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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

Mid-term review/revision of the multiannual financial framework 2014-2020

An EU budget focused on results

{SWD(2016) 299 final}

1. INTRODUCTION

The EU is facing a range of significant long-term challenges: strengthening Europe's economy and social fabric; ensuring security inside the EU and at its external borders; managing migration; and addressing the causes and consequences of climate change. Addressing these and other challenges requires comprehensive medium- to long-term policies and strategies, underpinned by adequate financial support at both European and national level.

The Union's multiannual financial framework provides essential medium-term predictability for supporting investment in Europe's priorities. However, in the current context of multiple crises, it also needs to be able to adjust swiftly to changing priorities and unforeseen events and to deliver rapidly on the ground. This was done successfully in the setting-up of the European Fund for Strategic Investments (EFSI) under the Investment Plan for Europe and in making funding available for measures addressing urgent migration, refugee and security challenges.

The multiannual financial framework (MFF) for the years 2014-2020 was agreed in 2013 against the background of the financial and economic crisis and strained public finances in many Member States. Consequently, the MFF placed a strong emphasis on investing in areas of EU value-added to boost jobs and growth. The MFF also reinforced the link between the EU budget and essential administrative and structural reforms in the Member States by introducing strong conditionalities. It introduced a more performance-based approach to budgeting and simplified delivery mechanisms so as to deliver results quickly. Innovative techniques and instruments strengthened the EU budget's capacity to respond to new challenges and to leverage public and private funds.

The Commission which took office in November 2014 reinforced this framework with the successful launch of the Investment Plan for Europe supported by the European Fund for Strategic Investments (EFSI). Moreover, its initiative for a *Budget Focused on Results* (BFOR) will ensure that resources are allocated to priorities and that every action delivers high performance and added value. The BFOR initiative aims to address four key questions¹:

1. Where to spend EU money – how to achieve high EU added value?
2. How to spend EU money – how to get more out of each Euro spent by the EU budget?
3. How can the performance of the EU budget be adequately assessed?
4. And how to communicate about the EU budget – how to explain better to citizens what the EU budget achieves?

As required by Article 2 of the MFF Regulation², the Commission herewith presents a mid-term review of the functioning of the MFF, taking account of the economic

¹ http://ec.europa.eu/budget/budget4results/index_en.cfm.

² Council Regulation No 1311/2013 laying down the multiannual financial framework for the years 2014-2020, COM(2016) 311, 30.6.2016.

and wider context. It reviews the main aspects of implementation of the current MFF since 2014. This period has been characterised both by concerted efforts to promote economic recovery and the urgent imperative to respond to the refugee crisis and security threats.

Together with the increased appropriations proposed under the Draft Budget 2017, mainly for migration, and the additional allocations stemming from the technical adjustment of cohesion policy envelopes, the mid-term review financial package proposes about EUR 13 billion of additional EU funding in 2017-2020 for jobs and growth, migration and security (see financial annex).

The unprecedented migration flows experienced in 2015 and the repeated terrorist attacks in Europe and throughout the world called for a strong and swift European response, combining new legislative, operational and financial means. As a central element of that toolbox, the EU budget has shown considerable flexibility in reorienting and making available additional means within the budget itself and in mobilising additional contributions from Member States and other donors. However this flexibility is reaching the limits of the current framework.

As the challenges of migration and security are rooted in geopolitical and societal developments which need to be addressed in the longer-term, the EU budget must further develop its capacity to support the management of migration flows as well as the protection and integration of refugees and to address the root causes of migration. This is one of the main purposes of the package of legislative proposals which accompanies this review and which aims at both providing additional financial means for migration and security within the current MFF and at further strengthening the flexibility of the latter in dealing with unforeseen circumstances.

Consequently, it is proposed to amend the MFF Regulation to further increase the capacity of the Flexibility Instrument and the Emergency Aid Reserve and to remove a number of restrictions which limit the effectiveness of instruments allowing for the reuse of margins³ left available from previous financial years. Furthermore, it is proposed to create a European Union Crisis Reserve to finance the response to crises, such as the current migration crisis, as well as events with serious humanitarian and security implications. This Reserve would be funded by de-committed appropriations from all MFF headings⁴. It would not increase the overall ceilings for commitments and payments of the agreed multi-annual financial framework.

