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EU Funding for 2014-2020 – Upcoming Opportunities and Challenges

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Abstract: The new philosophy of community development under the aegis of ***Europe 2020*** strategy requires increased *coordination* and better *interconnection* between European financial instruments available for 2014-2020 programming period. The desire of the EU to be *cohesive* and *unitary* face a large spectrum of *complex* and *correlated* challenges such as: globalization; climate change; technological transformation; aging and demographic change and etcetera. These challenges together with the *polyvalence* of the integration process (deepening - widening - enlargement) determines the orientation of ***European Structural and Investment*** funds to *integrated, multi-sectorial and multi-dimensional solutions*. In this context, in order to increase the *effectiveness* and *efficiency* of European policies, the review, management and optimization of the European budget is crucial. This paper attempts to demonstrate the *appropriateness* structure of the EU budget and the extent to which this budget is a supporter and a guarantor of economic development of the EU as a whole, and of each individual Member State. This research examines how the EU budget manages to counter the financial crisis and analyses the aspects that can be improved and the prospects for the next period.

Keywords: EU budget review; economic growth; ESI funds; Europe 2020; multiannual financial framework

JEL Classification: F36; O52; F63; O40; E61

1. Introduction

The upcoming programming period 2014-2020 brings a lot of novelty in the EU funding “jungle”, and being acquainted with the “key rules of the game”, will enable the achievement of socio-economic development, contributing in this way to the increase of convergence among Member States. This paper is organized in 3 main directions, as follows: ☑ *EU strategy for smart, sustainable and inclusive growth – Europe 2020*; ☑ *Multiannual Financial Framework for 2014-2020* and ☑ *European Structural and Investment* funds.

This practical research paper shows the harmonized pattern of upcoming funding, being addressed to all levels of public administrations in charge of or involved in the design, development and implementation of projects, subject to compliance with European funds. Also, it will be of particular interest to NGOs, associations, university departments and consultants that are planning to apply for EU calls for proposal.

2. EU Strategy for Smart, Sustainable and Inclusive Growth – Europe 2020

Europe 2020 is the European Union’s 10-year growth strategy. The main objectives of this Strategy refer to: ☑ **employment** (ensuring 75% of the 20-64 year-olds to be employed); ☑ **R&D** (getting 3% of the EU’s GDP to be invested in R&D); ☑ **climate change and energy sustainability** (limiting

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greenhouse gas emissions by 20% or even ***30%***, compared to **1990** levels; creating ***20% of energy from renewables*** and increasing by ***20% of our energy efficiency***); ☑ **education** (**reducing the rates of early school leaving below 10%** with a**t least 40% of 30-34–year-olds completing third level education**); ☑ **fighting poverty and social exclusion** (ensuring **20 million fewer people are at risk of poverty and social exclusion**).

Each EU country has adopted its own national targets in each of these areas. Hence, Romania targets, in accordance with Europe 2020 Strategy are: ☑ 70% employment rate; ☑ investing up to 2% of GDP in R&D; ☑ reduction of CO_2 emission by 19%; ☑ creating 24% of energy from renewables and reduction of energy consumption by 10%; ☑ reducing the level of early school leaving below 11.3%; ☑ at least 26.7% **of 30-34–year-olds completing** tertiary education; ☑ reduction of population at risk of poverty or social exclusion with 580000.

The main priorities of Europe 2020 strategy are:

- ✓ *smart growth*, which means the improvement of EU's performance in **education** (encouraging people to learn and upgrade their skills) **research & innovation** (development of new products and services that generate jobs in order to address social challenges) and **digital society** (stimulating people learn how to use information and communication technologies);
- ✓ *sustainable growth* refers to improve the use of resources in a more efficient and sustainable manner, developing **new green technologies** and new production methods that are more **eco-friendly** and also it involves to influence the consumer preferences, by raising their awareness on the importance of **preserving and protecting the environment** with the aim of making well-informed choices;
- ✓ *inclusive growth* concerns the **modernisation of labour markets and welfare systems**, by helping people of all ages to get employed, through investment in their education.

All these priorities are inter-correlated and are directly linked to the 5 targets described above. In order to respond to these priorities and to achieve the 6 strategic objectives of Europe 2020 strategy, a set of financial and technical instruments was designed both at communitarian and national level.

The equivalence between technical instruments available in for 2007-2013 and 2014-2020 programing period is outlined in the diagram below.

