Briefing

September 2014

Hearings of European Commissioners-designate

Kristalina Georgieva

Vice President – Budget and Human Resources

Hearing due to be held on Thursday 2 October at 13.30 hours.

Kristalina Georgieva, Bulgaria.

Vice-President

Will guide the work of all Commissioners in her area of responsibility.

EP Committees responsible for the Hearing

Budgets (BUDG)
Budgetary Control (CONT)
Legal Affairs (JURI)

Biography

Born in 1953, Kristalina Georgieva studied and taught at the University of National and World Economy in Sofia. She joined the World Bank in 1993, where she was the Bank's director for Russia (2004-07) and one of the Bank's Vice-Presidents from 2008 to the end of 2009. She was Commissioner responsible for international cooperation, humanitarian aid and crisis response In the outgoing Commission.

This is one of a set of Briefings designed to give Members of the European Parliament an overview of major issues of interest in the context of the hearings of the Commissioners-designate. A full set of such Briefings can be found at:
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Background

The Commissioner for the EU budget has to ensure that the two arms of the budgetary authority provide the Union with the necessary financial resources to carry out its various policies and meet related objectives. Among other aspects, this involves the smooth functioning of the annual budgetary procedure, as well as the establishment of the Multiannual Financial Framework (MFF) – the legally binding planning tool that sets the maximum allocation of resources ('ceiling') for each major category ('heading') of EU spending for a period of at least five years and lays down other provisions for the running of the budgetary procedure.

Other tasks in the budgetary domain include: managing the rules that govern the EU budget (e.g. through proposals for changes to the relevant Financial Regulation); promoting sound financial management of EU funds; strengthening the fight against fraud affecting the budget, through the work of the European Anti-Fraud Office (OLAF); preparing the EU's annual accounts; reporting on budget implementation; and steering the European Commission's input into the budget discharge procedure, the annual process that ensures *ex-post* democratic oversight at political level of how the EU budget has been used. While two separate Commissioners were in charge of budget and budgetary control in both Barroso Commissions, these two aspects have been combined in a single portfolio by President-elect Jean-Claude Juncker. In addition, this portfolio also includes responsibility for coordinating the Commission's personnel policy, with a view to ensuring that the allocation of human resources is in line with the priorities of the new Commission.

Compared to national budgets, the EU's annual budget is relatively small, since it amounts to around 1% of its Member States' gross national income (GNI), which represents some 2% of total public spending in the EU. Nevertheless, especially for some countries, the EU budget may be a significant source of resources for investment: for central and eastern European MS, for example, the very rough indicator of net transfers provided by so-called 'operational budgetary balances' shows positive annual surpluses, in most cases corresponding to between 2.1% and 4.8% of their GNI in 2012.

The five main broad categories of EU expenditure over the seven years of the 2014-20 MFF are:

- *Smart and inclusive growth*. With maximum resources of €450.7 billion, this represents 47% of the total. Cohesion policies get three quarters of the amount. Other policy areas and programmes covered by this category include research and innovation, infrastructure, Erasmus, space and SMEs.
- *Sustainable growth: natural resources*. Total resources here are €373.1 billion (38.9% of the MFF), three quarters of which are devoted to market-related expenditure and direct payments in agriculture. Other policies include rural development, as well as environment and climate action.
- *Security and citizenship*. €15.6 billion (1.6%) is available for programmes in this area (for example, on internal security, asylum and migration, and food safety).
- *Global Europe*. Up to €58.7 billion (6.1%) goes to activities in the field of external relations.
- *Administration*. The ceiling for this category of expenditure is set at €61.6 billion (6.4%).

Many observers deem the EU budget to be small in size, when discussing its impact on the economy. However, the Commission considers that the role that the EU budget can play in economic recovery should not be under-estimated, saying that it is different in nature and function from national budgets, since it is mainly an 'investment budget' with a focus on measures with added value. In addition, EU resources are often used together with funding from other public and/or private sources, thus resulting in total investments higher than the EU contribution itself. The 2014-20 MFF seeks to focus spending priorities on sustainable growth, employment and competitiveness, in line with the objectives of the Europe 2020 strategy. Nevertheless, some commentators and stakeholders argue that, in order to have a significant impact on employment and the economy, the EU budget should be increased and even further reformed. The 2016 MFF review represents an opportunity in this sense.