Closing the investment gap left behind by the financial and economic crisis as well as promoting employment, in particular youth employment, remains a key challenge for the Union. Based on implementation to date, the Commission has identified a number of successful programmes and instruments which it proposes to reinforce with additional financial means. This includes in particular the European Fund for Strategic Investments as well as Horizon 2020⁵, the Connecting Europe Facility⁶, Erasmus+⁷, COSME⁸ and the Youth Employment Initiative.

³ Global Margin for Commitments and Global Margin for Payments.

⁴ Current estimates point to EUR 3 to 4 billion per year.

⁵ Horizon 2020 is the EU Research and Innovation programme for 2014-2020.

EU financing has a strong leverage effect on Member States and private investments. This is also relevant in the digital area - one of the top 10 priorities of this Commission – where investment needs linked to high-performance computing, cybersecurity, digital skills and connectivity have been identified. The Commission will look into ways to address these investment needs by pooling EU, national and private funding.

Improving the budget's performance in addressing the EU's priorities not only requires appropriate financial means but also cost-efficient delivery mechanisms. In consultation with stakeholders, the Commission has assessed how the measures aimed at simplifying the implementation of EU funds introduced under the current legislation have worked in practice and has identified room for further improvements. On that basis, it is tabling together with this Review an ambitious revision of the general financial rules accompanied by corresponding changes to the sectorial financial rules.

A Commission Staff Working Document on the mid-term review further elaborates on all the aspects dealt with by this Communication. It also includes a medium-term payments forecast, which provides a forecast of payment needs until 2020, also taking into account the proposals accompanying this Review. It concludes that the current payment ceiling would be just sufficient: after an accumulation of an unprecedented backlog in 2014, the delayed implementation of the European Structural and Investment Funds would leave large payment margins in 2016 and 2017 before payment needs increase sharply towards the end of the period⁹.

The Mid-Term Review is accompanied by the following legislative proposals:

- A proposal for amending Council Regulation No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020, as amended by Council Regulation No 2015/623 of 21 April 2015¹⁰ and corresponding adjustment of the Interinstitutional Agreement on budgetary discipline, on cooperation and budgetary matters and on sound financial management¹¹;
- A proposal for amending Decision No 2015/435 of the European Parliament and of the Council of 17 December 2014 on the mobilisation of the Contingency Margin¹²;
- A proposal to simplify financial rules under the Financial Regulation and relevant basic acts¹³;

⁶ The Connecting Europe Facility (CEF) is an EU funding instrument to support the development of high performing, sustainable and efficiently interconnected trans-European networks in the fields of transport, energy and digital services.

⁷ Erasmus+ is the EU's programme to support education, training, youth and sport in Europe, providing opportunities for over 4 million Europeans to study, train gain experience, and volunteers abroad.

⁸ COSME is the EU programme for small and medium-sized enterprises.

⁹ Based on this forecast, the Commission proposes the decision on the mobilisation of the contingency margin to be amended in order to offset earlier than expected the EUR 2.8 billion of the contingency margin mobilised in 2014 and to confirm that payments related to special instruments are entered in the budget over and above the ceilings.

¹⁰ OJ L 347, 20.12.2013, p. 884, and OJ L 103, 22.4.2015, p. 1.

¹¹ COM(2016)604 of 14.09.2016, and COM(2016)606 of 14.09.2016.

¹² COM(2016)607 of 14.09.2016 .

- A proposal for amending the EFSI Regulation (2015/1017) with the purpose of extending the EFSI¹⁴;
- Under the External Investment Plan: a proposal for a Regulation of the European Parliament and of the Council on the European Fund for Sustainable Development (EFSD) and establishing the EFSD Guarantee and the EFSD Guarantee Fund¹⁵; a proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC, Euratom) No 480/2009 establishing a Guarantee Fund for external actions¹⁶; and a proposal for a decision of the European Parliament and of the Council amending Decision No 466/2014/EU granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union¹⁷.
- Under the Telecommunication package: A proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1316/2013 and (EU) No 283/2014 as regards the promotion of Internet connectivity in local communities¹⁸.

The Commission calls upon Council and Parliament to ensure a very swift adoption of these proposals and their financing.

2. THE MFF AT MID-TERM: STATE OF IMPLEMENTATION AND NEW CHALLENGES

Eliminating the payments backlog

The insufficient level of payment appropriations in the 2014 budget coincided with high accumulated payment needs resulting from the implementation cycle of the cohesion programmes from the previous MFF. This led to the building up of a very significant backlog of outstanding payment claims at year-end (EUR 24.7 billion at the end of 2014). The mobilisation of special instruments provided for in the MFF Regulation helped mobilising additional payment appropriations in 2014. The backlog of payments is now expected to be eliminated by end 2016.

