF would have to start at the very beginning of the previous one, further reducing the possibility of drawing lessons for the future. Preparation of the next MFF would be based on the experience and ex-post evaluation of the earlier MFF, instead of the current one. The full evaluations would not be available before the next MFF unless programming changes radically (shorter lead-times for implementation).

There could be a negative impact on multiannual programmes' life cycles and the shorter term would hinder the development of long-term policies, such as cohesion, agriculture and TENs. Some disadvantages could be experienced in terms of planning lead-times: longer periods not only allow programmes to make more important changes, they may also fit in better with the investment patterns of the private sector. A shorter implementation period would cause serious time constraints for multiannual programmes, particularly in the case of cohesion policy funding. As the reflection paper on EU finances emphasises, even during the current 7-year period “*the policy has become increasingly complex to manage, hampering implementation on the ground and creating delays. The layers of controls and bureaucratic complexity make it difficult for beneficiaries to access these funds and deliver projects quickly. Therefore, a much more radical approach to simplifying implementation and allowing for more agile and flexible programming is needed for the future*.” (European Commission, 2017, p. 17.) This proposal would have particular importance if the period for implementation became shorter. Even in the case of a 5-year MFF, the n+3 de-commitment rule should be maintained. In addition, it should be mentioned that, because of time-consuming implementation of several programmes and projects, it could be assumed that most of the spending during a 5-year MFF would relate to the programmes initiated in the previous cycle (Table 1).

Table 1: Option 1: advantages and disadvantages of a 5-year MFF

POSITIVE CHARACTERISTIC FEATURES	NEGATIVE CHARACTERISTIC FEATURES
Alignment with the mandates of the European Parliament and the Commission (the duration of the MFF would run from mid-point to mid-point of the political mandates)	Shorter durations could imply less predictability. There would be a negative impact on multiannual programmes' life cycles and the shorter cycle would possibly hinder the development of long-term policies
Strengthening the debate on the EU's spending priorities and putting the EU budget at the centre of European politics	Institutions might end up in a permanent 'negotiating' mode; there would be continuous negotiations on the medium-term budget
Shorter duration would bring more flexibility and make it easier to adjust to unexpected developments in the medium-term	Responsiveness can be expected only in the medium-term; there is no guarantee of greater flexibility within the 5-year period
Simpler and more flexible rules would be needed to accelerate the implementation of the multiannual programmes	The preparation for a succeeding MFF would have to start at the very beginning of the previous one, which implies that evaluations would not be available before the next MFF
	Because of time-consuming implementation of several programmes, it can be assumed that most of the spending would relate to programmes initiated in the previous cycle

2.2. OPTION 2: 7-YEAR MFF

A longer than 5-year MFF can provide greater predictability and stability for programmes. At the same time, as the current MFF period has clearly shown, there is a need for more flexibility due to changed circumstances.

From the point of view of political cycles, the 7-year duration is not synchronised with the 5-year terms of the European Parliament and the Commission. This means that, in certain periods, the Commission can play a crucial role in the preparation of a new MFF, but during the implementation phase, another Commission and Parliament will be responsible for the realisation of the programmes. In this successive cycle, the main responsibility of the Commission and the Parliament would relate to the preparation of a mid-term review.

In practice, in the case of a 7-year framework, the next MFF would be implemented between 2021 and 2027. As mentioned earlier, preparation for the period has already started: the mid-term review of the current framework has been published, the Commission proposal is expected to be prepared by mid-2018 and negotiations among the Member States and the institutions could start from that time on. As before, we can assume that the discussion will last for 1.5-2 years and the final agreement would be concluded in early 2020. The post-2020 MFF negotiations would be based on the proposal prepared by the current Commission and would be concluded during the term of the next Commission and Parliament elected for the period 2019-2024.