Recent developments

Early in the last parliamentary term (2009-14), the entry into force of the Treaty of Lisbon (in December 2009) introduced some significant changes to the financial arrangements for the EU.

The transition to the new rules, which comprise a **single-reading for the annual budgetary procedure**, was under-pinned by an initial agreement between the EP, Council and Commission on transitional measures applicable to the budgetary procedure, and by subsequent negotiations that led to the adoption of a new Financial Regulation governing the establishment and the implementation of the EU budget.

The **new Financial Regulation**, adopted in October 2012 and applicable as of 1 January 2013, was jointly agreed by the EP and the Council, while, prior to the Lisbon Treaty, financial rules were set in a Council Regulation. Therefore, the EP took the occasion to push for a more substantive revision of the EU's financial rules, not limited to provisions directly related to the Treaty of Lisbon. The modifications agreed aim to improve access to EU funding (e.g. through administrative simplification and a grant system more focused on delivery of results than on reimbursement of cost claims); increase the accountability of the entities in charge of managing EU funds, including Member States' authorities; and strengthen the effectiveness of EU funds by means of innovative funding mechanisms (e.g. new options for public-private partnerships and, in the area of external action, the possibility to establish EU trust funds that pool EU resources with those of other donors).

A major topic of the last term was the **establishment of the new MFF covering the 2014-20 period**, which the Treaty of Lisbon formalised, transforming it from an inter-institutional agreement into a Council Regulation. Following the Commission proposal of June 2011, the European Council reached an agreement in February 2013, cutting most headings and setting the total ceilings over seven years at €959.9 billion for commitments (i.e. 1% of EU GNI, down from 1.12% under the previous MFF) and €908.4 billion for payments (0.95% of GNI). These two figures (both at 2011 prices) differ, since commitments are legal pledges to provide finance once given conditions are met, and thus do not necessarily lead to payments in the same financial period. In March 2013, the EP did not agree with the European Council's conclusions, considering that improvements were needed. Following months of intensive negotiations, a political agreement between Parliament and Council was finally reached for the MFF and the related inter-institutional agreement on cooperation in budgetary matters and on sound financial management, on 27 June 2013. This deal did not modify the amount of

resources set by the European Council, but included a series of modifications called for by the EP, such as more flexibility in the MFF to encourage full use of available funds and review/revision of the MFF in 2016. Following fulfilment of conditions set by the EP regarding adoption of amending budgets to provide extra payments, political agreement on the legal bases of multiannual programmes and creation of a high-level group on the financing system of the EU ('own resources' system), the Parliament gave its consent to the 2014-20 MFF, allowing the Council to adopt it on 2 December 2013.

The condition on payments relates to a recurrent problem with EU annual budgets since the entry into force of the Treaty of Lisbon: a **systematic under-budgeting of payment appropriations** during the annual budgetary procedure, leaving the EU unable to pay an increasing number of bills on time. The issue is related to the fact that, in times of fiscal consolidation, the Council has regularly cut the payment appropriations that the Commission estimates to be necessary on the basis of the legal commitments subscribed to by the EU, replacing these figures with absolute targets. Over the last three years, the EP has repeatedly condemned this approach and has managed to improve the situation with the agreement on the 2014 budget.

The Treaty of Lisbon has provided the **budget discharge procedure** with a new tool: an evaluation report on the results achieved with the EU's finances. This could increase the focus of the procedure on monitoring the achievement of policy objectives (performance), alongside the check on whether the EU budget has been implemented in compliance with relevant rules (legality and regularity).

In the field of the **fight against fraud**, Parliament and Council adopted a reform of OLAF in 2013. Its objectives included enhancing procedural guarantees in investigations, clarifying the roles and responsibilities of OLAF and its Supervisory Committee, and improving cooperation between OLAF and Member State authorities. In June 2014, the Commission put forward a proposal to further strengthen procedural guarantees.

With regard to **human resources**, the EU staff regulations have recently been reformed, responding to requests voiced by many Member States seeking to reduce the EU's administrative budget. Among others, modifications include changes to the career structure, and increases in working hours and in the pensionable age, as well as the obligation for each EU institution, body and agency to reduce the number of staff by 5% from 2013 to 2017 (or on average by 1% per year).