The absorption of the backlog is being facilitated by the slower than expected launch of the new generation of programmes financed from the European Structural and Investment Funds, which results in large margins remaining available under the payment ceilings in 2016 and even more so in 2017. Whilst this temporarily allows

¹³ Proposal for a Regulation of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union and amending Regulations (EU) No 1296/2013, (EU) No 1299/2013, (EU) 1301/2013, (EU) No 1303/2013, EU No 1304/2013, (EU) No 1305/2013, (EU) No 1306/2013, (EU) No 1307/2013, (EU) No 1308/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, (EU) No 652/2014 of the European Parliament and of the Council and Decision No 541/2014/EU of the European Parliament and of the Council [COM(2016)605 of 14.09.2016].

¹⁴ Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of the technical enhancements for that Fund and the European Investment Advisory Hub [COM(2016)597 of 14.09.2016].

¹⁵ COM(2016)586 of 14.09.2016.

¹⁶ COM(2016)582 of 14.09.2016.

¹⁷ COM(2016)583 of 14.09.2016.

¹⁸ COM(2016)589 of 14.09.2016.

for new needs to be accommodated without requiring additional contributions from national budgets, it is likely to result in significant payment pressures towards the end of the MFF period once new programmes reach their cruising speed.

Implementation of the European Structural and Investment Funds

The new legislative framework for implementing the European Structural and Investment Funds (ESI Funds) agreed for the 2014-2020 period has introduced a number of provisions aimed at improving the effectiveness and European added value of the funds. The new legislative framework notably concentrates the resources on the national objectives, which in line with the country-specific recommendations translate the key Europe 2020 objectives. It establishes a performance framework based on measurable indicators and targets linked to the release of a performance reserve and also introduces ex-ante conditionalities and creates closer linkages with the EU economic governance. As a result, the ESI Funds will be supporting structural reforms in line with the priorities set at EU level.

The setting-up of these innovative elements required time and resources in the start-up phase to ensure that the necessary conditions for effective spending are in place. This and the late adoption of the legal acts and the introduction of a general n+3 de-commitment rule, which considerably relaxed the regulatory discipline on speed of implementation contributed to delaying the preparation of the operational programmes. Moreover, Member States focused their efforts on maximising the implementation of the 2007-2013 programmes in order to avoid potential loss of allocations.

In view of their potential contribution to jobs and growth, urgent action is needed to accelerate the implementation of the ESI Funds. The Commission has urged Member States to complete the process of designating their managing and certifying authorities, submit major project applications and implement actions to make progress in fulfilling ex-ante conditionalities to accelerate project implementation. It will continue to offer technical support to Member States with implementation issues.

Simpler and more flexible rules, as proposed in this package, will contribute to accelerating the implementation of the ESI Funds.

To take account of the difficult situation of Member States who suffered most from the crisis, the Member States' cohesion allocations were reviewed in June 2016 and, where appropriate, adjusted for the years 2017-2020 on the basis of the most recent data available. As announced in the technical adjustment of the MFF for 2017¹⁹, the Commission has engaged in discussions with Member States who benefit most from the adjustment of cohesion policy envelopes with a view to focusing the additional amounts on measures to help tackling the migration crisis and youth unemployment and on investments through financial instruments and a combination with the European Fund for Strategic Investments, taking into account the needs and relevance of those priorities for each Member State.

¹⁹ Technical Adjustment of the financial framework for 2017 in line with movements in GNI and adjustment of cohesion policy envelopes, adopted pursuant to Articles 6 and 7 of Council Regulation No 1311/2013 laying down the multiannual financial framework for the years 2014-2020, COM(2016) 311, 30.6.2016.

Youth Employment Initiative

As part of the current MFF, a specific allocation of EUR 3.2 billion (with the same amount being added from the European Social Fund) was made available to create a dedicated Youth Employment Initiative (YEI). The YEI provides targeted support to young unemployed people living in regions with youth unemployment rates higher than 25%. The YEI experienced significant delays in setting up the programmes, designating authorities and submitting payment applications. However, now that the structures are in place, first evaluations point²⁰ to significantly improved opportunities for young people who received support from the YEI in finding employment or continuing their studies afterwards. To date, over 1.3 million young people have benefited from the YEI, exceeding initial estimates.