The new Commission would have the obligation to prepare the mid-term review in mid-2023 and discuss it with the Parliament by mid-2024. Ideally, they would agree on the necessary changes and revision for the second half of the MFF term. However, in mid-2024, a new EP will be elected and a new Commission will start its cycle (2024-2029); this could cause some delays in introducing the required regulatory changes. In any case, the newly elected Commission should start to work immediately on the preparation of the proposal for the next MFF for the period 2028-2034. The proposal should be published by mid-2025 and the discussion among the Member States should start. The discussion would last for 1.5-2 years (until the beginning of 2027) and the regulatory framework should be accepted by mid-2027 at the latest. Implementation would start from 2028. The next Commission (2029-2034) should prepare the mid-term review in mid-2030, and then the proposal for the next MFF starting in 2035. This clearly reflects the fact that this Commission would have the obligation to make a proposal and manage the negotiations, although the new MFF would be implemented during the next Commission's term. *(See Annex 3)*

Advantages: The EU budget is mainly an investment budget, which operates through multiannual programmes that require long-term predictability. The 7-year period could be appropriate for longer investment programmes, such as large-scale infrastructure (particularly in the field of TENs financed by the CEF and Cohesion Fund) and research projects, as well as most of the cohesion policy projects. Multiannual programming has been one of the main successes of cohesion policy and the benefits of this approach have become clearer over time as Member States' capacity to plan programmes over a number of years has developed. The consistency and coherence in programming facilitates longer term and strategic planning. The EU programming approach has promoted a strategic dimension in regional development policy making. From a financial perspective, multiannual programming gives rise to a greater degree of certainty and stability as regards the availability of funding. Within a 7-year framework, there is more time to design and implement strategic investments. There is also more time for evaluation and making revisions.

Disadvantages: A 7-year MFF could be too long, as circumstances change and it is not able to react to the evolving environment. Some policies can become out of date, and some programmes may no longer be appropriate. This is why a mid-term review and other flexibility instruments or mechanisms are needed. The mid-term review should lead to desirable restructuring within the MFF, based on the experience of the first period and unexpected events. This was one of the European Parliament's main requests during the preparations for the current MFF, as mentioned in its Reflection Paper at the end of 2010: "*a longer than 5 year MFF would need to be accompanied by a strong mid-term review, covering all aspects of expenditure and revenue. In such a case, the new MFF Regulation should, therefore, explicitly foresee a mid-term review clause, as well as a clearly defined specific procedure for this review and a resulting revision*." (European Parliament, 2010, p. 5.)

The mid-term review/revision of the MFF is an opportunity to consider how to improve financial management and accountability. The mid-term review should deal with a comprehensive EU spending review of the performance and added value of the different areas of the EU budget and spending programmes, and make proposals for some restructuring and changes. However, because the Commission has to prepare the review by the second half of the 3rd year, the mid-term review can be based only on the first 2 years' implementation experience. If there are delays in implementing the programmes, then the mid-term review can be mainly based on the experiences from the former MFF or on assumptions. Unfortunately, this situation arose with the present MFF. As the Court of Auditors' report on the 2016 mid-term review expressed, "*delays in implementing programmes under the current MFF and delays in closing previous programmes mean that the proposals have not benefited from any assessment of spending under the current period and that there will be little opportunity to assess performance before the next MFF must be presented by the Commission*." (European Court of Auditors, 2016, paragraph 53)

The Commission staff document accompanying the current mid-term review also stressed that the implementation of the new operational programmes has been very slow. The main reason was that "*a series of innovative elements to deliver high quality investments have been introduced. Putting this ambitious new approach into practice in Member States and regions requires time and resources in the start-*

up phase. Hence, so far the implementation of the new programmes has mainly been limited to the payment of the initial and annual pre-financing."(European Commission, 2016a, p. 9.) In the future, more streamlined, simpler rules would be needed to avoid delays in implementation. On the other hand, more reserves and flexibility instruments would be needed to be able to finance new actions or programmes that became necessary (Table 2).