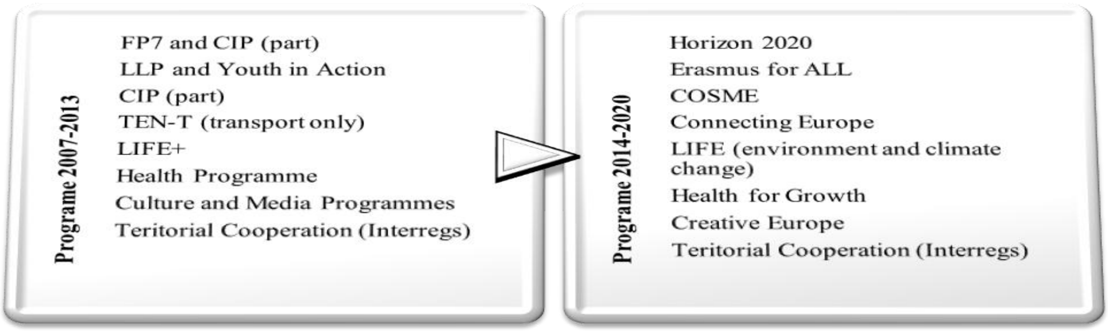

Figure 1. The equivalence between EU programmes (2007-2013 vs. 2014–2020)

Part of the EU financial support is reflected by the Multiannual Financial Framework for 2014-2020.

3. The Multiannual Financial Framework for 2014-2020

As an expression of European political priorities, the Multiannual Financial Framework (MFF) reflects the maximum annual amounts (ceilings) which the EU may spend in different political fields (headings) in the upcoming seven years: 2014 – 2020.

Hence, the MFF is just *a budgetary planning tool and not the EU budget for the next 7 years*. Its role is to provide a global image on EU spending over a long enough period of time, in order to have a good perspective on the EU investment in the framework of financial programming and budgetary discipline.

The MFF is divided into six categories of expenditure (*headings*) corresponding to different areas of EU activities (figure 2).

Smart and Inclusive Growth

- *Competitiveness for growth and jobs*
  - 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*
  - covers regional policy which aims at helping the least developed EU countries and regions to catch up, strengthening all regions' competitiveness and developing inter-regional cooperation.

Sustainable Growth: Natural Resources

- includes the common agricultural policy, common fisheries policy, rural development and environmental measures.

Security and citizenship

- includes justice and home affairs, border protection, immigration and asylum policy, public health, consumer protection, culture, youth, information and dialogue with citizens.

Global Europe

- covers all external action ("foreign policy") by the EU such as development assistance or humanitarian aid.

Administration

- covers the administrative expenditure of all the European institutions, pensions and European Schools.

Compensations

- a temporary cash flow mechanism designed to ensure that Croatia, who joined the EU in July 2013, does not contribute more to the EU budget than it benefits from it in the first year following its accession.

Figure 2. The structure of 2014–2020 MFF

Source: http://europa.eu/rapid/press-release_MEMO-13-1004_en.htm

The MFF details the maximum annual amount that the EU can commit. The value of commitments in the MFF 2014-2020 is presented in table 1 and it is shown schematically in the diagram below.

Table 1 Financial Framework 2014-2020

Commitments in EUR million (current prices)

Competitiveness for growth and jobs	142.130,0000
Economic, social and territorial cohesion	366.791,0000
Sustainable Growth: Natural Resources	420.034,0000
Security and citizenship	17.725,0000
Global Europe	66.262,0000
Administration	69.584,0000
Compensation	29,0000
TOTAL	**1.082.555,0000**