Given the persistently high levels of youth unemployment in many regions and the encouraging first results shown, it is proposed to supplement the original allocation of the YEI by EUR 1 billion over 2017 – 2020, to reach a total amount of EUR 8 billion (with EUR 1 billion of matching funding to be provided from the European Social Fund).

Competitiveness programmes

In contrast to the delays in cohesion policy, competitiveness programmes under direct management under heading 1A of the MFF ("Smart and Inclusive Growth"), such as Horizon 2020, the CEF and COSME, have experienced very strong take-up, with calls for application resulting in a number of eligible projects often exceeding the available budget by a significant margin. It is also the case of Erasmus+, with a strong EU value-added in its transnational mobility activities, contributing to skills development, employability of students and less likelihood of unemployment.

Based on this first experience, it is proposed to supplement the original allocation of Horizon 2020 by EUR 0.4 billion, of CEF-transport by EUR 0.4 billion, of Erasmus+ by EUR 0.2 billion and of COSME by EUR 0.2 billion over 2017-2020 to further enhance the EU support to jobs and growth.

Following the Communication setting out a European vision of Internet connectivity for the Digital Single Market and in order to promote digital inclusion, the Union should support the provision of free local wireless connectivity in the centres of local public life through targeted support. For this reason the Commission has adopted the Wifi4EU proposal, with a total budget proposed of EUR 120 million, including a reinforcement by EUR 50 million.

European Fund for Strategic Investments (EFSI)

To complement the existing programmes within the MFF to spur job creation and growth, the Commission proposed to set up a European Fund for Strategic Investments (EFSI) in November 2014 in the framework of the Investment Plan for Europe. EFSI, whose legal basis was agreed by Parliament and Council in June 2015, is already delivering tangible results. EUR 115.7 billion in total investment is expected to be mobilised throughout the Union. This represents more than one third

²⁰ The Commission's Report on the implementation of the Youth Guarantee and the operation of the Youth Employment Initiative is being finalised (and foreseen to be adopted in October 2016).

of the overall objective of EUR 315 billion in new investments over three years. The EFSI has been successful in crowding in significant additional finance (85% of the total investment mobilised) from private and public investors. The programme has been particularly successful in ensuring more financing for small businesses.

In view of this success, the Commission proposes to continue the EFSI beyond 2017 and to double its financing capacity²¹.

Given the results delivered, the Commission presents a legislative proposal to extend the duration of the EFSI until 2020 in parallel with its Communication on the mid-term review/revision of the MFF. This proposal includes a transfer from CEF financial instruments to the EFSI of EUR 500 million, a transfer of EUR 1 146 million from CEF financial instruments to CEF grants²² to be blended with EFSI financing or to other instruments dedicated to energy efficiency, as well as the use of EUR 150 million from the unallocated margin. This should ensure a maximum impact of EU funds, eliminate overlaps and maximise the synergies between different grants and financial instruments as well as with private investors. Overall, EUR 1.4 billion additional financial means will be available for CEF transport grants to finance cross-border transport infrastructure for priority networks in the EU.

Sustainable Growth: Natural Resources

Budgetary execution also began slowly under Heading 2 ("Sustainable Growth: Natural Resources"), because of delays in the implementation of the new direct payment schemes as well as the European Agricultural Fund for Rural Development (EAFRD). In response to the Russian ban on EU agricultural products and market imbalances over 2014-2016, the Commission adopted a number of exceptional market support measures for fruit and vegetable producers and the dairy and other livestock sectors amounting to a total of EUR 1 664 million²³.

Migration, refugee crisis and security

Critically, the implementation of the first years of the MFF has been characterized by the urgent need to address the internal and external dimensions of the migration and refugee crisis. Since the adoption of the European Agendas on Migration²⁴ and Security²⁵, programmes under Heading 3 and Heading 4 have been refocused and reinforced in order to step up humanitarian action and rescue capacity, further building up the legal and operational framework for protecting our external borders, assist the Member States in managing the refugee flows, and address the root causes of migration. A new legal base was established and endowed with fresh resources, the Instrument for Emergency Support within the Union²⁶. The Commission is

²¹ COM(2016) 359 final: Europe investing again – Tackling stock of the Investment Plan for Europe and next steps.

²² This includes a transfer of financial instruments to grants for EUR 1 billion for CEF transport (besides the topping up of EUR 0.4 billion from this mid-term review).