European Parliament

The Parliament is one arm of the budgetary authority, but its powers vary depending on the topic: the EP has *de facto* codecision powers for the annual budgetary procedure and gives or refuses its consent to the MFF, while it is only consulted on the own resources system (except on its implementing measures, to which consent applies). This asymmetry between the expenditure and the revenue side of the budget, some commentators note, may sharpen the differences in the perspectives of the Parliament and of the Council, the other arm of the budgetary authority. The ordinary legislative procedure (of codecision between EP and Council) applies to the adoption of financial rules and measures to prevent fraud and fight against it.

Over recent decades, the EP has been able to use its budgetary powers on the **expenditure side** as leverage to set the policy agenda and push for significant reforms in other areas. With the Treaty of Lisbon, Parliament no longer has the final say over certain parts of the budget (what used to be called 'non-compulsory expenditure'), but

on the other hand has gained equal status with the Council over the entire budget. Some analysts consider that this in practice reduces the EP's strength in this area.

With the **2014-20 MFF** negotiated against the background of austerity in the Member States, the EP expressed its concern that the ceilings set by the European Council may not provide the Union with enough resources to achieve its objectives. Parliament stressed the importance of the qualitative elements that it had managed to include in the deal, such as the mid-term review that should lead to a subsequent revision of the MFF and the enhanced flexibility of the multiannual planning tool for both payments and commitments. This higher flexibility should be ensured by an extended toolkit of special instruments designed to tackle unforeseen events and to allow transfers between and within categories of expenditure, and between financial years.

As far as the **revenue side** of the budget is concerned, the EP has limited influence. Parliament has long pushed for an overhaul of the own resources system, deeming the current one to have several shortcomings, such as complexity, lack of real financial autonomy (in contrast to the spirit of the Treaty) and of transparency. In the context of the MFF negotiations, the Member States agreed to only limited modifications to the system, whose reform requires their unanimity. However, the EP obtained agreement on the establishment of a high-level group to carry out a general review of the system, potentially paving the way to new reform proposals from the Commission in 2016.

In the **budget discharge procedure**, the EP decides whether to grant discharge to the Commission for the execution of the EU budget, acting on a non-binding recommendation by the Council. The procedure has proved to be a powerful tool, which has had an impact on the development of the EU's budgetary system, while contributing to increasing the EP's political leverage.

Treaty base and EP powers

The financial set-up of the EU is detailed in Part Six, Title II of the Treaty on the Functioning of the European Union (TFEU), including *inter alia* provisions on: the Union's own resources (Article 311 TFEU); Multiannual Financial Framework (Article 312 TFEU); the Union's annual budget (Articles 313-316 TFEU); implementation of the budget and discharge procedure (Articles 317-319 TFEU); the Financial Regulation (Article 322 TFEU); and combatting fraud (Article 325 TFEU). The EP's powers vary depending on the topic (see above).

Priorities and challenges

The Vice-President holding this portfolio is expected to **ensure that budgetary and human resources match the EC's political priorities**, by examining all Commission initiatives for their implications on resources and guiding the work of all Commissioners accordingly. This could mean a re-organisation of the Commission's Directorates-General, since the task will be carried out against the backdrop of staff reduction – by 5% in all EU institutions, bodies and agencies between 2013 and 2017. With regard to personnel, the mission letter to the Vice-President-designate also focuses on **gender equality** and includes a target of 40% of female senior and middle management in the Commission by the end of the term.

In his political guidelines, Commission President-elect Jean-Claude Juncker says that the opportunity of the **2016 review of the MFF** should be seized to further focus the EU budget on jobs, growth and competitiveness. In addition, he intends to increase the impact of the EU budget and to promote its role as catalyst of additional private and

public investments in the real economy, including by further developing financial instruments.

The pilot phase of the Project Bond Initiative (PBI), approved by Parliament and Council in 2012, provides a recent example of **innovative financial instruments** for the implementation of the EU budget. The scheme aims to attract funding from institutional investors for key EU infrastructure projects in the fields of transport, energy and telecommunications. The EU budget contribution for the pilot phase is limited to €230 million. Yet, according to estimates of the European Investment Bank (EIB) that implements it, the PIB could trigger total investments of over €4 billion. Further to a final evaluation of the pilot phase in 2015, the Commission should propose any necessary changes to the scheme, with the concept expected to be further used under the 2014-20 MFF, notably in the context of the Connecting Europe Facility.

Proposals to reform the own resources system could be tabled at around the same time as the MFF review in 2016, following the work of the high-level group dedicated to the topic. Changes to the own resources system and the MFF are often considered crucial to ensure further reform of the EU budget. However, the decision-making process is said to represent a significant obstacle to change in both domains, since it requires unanimity of Member States, which makes veto threats credible.