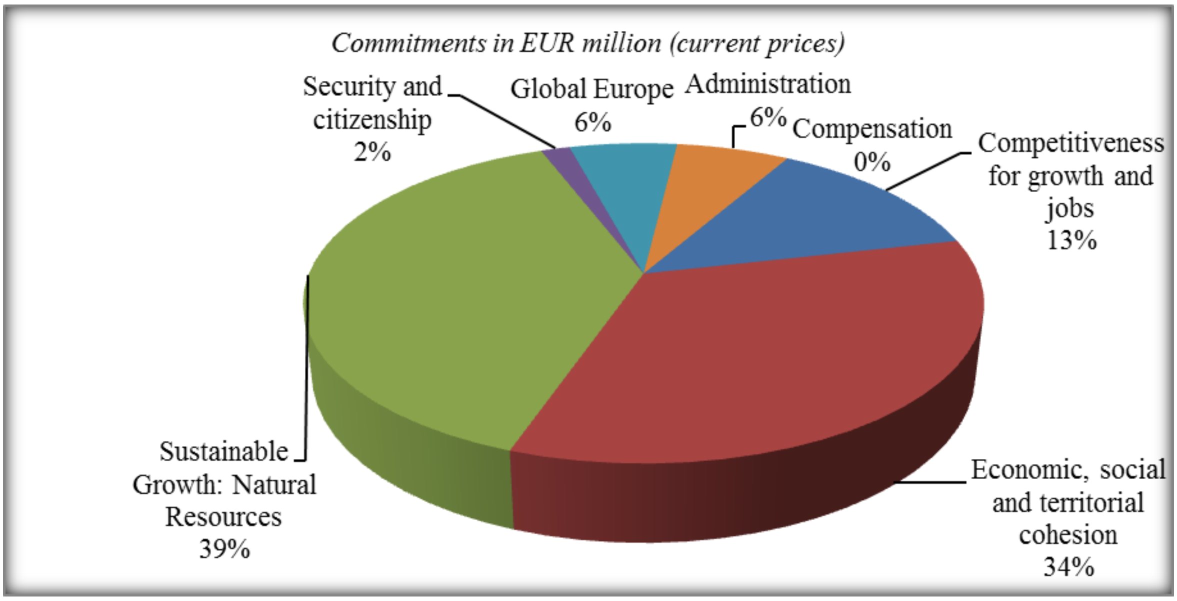

Figure 3. Financial Framework 2014-2020

As it may be observed, the most relevant headings are:

☑ *Smart and inclusive growth*, whose maximum commitments represent 47% of the total, includes **cohesion policies** which get three quarters of the amount. Areas in the other sub-heading include research & innovation, infrastructure, Erasmus, space and SMEs (Maftei & Negruț, 2011).

☑ *Sustainable growth: natural resources* with total commitments up to 39% of the MFF, three quarters of which being devoted to market-related expenditure and direct payments in **agriculture**. Other policies include rural development as well as environment and climate action.

Table 2. Financial Framework Comparisons 2007-2013 vs. 2014-2020
Commitments in EUR million (2011 prices)

Headings	**MFF 2007-2013**	**MFF 2014-2020**
Competitiveness for growth and jobs	91541	125614
Economic, social and territorial cohesion	355248	325149
Sustainable Growth: Natural Resources	420682	373179
Security and citizenship	12396	15686
Global Europe	56815	58704
Administration	56503	61629
Compensation	991	27
TOTAL	**994176**	**959988**

A comparative overview of MFF shows that the commitments for 2014-2020 programming period decreased, demonstrating that the current MFF was born in times of crisis and it is too early to talk about the crisis and its effects in the past tense. (Figure 4)

The MFF 2014-2020 was designed in line with the EU political priorities in order to cope with the crisis' effects but these are still reflected by the current situation in the EU, even if some signs of economic recovery are visible.