²³ Since these measures could be financed through European Agriculture Guarantee Fund by means of redeployments and the use of assigned revenue, recourse to the Agricultural Reserve was not necessary.

²⁴ COM (2015) 240 of 13 May 2015

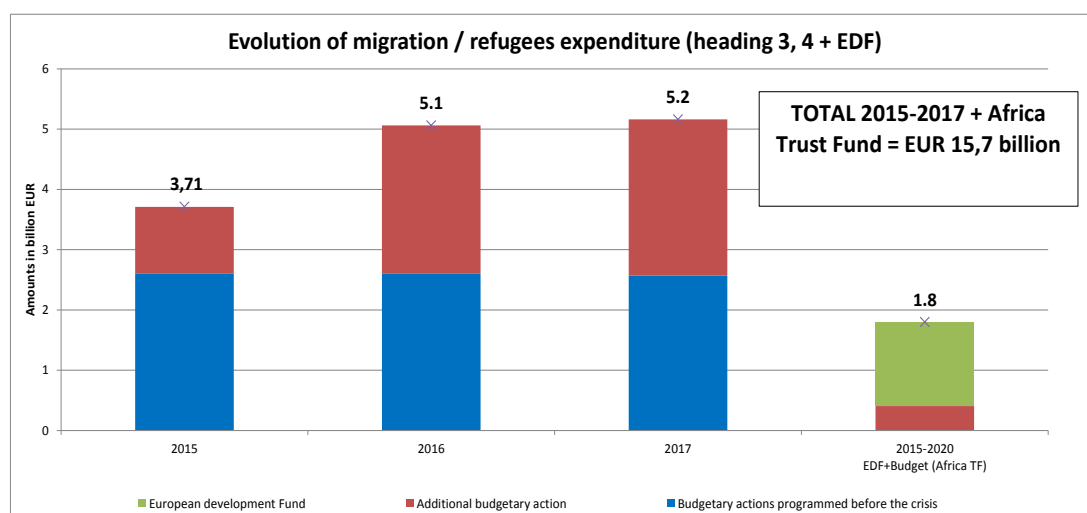
²⁵ COM(2015) 185 of 28 April 2015.

²⁶ OJ L 70, 16.3.2016, p.1

committed to provide financial assistance for urgent needs to Member States facing extreme pressure at the external borders of the Union.

The Commission has reacted swiftly to the security deterioration by proposing legislation and increasing the financial resources dedicated to address the security needs. Additional measures might be needed in the future, including stepping up if necessary the financial resources.

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, including the mobilisation of special instruments provided for in the MFF Regulation. The Flexibility Instrument and the Emergency Aid Reserve in particular allowed for the substantial top-up of key spending programmes such as the Asylum, Migration and Integration Fund despite very tight ceilings for commitments.



In order to further leverage EU budget and European Development Fund availabilities, pool additional contributions from different sources and programmes and coordinate actions, a number of external European Union Trust Funds and a Facility for Refugees in Turkey were established. Their functioning is being carefully monitored²⁷, and procedures for improving democratic scrutiny, transparency and legitimacy through a timely involvement of the European Parliament are included in the proposal to simplify financial rules, which accompanies this Review.

EUR 2.55 billion are needed to finance the budgetary implications during the years 2018-2020 of the European Border and Coast Guard and the reinforcement of EUROPOL as well as the Commission proposals related to the EU Agency for Asylum, the review of the Dublin common asylum system, the Emergency support within the Union and the Entry/Exit system which aims at registering entry, exit and refusal of entry data of third country nationals crossing the external borders of the Member States of the EU.

Should these measures prove not sufficient to address the migration and security challenges, additional resources would need to be made available. This could also

²⁷ See the accompanying Staff Working Document for the current state of play.

be financed by the proposed new European Union Crisis Reserve funded by the re-use of de-committed appropriations.

Beyond the existing programmes, the Commission has proposed a Partnership Framework with third countries under the European Agenda on Migration in order to ensure a coherent approach vis-a-vis partner countries and an efficient deployment of the different funding sources: MFF programmes, European Development Fund (EDF), European Union Trust Funds and other facilities. This initiative aims at setting up a coherent and tailored process by which the Union and its Member States act in a coordinated manner combining instruments, tools and leverage as the basis for comprehensive partnerships (compacts) with third countries in order to better manage migration in full respect of our humanitarian and human rights obligations.