Table 2: Option 2: advantages and disadvantages of a 7-year MFF

POSITIVE CHARACTERISTIC FEATURES	NEGATIVE CHARACTERISTIC FEATURES
The EU budget is mainly an investment budget which operates through multiannual programmes that require long-term predictability: there is a greater degree of certainty and stability as regards the availability of funding	The 7-year duration is not synchronised with the 5-year terms of the European Parliament and the Commission. In certain periods, the Commission plays a crucial role in the preparation of a new MFF, but during the implementation phase another Commission and Parliament will be responsible for the realisation. In the successive cycle, the responsibility of the Commission and the Parliament relates mainly to the preparation of a mid-term review
The 7-year period facilitates longer-term and more strategic planning which could be appropriate for longer investment programmes, such as large-scale infrastructure (particularly in the field of TENs financed by the CEF and Cohesion Fund) and research projects, as well as cohesion policy projects	The 7-year period could be too long to react to the evolving environment: this is why a mid-term review and other flexibility instruments or mechanisms are needed
More time for design and implementation of strategic investments. More time for evaluation and making proposals for the next MFF	In practice, the mid-term review can be based only on the first 2 years' implementation experience. If there are delays in the implementation then the review can be mainly based on the experience from the former MFF or on assumptions

2.3. OPTION 3: 10 (5+5)-YEAR MFF

The third possible option could be a 10-year MFF with a substantial mid-term review ("5+5"). Overall ceilings and the core legal instruments could be fixed for ten years. This option should be combined with a maximum level of flexibility and very strong review clauses. A major mid-term revision would be needed and substantial reserves and margins in all parts of the budget should be designed. It should be decided whether 10%, 15% or 20% of the expenditure should be set aside as reserves in each heading and programme, and these reserves could be used only after a mid-term review based on a detailed evaluation of well-defined performance indicators.

The 5+5-year timeframe would align with the EP and Commission mandates, so each Parliament and Commission could have a decisive role in medium-term budgetary issues. From the point of view of political cycles, in some respects it would be a similar situation to Option 1 in that the debate on the EU budget would become an important, permanent priority for each Commission and Parliament. However, the most important role would be played by the Commission that initiates the whole framework proposal for one decade. Nevertheless, the next Commission and Parliament would also have strategic roles during the mid-term revision.

In practice, in the case of a 5+5-year MFF, the next framework would be implemented between 2021 and 2030. Similarly, to the aforementioned timetables, after the publication of the Commission proposal on the next MFF, negotiations among the Member States and the institutions could start in mid-2018. The discussions require 1.5-2 years and the final agreement could be concluded in early 2020. The negotiations would be based on the proposal prepared by the current Commission and would be concluded during the term of the next Commission and Parliament, elected for the period 2019-2024. The new Commission would start a substantial mid-term review and would publish its proposals around mid-2024. It would be a delicate issue, because of the mid-2024 elections. However, this document should be presented on time, in order to avoid delays and allow enough time for discussion and agreement on the desired changes.

A compromise should be reached during the mandate of the new EP and Commission (elected for 2024-2029). The second half of the 10-year period would start in 2026. This Commission should prepare the proposal on the post-2030 MFF between mid-2027 and mid-2028. The negotiations could start in mid-2028 and be concluded by the beginning of 2030. In the meantime, a new EP will be elected in mid-2029 and a new Commission will start its cycle. This means that consent should be given by a new European Parliament elected for the period 2029-2034. *(See Annex 3)*

Advantages: The main advantage of a 10-year MFF would be its stability and predictability for multiannual programmes and better compliance with strategic planning requirements. The 10-year MFF would provide the opportunity to bring long-term strategy and policy-making in line with the budgetary cycle.

In 2000, the EU introduced 10-year strategic planning cycles: first the Lisbon Strategy was launched in the period 2000-2010, followed by the Europe 2020 Strategy which has been operating in the period 2010-2020. One can assume that, when the Europe 2020 Strategy expires, a new strategy, maybe called Europe 2030, will be defined for the next decade. So far, these strategies' timespans have not been aligned with the 7-year cycle for managing the MFF. A new 10-year timeframe for the EU budget would provide the opportunity to translate the targets and priorities of political aspirations into operational objectives for spending programmes and schemes. In this case, all other strategic documents should be prepared in the same timeframe. This could relate, among others, to TENs, climate change related goals, sustainable development, research and innovation policies or education and training programmes. The EU has adequate regulatory experience in managing medium-term multiannual programmes. Horizon 2020, Erasmus+, CEF, or the cohesion policy regulations, as stable frameworks, could be agreed for a 10-year cycle. However, some flexibility for the second half of the period should be guaranteed.