Another challenge, which is already surfacing is the **backlog of payment claims**. In the agreement on the 2014 budget, the EP succeeded in increasing the level of payment appropriations. However, early this year tensions over payments emerged again in most policy areas, including cohesion policy, humanitarian aid and research. These problems result from a mix factors: payment claims traditionally higher after the end of a programming period, with the 2007-13 MFF ending last year; the need to pre-finance new programmes for 2014-20 in order to ensure their timely launch; and reduced levels of payment ceilings in the 2014-20 MFF. The flexibility tools included in the new MFF should contribute, at least partly, to addressing this issue.

In some cases, the **use of the flexibility measures included in the MFF** might become a potential source of friction between Parliament and Council – for example, if their interpretations of the rules governing these tools differ or if the two arms of the budgetary authority do not agree on the mobilisation of instruments.

One area covered by flexibility measures of the MFF is **growth and employment, in particular youth employment**. Any unused portion of the commitment ceilings for 2014-17 will form a reserve for additional expenditure in these policy areas in 2016-20. Parliament and Council may decide to mobilise this reserve or part of it through the budgetary procedure. Making transfers possible between financial years and categories of expenditure, this clause is able to contribute to the full use of the resources provided for by the European Council for 2014-20.

As regards budget resources allocated to individual policy areas, the political guidelines of the Commission President-elect specifically refer to **Frontex**, the European Agency for the Management of Operational Cooperation at the External Borders of the EU. According to the guidelines, its resources need to be strengthened, since its annual budget of €90 million is insufficient to carry out the task of securing Europe's common borders. In the field of migration and borders, with growing instability in the EU's neighbouring countries and an increasing number of migrant tragedies, the current Italian Presidency of the Council and the Commission are working to launch a new

operation by Frontex. In August 2014, the outgoing Commissioner for Home Affairs, Cecilia Malmström, declared that a reallocation of resources within the Frontex budget would be explored to finance the new operation, while calling for the participation and contribution of all Member States.

In his 'Agenda for jobs, growth, fairness and democratic change', President-elect Juncker also mentioned the possible creation of a dedicated **'fiscal capacity' for the euro area**, when discussing the further deepening of the Economic and Monetary Union (EMU). In 2012, EU policy documents envisaged two main functions for such a fiscal capacity: promoting structural reforms; and mitigating macro-economic shocks which affect only some euro-area countries. Should the idea be further developed, the relations between any euro-area fiscal capacity and the EU budget would need to be defined. When endorsing the political agreement on the 2014-20 MFF, Parliament considered that any possible euro-area budget should be either integrated into, or annexed to, the EU budget, recalling that unity and transparency of the budget was one of the EP's key priorities.

One development being debated in the wake of the recent financial crisis is how to ensure **democratic scrutiny of the financial tools that have been created outside the EU's institutional framework** and as such are not subject to the discharge procedure. Increasing the focus of discharge on the achievement of policy objectives is also a challenge, to which the President-elect's call for strengthening performance-based budgeting across the Commission could relate.

In a long-term perspective, but with possible implications also for the 2016 review of the MFF, this portfolio will include the preparation of a proposal for the next MFF, given that relevant negotiations have traditionally required a long lead time (for the 2014-20 MFF, around two and a half years from the Commission's initial proposal to final adoption by the Council). This could be the occasion to promote a **better alignment of the MFF's duration with the political cycles of EU institutions**. In a 2011 resolution outlining its view on EU priorities after 2013, the EP deemed a seven-year MFF to be a transitional solution until 2020, recalling its conviction that a five-year framework aligned with Commission and EP terms of office would increase democratic accountability.

Another long-standing idea that could come up in the preparation of the next MFF is the **inclusion of the European Development Fund (EDF) in the EU budget** (its so-called 'budgetisation'). At present, this intergovernmental Fund that finances development cooperation in the African, Caribbean and Pacific Group of States (ACP) and the overseas countries and territories (OCTs) of the EU represents an exception to the principle of budgetary unity. In 2011, the Commission set 2021 as the target date for the budgetisation of the EDF, which would imply the tabling of relevant proposals during its coming five-year term of office. Parliament has supported budgetisation in many resolutions, but this requires unanimity of the Member States.

Further reading

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