In the long term, the EU should continue to increase its efforts to address the root causes of irregular migration and forced displacement and to provide capacity building to the host communities and relevant institutions. This will require fundamentally reconsidering the scale and nature of traditional development co-operation models. A much greater role must be given to private investors looking for new investment opportunities in emerging markets. The Commission is therefore presenting an ambitious External Investment Plan that would tackle the root causes of migration and support partners to manage its consequences, while contributing to the achievement of other development goals.

In parallel with the mid-term review, the Commission is submitting a proposal for a new European Fund for Sustainable Development (EFSD) which should constitute the investment pillar of the External Investment Plan and will combine existing blending facilities and a new EFSD Guarantee for Sustainable Development

It is proposed to mobilise EUR 750 million for the Partnership framework process and EUR 250 million for the European Fund for Sustainable Development.

The macroeconomic and financial instability in the Union's neighbourhood, fuelled by recent regional crises and conflicts, has led to increasing demands for EU macro-financial assistance (MFA) over recent years. MFA commitments have increased from EUR 1.5 billion in the period 2000-2008 to EUR 4.6 billion since 2009²⁸. However, the size of potential MFA operations is limited to about EUR 500 million per year due to the provisioning mechanism of the Guarantee Fund for External Actions under the current MFF.

As the geopolitical and economic instability of the region persists, the needs for EU macro-financial support are likely to remain at a historically high level for the years to come, it is proposed to increase the lending capacity of the MFA from currently EUR 0.5 billion to EUR 2 billion per year, by increasing the provisioning of the Guarantee Fund for External Actions by EUR 270 million over the financial years 2019 and 2020.

Also, an external mid-term review of the external actions of the EIB, guaranteed by the Guarantee Fund for External Actions (the 'external lending mandate' - ELM)

²⁸ MFA amounts made available in the context of the recent crisis in Ukraine alone account for EUR 3.4 billion.

has concluded that the ELM should be raised to EUR 30 billion in order to increase its lending capacity. In parallel, the EIB has proposed a new "Resilience" initiative aimed at rapidly mobilising additional financing in support of sustainable growth, vital infrastructure and social cohesion in Southern neighbourhood and Western Balkans countries.

Based on the above, the Commission proposes to increase the ELM by EUR 5.3 billion to reach a total of EUR 32.3 billion. This requires increasing the Guarantee Fund by EUR 115 million over 2018-2020.

More detailed review and analysis

The 2014-2020 MFF is also characterised by a number of qualitative innovations on which the Staff Working Document (SWD) elaborates, notably the more systematic use of financial instruments as a means to leverage scarce resources in a targeted manner and in sectors where the 'crowding in' of private investment is particularly appropriate. It is markedly pertinent in the context of the Investment Plan and EFSI. The SWD also reports on progress made towards the political commitment of devoting at least 20% of EU budget to climate action which has already yielded considerable results by encouraging all actors involved at EU, Member State and regional level to incorporate climate considerations in their decision making and programming, though further effort is still needed to make sure that the global target of 20% climate related expenditure can be sustained until 2020. The mid-term reviews of the MFF programmes will assess progress made towards the achievements of 20% of EU spending objective. Also the reinforcement of Heading 1A programmes should, for example, help Horizon 2020 to reach its expected target of 35% climate relevance. Furthermore, the proposal for the extension of EFSI 2 sets a minimum target for climate-related projects.

Finally, the Staff Working Document reports on how the European Structural and Investment Funds are being used to support sound economic governance and the implementation of Country Specific Recommendations.

3. STRENGTHENING THE BUDGET'S FOCUS AND FLEXIBILITY TO DELIVER ON PRIORITIES AND NEW CHALLENGES

The assessment of the MFF implementation at mid-term and the work undertaken in parallel under the strategy for a Budget Focused on Results leads the Commission to propose further improvements with a view to focussing the budget on policy priorities and new challenges; improving its efficiency and flexibility in mobilising and delivering funds to respond to evolving needs; and demonstrating results by refining its systems for reporting on performance, accountability and results.

Focussing the budget further on policy priorities and new challenges

As shown in the previous chapter²⁹ considerable additional means have already been deployed for responding to new challenges by redeployments and the use of margins and special instruments, and by mobilising additional finance from Member States through the Facility for Refugees in Turkey and Trust Funds.

²⁹ A more detailed assessment is provided in the accompanying Staff Working Document.