Compared to the current mid-term review, which, in practice, is based on the data of the first 2 years of implementation, more experience and results would be available for a mid-term review after 3-4 years of implementation. Performance benchmarks would have to be clearly defined in the legal bases of multiannual programmes, including a set of well-defined targets, objectives, milestones and indicators, which are monitored and would serve as a basis for the mid-term review and revision of the framework for its second 5-year term. The mid-term review would provide the opportunity for a major re-prioritisation, if appropriate flexibility rules are guaranteed.

Disadvantages: Fixing the overall ceiling and core legal instruments for 10 (or 5+5) years would increase the rigidity of the MFF. The distribution of resources among headings, and the prioritisation within programmes and instruments could be left open, to some degree, for re-assessment. One approach would be to facilitate this – while ensuring sufficient flexibility for new needs – through the retention of substantial reserves and margins in all parts of the budget. The setting up of reserves, which can be rapidly mobilised within and across the Union's main programmes, should be re-examined. However, it is questionable how the appropriate level of reserves and margins could be estimated so far in advance. The Member States and the Commission would have to present well-justified evaluations, and review the results achieved during the first term of the 10-year cycle, as well as needs for restructuring and reprioritisation in the second part of the period (Table 3).

Taking into account all characteristic features of the 3 scenarios examined, option 3 seems to be the most desirable framework for an efficient implementation of the EU level budget, because it would provide long-term stability and a certain level of responsiveness which could support the most important functions of the EU budget.

Table 3: Option 3: advantages and disadvantages of a 10-year MFF with a substantial mid-term review (5+5)

POSITIVE CHARACTERISTIC FEATURES	NEGATIVE CHARACTERISTIC FEATURES
Alignment with the mandates of the European Parliament and the Commission: the debate on the EU budget would become an important, permanent priority for each Commission and Parliament	The most important role would be played by the Commission that initiates the whole framework proposal for one decade, although the next Commission and Parliament would also have strategic roles during the mid-term revision
The main advantage of a 10-year MFF would be its stability and predictability for the multiannual programmes and better compliance with strategic planning requirements. It would give an opportunity to bring the long-term strategy and policy-making in line with the budgetary cycle and to translate the targets and priorities of political aspirations into operational objectives	The overall ceiling and the core legal instruments being fixed for 10 (or 5+5) years would increase the rigidity of the MFF – a substantial mid-term review would be needed
There would be a better chance to have more implementation experience and results for a mid-term review after 3 years of implementation	The distribution of resources among headings, and the prioritisation within programmes and instruments could be left open, to some degree, for re-assessment, and substantial reserves and margins in all parts of the budget would be required. It is questionable how the appropriate level of reserves and margins could be estimated so far in advance
Because of the mid-term review, there would be an opportunity for a major re-prioritisation, if appropriate flexibility rules are guaranteed. Performance benchmarks have to be clearly defined in the legal bases of multiannual programmes, which are monitored and would serve as a basis for the mid-term review and revision of the framework	
More time for design and implementation of strategic investments and more time for evaluation and making proposals for the next MFF	

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ANNEX 1

The size and structure of the MFFs

At first, most of the EU budget was spent on subsidising the common agricultural policy. With the deepening of integration and the increase in the number of members, the EU budget underwent gradual changes. The desire to strengthen cohesion among Member States became a priority issue: from the end of the 1980s, the role of the Structural Funds started to grow stronger. The financing of the other common policies, however, remained marginal. The two dominant policies' share of budget expenditure has remained almost unchanged in the various budgetary periods at around 70-80% of the total spending. Naturally, in the meantime several shifts have occurred in the regulation of these two areas both in terms of content and approach.