In order to reinforce or continue programmes which have shown a high demand and effective absorption of funds under the priority given to jobs and growth and to maintain a strong European response to the new challenges linked to migration and security in the coming years, the Commission proposes to deploy further means and make available an additional amount of EUR 6.3 billion for the remaining MFF period.

Together with the Draft Budget 2017 which proposes to mobilise EUR 1.8 billion from unallocated margins and special instruments, mainly for the purpose of managing migration and the proposed earmarking of the additional EUR 4.6 billion stemming from the technical adjustment of the national cohesion policy envelopes for 2017-2020 for sustaining the effort to fight against youth unemployment, integration of refugees and supporting investment through financial instruments and in combination with EFSI³⁰, the proposals amount to a financial package of EUR 12.8 billion.

In addition, a number of reinforcements are proposed by means of redeployments of funds from existing programmes, for example for extending the assistance provided under the Union's Instrument contributing to Stability and Peace³¹.

Improving the budget's flexibility and agility in mobilising and delivering funds

The initiatives proposed by this mid-term review make use of the budgetary margins available under the MFF³². The budget's capacity to react to unforeseen events until the end of the MFF period would consequently be more limited accordingly. Given the particularly high level of instability in the Union's neighbourhood and the resulting hybrid threats, the Commission proposes to amend the MFF Regulation and – through the proposal to simplify financial rules - the Financial Regulation so as to allow for a greater responsiveness of the budget when confronted with unforeseen circumstances. The proposed measures comprise, notably, the doubling of the size of the Flexibility Instrument and of the Emergency Aid Reserve, the removal of the limitations to the Global Margin for Commitments and the Global Margin for Payments so as to allow for the full use of the current MFF ceilings, a new European Union Crisis Reserve, the creation of a "flexibility cushion" for external instruments³³, and to create Trust Funds also for internal policies, which should facilitate flexible solutions to pool funds from Member States, for example in the digital area.

To honour the commitments made by the Union and allow for swift action whenever needed, the sufficiency of payment appropriations must be secured throughout the lifetime of the MFF. The current medium-term payments forecast shows that the actual overall payment ceiling should be just sufficient to satisfy the payment needs arising from the current MFF and of the initiatives proposed in this Mid-Term Review - provided that payments related to special instruments are made available "over and above" the MFF ceilings.

Simpler rules and more performance-orientation

³⁰ These additional amounts benefit mainly to Greece, Italy and Spain.

³¹ See accompanying Staff Working Document.

³² About EUR 1.9 billion would remain available over 2017-2020.

³³ Each geographical external instrument would keep an unallocated reserve of 10 % annually, with the possibility to carry-over to the next year the amounts of that reserve not used in a given year.

Simpler and more flexible financial rules for implementing EU funds are also key in enhancing the EU budget's ability to adapt to changing circumstances and to respond to unexpected developments, while maintaining a high level of financial control. Considerable progress has been made in simplifying rules for the implementation of EU funds. However, experience gained since 2014 and the work of the High Level Group of Independent Experts on Monitoring Simplification of European Structural and Investment Funds points to room for further simplification, which is also confirmed by stakeholder feedback.

As an integral part of the mid-term review/revision of the MFF, the Commission proposal to simplify financial rules seeks in a single act an ambitious revision of the general financial rules accompanied by corresponding changes to the sectorial financial rules set out in 15 legislative acts concerning multiannual programmes. The inclusion of sectoral changes in a single legislative proposal aims at ensuring a coherent approach and an efficient adoption process.

Box 1: Objectives of the proposed revision of financial rules:

- Simplification for recipients of EU funds;
- From multiple layers of controls to cross reliance on audit, assessment or authorisation, and harmonisation of reporting requirements;
- Allowing the application of only one set of rules to hybrid actions or in the case of combination of measures or instruments;
- More effective use of financial instruments;
- More flexible budget management;
- Focus on results and streamlining of reporting;
- Simpler and leaner EU administration;
- Citizen engagement.

Simpler and more flexible financial rules will contribute to optimising spending and the impact of the MFF 2014-2020, whilst reducing the costs related to the implementation of EU rules as well as the error rate. In this respect, it should be pointed out that, at the time of closure of programmes, when all corrective measures have been implemented, the estimated amount at risk represents between 0.8% and 1.3% of total expenditure. This shows that, already today, the multiannual systems adequately protect the EU budget from expenditure in breach of law. The proposed further simplification intends to achieve further improvements in this field.