Since 1988, the EU has prepared medium-term budgetary plans (Financial Perspectives, Multiannual Financial Frameworks /MFF/), which contain a multiannual spending plan. These provide much more stability in the financing of the various items, and in guaranteeing the funding of multiannual programmes. In this way, the annual budgetary debates are held within the key figures of the multiannual framework. The agreement reached in 1988 determined the maximum amount of budgetary resources too: by the end of the period 1988-1992, the ceiling for own resources increased from 1.15% to 1.2% of GNP. Pursuant to the decision taken on the financial perspective for 1993-1999, the budget ceiling increased from 1.2% to 1.27% of GNP. In the period 2000-2006 the gradual lifting of the budget ceiling stopped: based on the decision taken at the Berlin Summit in 1999, the ceiling stayed at 1.27% of GNP or 1.24% of GNI (the GNI-based system of calculation started in 2002). The ratio of own resources was 1.23% of GNI in the period 2007-2013 and remained unchanged for the present MFF in 2014-2020.

Actual expenditure gradually increased in the period 1988-1999, from 1.15% to 1.22% of GNP. Between 2000 and 2006, it was only 1.07%, and then, due to the firm opposition of the big net contributor countries, since 2007 payments have decreased to 1% of GNI and further declined to 0.95% in the period 2014-2020. At the same time, in absolute terms the available sum continued to increase: the average size of the annual budgets increased from ECU 47 billion in the period 1988-1992 to ECU 72 billion in the period 1993-1999, to EUR 92 billion in the period 2000-2006, and EUR 117 billion in the period 2007-2013. In the period 2014-2020 the annual average reaches EUR 130 billion, however, if we measure in comparable prices this represents a 3.7% decrease in real terms.

Breakdown of expenditure headings in the budgetary periods 1988-2020 (per cent)

	1988-1992	1993-1999	2000-2006	2007-2013*	2014-2020*
1. Agricultural policy	58	48	46	42	38
Market support and direct payments	*58*	*48*	*41*	*34*	*29*
Rural development	-	-	*5*	*8*	*9*
2. Structural operations (regional policy)	22	33	33	36	34
3. Internal policies	4	6	6	10	16
4. External activities **	5	7	9	6	6
5. Administration	9	5	5	6	6
Financial reserves	2	1	1	-	-
Average annual payments (billion ECU/euro, current price)	46.94	72.18	91.64	117.25	129.77
Payments as a % of GNP/GNI	1.15	1.22	1.07	1.00	0.95
Upper limit of own resources as a % of GNP/GNI ***	1.18	1.23	1.27/1.24	1.23	1.23

Notes:
* In this table the expenditure of the budgetary periods 2007-2013 and 2014-2020 are presented according to the structure of earlier periods.
** External activities also include the expenses related to the pre-accession instruments heading, which was introduced as a separate heading in the period 2000-2006, amounting to 3% of the budget.
*** In 2002, the GNI-based system of calculation was introduced, according to which 1.27% of GNP was equivalent to 1.24% of GNI.
Source: European Parliament – Council – Commission (1988), European Parliament – Council – Commission (1993), European Parliament – Council – Commission (1999), European Parliament – Council – Commission (2006), Council of the European Union (2013)

Unfortunately, during the discussions on the EU budget the primary consideration has become the net position of the various countries: i.e. during the budget debates, the main aim of all Member States is to decrease their payment obligations as much as possible and to achieve the most favourable net balance possible. Thus, the amount of agricultural and regional development funding they will be eligible for is almost their only consideration. Therefore, generally speaking, the debates on the EU budget are not centred mainly on the common interests of the Union, but instead they are almost exclusively concerned with transfer demands and the achievement of the most favourable possible balance between contributions and transfers. However, it should be emphasized that it is hard to recognise which countries are the beneficiaries of certain expenditure (i.e. Erasmus programme: mutual benefits for host and home countries; R&D programmes: cross-border spill-over effects; cohesion policy: positive sum game – mutual benefits; justice and home affairs: direct advantages for neighbouring countries). This is why the net positions should be analysed in a more sophisticated way.

ANNEX 2

Shifts in the MFF 2014-2020

The table shows the key figures of the MFF 2014-2020 and a comparison between the amounts proposed by the European Commission and those agreed by the European Council, as well as a comparison with the MFF for the period 2007-2013. The table clearly shows the shifts among individual headings.

The Multiannual Financial Framework 2014-2020 compared with the budget in 2007-2013 (commitment appropriations, EUR million, 2011 prices)

	MFF 2007-2013	MFF 2014-2020 COMMISSION PROPOSAL (JUNE 2011)	MFF 2014-2020 EUROPEAN COUNCIL CONCLUSIONS (FEBRUARY 2013)	EUROPEAN COUNCIL CONCLUSIONS VS MFF 2007-2013		EUROPEAN COUNCIL CONCLUSIONS VS COMMISSION PROPOSALS	
				EUR MILLION	%	EUR MILLION	%
1. Sustainable Growth	446.310	503.310	450.763	+4.453	+1%	-52.547	-10%
1a. Competitiveness for Growth and Jobs*	91.495	164.316	125.614	+34.119	+37%	-38.702	-24%
of which: Connecting Europe Facility	12.783	40.249	19.299	+6.516	+51%	-20.950	-52%
of which: Galileo, ITER and GMES	8.047	15.548	12.793	+4.746	+59%	-2.755	-18%
1b. Cohesion for Growth and Employment	354.815	338.994	325.149	-29.666	-8%	-13.845	-4%
of which: Investment for growth and jobs	345.935	327.116	313.197	-32.738	-9%	-13.919	-4%
of which: European territorial cooperation	8.880	11.878	8.948	68	+1%	-2.930	-25%
of which Contribution to CEF			10.000				
2. Preservation and Management of Natural Resources	420.682	389.972	373.179	-47.503	-11%	-16.793	-4%
of which: market related expenditure and direct payments**	318.820	286.551	277.851	-40.969	-13%	-8.700	-3%
of which: rural development	95.741	91.966	84.936	-10.805	-11%	-7.030	-8%
3. Citizenship, freedom, security and justice	12.366	18.809	15.686	+3.320	+27%	-3.123	-17%
4. EU as a global player	56.815	70.000	58.704	+1.889	+3%	-11.296	-16%

5. Administration* **	57.082	63.165	61.629	+4.547	+8%	-1.536	-2%
of which: Administrative expenditure	46.247	51.000	49.798	+3.551	+8%	-1.202	-2%
6. Compensations******	920	27	27	0	0%	0	0%
Total commitment appropriations	994.176	1.045.282	959.988	-34.188	-3%	-85.294	-8%
Total commitment appropriations (percentage of GNI)	1,12%	1,09%	1,00%		-0,12%		-0,09%

Notes:
In this table the expenditure headings are presented according to the terms used in the 2007-2013 period.
* For comparison purposes, the Commission proposal is increased for the amount for ITER and GMES that have been integrated in Heading 1a by the European Council.
** For 2007-2013, the net ceiling for pillar 1 is taken into account, which is after deductions of the modulation and other transfers to rural development. This net ceiling is then adjusted to comply with the structure of the 2014-2020 sub-ceiling (i.e. without market interventions in fisheries markets - to be financed under EMFF, and Food Safety - to be financed under Heading 3; the voluntary modulation from rural development is added.) For comparison purposes, the Commission proposal is increased by the amount of the agricultural reserve integrated in Heading 2 by the European Council.
*** For comparison purposes, the ceiling for Heading 5 for 2007-2013 is increased by the amount of staff contributions that were outside the MFF.
**** Compensations: Bulgaria and Romania for 2007-2009; Croatia for 2014.