4. TOWARDS THE NEXT MULTIANNUAL FINANCIAL FRAMEWORK

The proposals submitted together with this review aim at providing targeted additional means for the Union to address its priorities of jobs and growth and migration and security, at securing the sufficiency of the payments ceilings and a

strong capacity for the budget to react to unforeseen circumstances, and at facilitating implementation of EU funds whilst maximising their impact. They should allow for a considerable further modernisation of the EU budget, paving the way for more far-reaching changes in the next MFF.

The Commission is due to make a proposal for the next MFF by the end of 2017. This proposal will be guided by the BFOR initiative and reflect the future challenges and needs of the Union post-2020, assessing both the effectiveness of existing approaches in areas such as cohesion policy, the Common Agricultural Policy and the external action instruments; and the potential for the EU budget to contribute in new areas, such as for example in relation to the completion of Europe's Economic and Monetary Union, following the roadmap in the Five Presidents' report, and in defence and security.

This will also be an opportunity to look again at the structure, financing and duration of the budget to ensure that they maximise its ability to support Europe's political objectives.

There is a growing consensus that the modernisation of the EU budget requires a *coherent reform of both its **expenditure and financing** side*. The EU budget is too often perceived as a cost factor for national accounts, whereas its potential to pool resources in a most cost-efficient manner is underestimated. The Commission is looking forward to the recommendations of the High-Level Group on Own Resources which will provide an important contribution for the preparation of its proposals for the next MFF.

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.

Striking the right balance between medium term predictability and the **flexibility** to respond to unforeseen circumstances will be essential. In the current MFF, about 80% of the EU budget is pre-allocated, which limits the budget's **responsiveness** to evolving needs. The setting up of reserves which can be rapidly mobilised within and across the Union's main programmes should be re-examined.

Also, in line with the 2013 Interinstitutional Agreement the Commission will carefully analyse the way forward for the **budgetisation of the European Development Fund** taking into account all relevant circumstances and considerations, including (i) the overall design and structure of the post-2020 external action instruments; (ii) the nature of the partnership between the European Union and the African, Caribbean and Pacific countries after the expiry of the Cotonou agreement in 2020; and (iii) lessons learned from evaluations of previous action, stakeholder consultations and impact assessments of various arrangements.

Another key aspect of the reflection will be on how EU funds can be used to the greatest effect so as to make the most of every euro available, building on some of the innovations of the current MFF, including:

- **Conditionality:** Even a small amount of money can have a significant impact by making financing conditional on changes in national policy-making: the link of

EU funds with economic governance will deserve renewed attention in the context of the next MFF, building on the assessment of progress made under the current provisions.

- ***Leverage and synergies:*** 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. Further expanding this capacity will be crucial, also building on the proposed possibility for creating contingent liabilities beyond the assets provided and the creation of a common provisioning fund which would centralise guarantees by the proposed revised Financial Regulation. Also, fostering cooperation between Member States in areas where economies of scale and/or externalities are significant will be essential, notably where cooperation at EU level has gained in importance, e.g. on security and defence.
- ***Simplification:*** A fresh look will have to be given to the requirements for programmes under shared management given the delays which occurred once again in their implementation.

Throughout the process of developing these proposals, the Commission will listen carefully to the views expressed by the Parliament, Council and stakeholders.

Financial Annex

Mid-Term Review proposals	EUR millions (in current prices)
Heading 1A: • Horizon 2020 • CEF-Transport • Erasmus+ • COSME • Prolongation of EFSI • WIFI4EU	1 400 • 400 • 400 • 200 • 200 • 150 • 50
Heading 1B: • Youth Employment Initiative	1 000 • 1000
Heading 3: European Border and Coast Guard, EUROPOL, EU Agency for Asylum, Dublin common asylum system, Emergency support within the Union, Entry/Exit system	2 549
Heading 4: • Partnership framework process • European Fund for Sustainable Development • Macro-financial assistance • External Lending Mandate	1 385 • 750 • 250 • 270 • 115
TOTAL	6 334
Draft Budget 2017 • Additional spending on migration (from special instruments and margins)	1 822
Technical Adjustment of cohesion policy envelopes • For sustaining the effort to fight against youth unemployment, integration of refugees and supporting investment through financial instruments and in combination with EFSI	4 642
TOTAL Mid-Term Review Package	12 798