Source: European Commission: Multiannual Financial Framework 2014-2020: MFF in Figures. European Commission (2013)

ANNEX 3

The implementation process of the three scenarios

<table>
<tr><th>YEAR</th><th>EP/COM MANDATES</th><th>IMPLEMENTATION OF A 5-YEAR MFF</th><th>IMPLEMENTATION OF A 7-YEAR MFF</th><th>IMPLEMENTATION OF A 10(5+5)-YEAR MFF</th></tr>
<tr><td>2016</td><td rowspan="4">2014-2019</td><td rowspan="2">Mid-term review of the MFF 2014-2020</td><td rowspan="2">Mid-term review of the MFF 2014-2020</td><td rowspan="2">Mid-term review of the MFF 2014-2020</td></tr>
<tr><td>2017</td></tr>
<tr><td>2018</td><td>Preparation of the proposal for the MFF 2021-2025</td><td>Preparation of the proposal for the MFF 2021-2027</td><td>Preparation of the proposal for the MFF 2021-2030</td></tr>
<tr><td>mid-2019</td><td rowspan="2">COM proposal and start of negotiations among the Member States and the EU institutions</td><td rowspan="2">COM proposal and start of negotiations among the Member States and the EU institutions</td><td rowspan="2">COM proposal and start of negotiations among the Member States and the EU institutions</td></tr>
<tr><td>mid-2019</td><td rowspan="6">2019-2024</td></tr>
<tr><td>2020</td><td>Agreement in the European Council and consent given by the European Parliament</td><td>Agreement in the European Council and consent given by the European Parliament</td><td>Agreement in the European Council and consent given by the European Parliament</td></tr>
<tr><td>2021</td><td>Start of implementation of the MFF 2021-2025</td><td>Start of implementation of the MFF 2021-2027</td><td>Start of implementation of the MFF 2021-2030</td></tr>
<tr><td>2022</td><td>Review and preparation of the proposal for the MFF 2026-2030</td><td></td><td></td></tr>
<tr><td>2023</td><td rowspan="3">End of n+3 period
COM proposal and start of negotiations among the Member States and the EU institutions</td><td rowspan="2">Mid-term review of the MFF 2021-2027</td><td rowspan="2">Mid-term review and proposals for the second half of the period starting from 2026</td></tr>
<tr><td>mid-2024</td></tr>
<tr><td>mid-2024</td><td rowspan="3">2024-2029</td><td rowspan="2">Preparation of the proposal for the MFF 2028-2034</td><td rowspan="2">Agreement in the European Council and consent given by the European Parliament</td></tr>
<tr><td>2025</td><td>Agreement in the European Council and consent given by the European Parliament
End of the 5-year period</td></tr>
<tr><td>2026</td><td>Start of implementation of the MFF 2026-2030</td><td>COM proposal and start of negotiations among the Member States and the EU institutions</td><td>Start of implementation of the second half of the period between 2026-2030</td></tr>
</table>

2027		End of n+2 period Review and preparation of the proposal for the MFF 2031-2035	Agreement in the European Council and consent given by the European Parliament	Revision and COM proposal for the next MFF
2028		End of n+3 period COM proposal and start of negotiations among the Member States and the EU institutions	Start of implementation of the MFF 2028-2034	Start of negotiations among the Member States and the EU institutions
mid-2029				
mid-2029	2029-2034			
2030		Agreement in the European Council and consent given by the European Parliament	Mid-term review of the MFF 2028-2034	Agreement in the European Council and consent given by the European Parliament
2031		Start of implementation of the MFF 2031-2035	Preparation of the proposal for the MFF 2035-2041	Start of implementation of the MFF 2031-2040
2032			COM proposal and start of negotiations among the Member States and the EU institutions	
2033				Mid-term review and proposals for the second half of the period starting from 2036
2034			Agreement in the European Council and consent given by the European Parliament	

The study focuses on the characteristic features of the MFF and on how to implement the EU budget more effectively in the future. The analysis concentrates on 3 possible options in connection with the duration of the next MFF. The main advantages and disadvantages of 5-year, 7-year and 10(5+5)-year scenarios are examined from the point of view of predictability (stability) and responsiveness (flexibility), and, in addition, from the perspective of political cycles and implementation time tables.

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