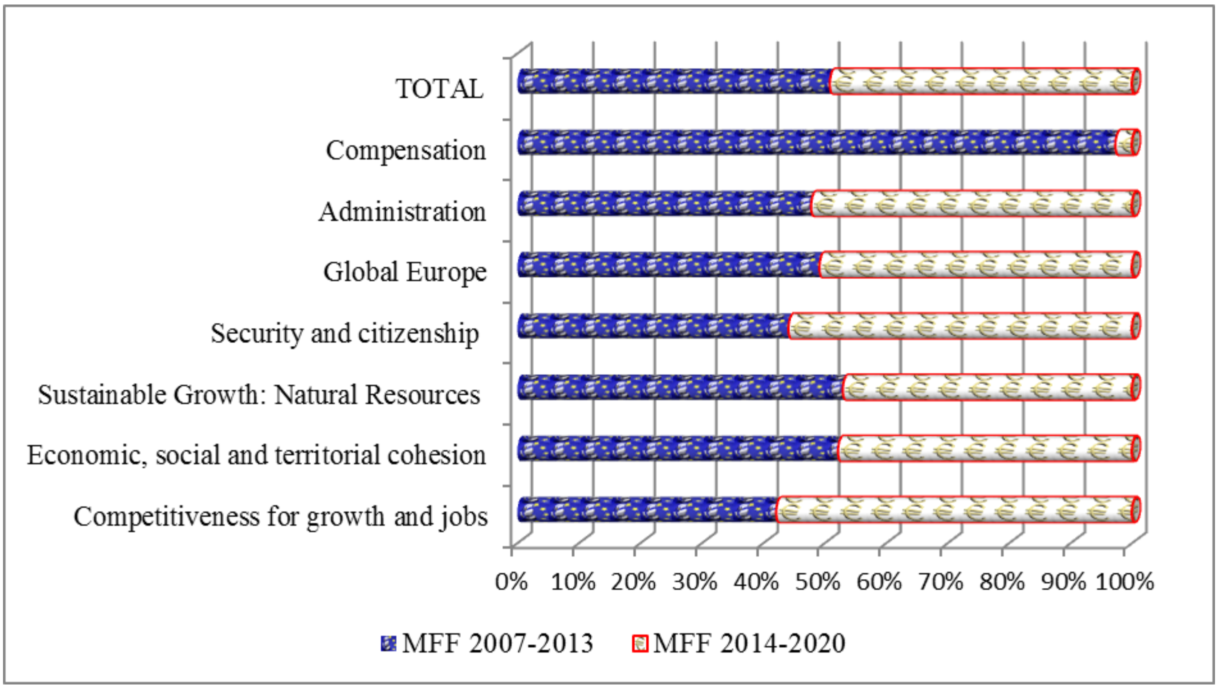

Figure 4. Financial Framework Comparisons 2007-2013 vs. 2014-2020

The novelty for MFF 2014-2020 consists in the *new flexibility measures* that have been introduced in addition to special instruments (such as: the Emergency Aid Reserve; the European Union Solidarity Fund; the Flexibility Instrument; the European Globalization Adjustment Fund) that ensures EU flexibility under certain conditions to deal with unforeseen events.

Flexibility for payments

- under certain conditions and within the overall ceilings set in the MFF, unused payment appropriations and margins can be carried over from one financial year to the next.
- The payment ceiling of the years in which the unused margins arise must be cut accordingly in order to leave the overall ceiling unchanged.

Flexibility for commitments in growth and employment

- commitment appropriations left unused in 2014-2017 will form a reserve for additional expenditure in 2016-2020 in the area of growth and employment (in particular for youth employment).

Special flexibility for youth employment and research

- in order to concentrate a maximum of funds where they are the most needed as early as possible, up to €2.1 billion can be brought forward to 2014-2015 for the Youth Employment Initiative and up to €400 million for research, Erasmus and SMEs.

Flexibility for aid to the most deprived

- on a voluntary basis, Member States can increase their allocation for the aid to the most deprived by €1 billion.

Contingency Margin

- this is a last resort instrument to react to unforeseen circumstances and amounts to 0.03 % of the EU's gross national income (GNI).

Figure 5. The new flexibility measures in MFF 2014-2020

Source: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:139:0001:0017:EN:PDF

4. The European Structural and Investment Funds

For 2014-2020 programming period, the European Structural and Investment Funds (also called ESI Funds) will ensure the growth of the entire Community in accordance to the EU specific political objectives in order to achieve the 10th year communitarian strategy – Europe 2020.

Therefore, the ESI funds will play an important role in the achievement of smart, sustainable and inclusive growth. For the 2014-2020 programming period, the pattern of ESI funds is designed as follows: the *European Regional Development Fund* (ERDF), the *European Social Fund* (ESF) and the *Cohesion Fund* will function under de aegis of **European Cohesion Policy**, the *European Agricultural Fund for Rural Development* (EAFRD) remain under the umbrella of **Common Agricultural Policy**, and the *European Maritime and Fisheries Fund* (EMFF) will offer the financial support for **EU Maritime and Fisheries Policy**. “The European Commission proposed new rules for the use of the financial instruments during 2014-2020. In contrast to the 2007-2013 programming period, the rules for the financial instruments are non-prescriptive in regards to sectors, beneficiaries, types of projects and activities that are to be supported. As a result, the Member States and the managing authorities may use financial instruments in relation to all thematic objectives covered by Operational Programmes and for all European Funds. The financial instruments may be combined with other forms of support, in particular with grants, in order to solve the particular problems of different regions.” (Ionescu, 2014, p. 76)

4.1. Principles of ESI Funds

In order to have a clear perception of the rules that governs the use of EU financial instruments for the new programming period and how these address the challenges that have been faced in the current programming period, we need to comprehend the principles of European Union support for the ESI funds.

Hence, ESI funds must be used by all Member States ***legally*** and ***consistently*** and in accordance with the principle of ***sound financial management***. In the context of the EU's effort to increase economic, territorial and social attention is given to the need to ensure ***complementarity*** and ***consistency*** of intervention by ESI funds and to respect the principles of ***proportionality and equality*** in all stages of implementation of ESI funds.

In order to *optimize* the contribution of ESI funds in the implementation of EU strategy for smart, sustainable and inclusive growth, but also in the achievement of the overall objective of economic, social and territorial concentration of these funds, it is required the ***concentration on a limited number of thematic objectives***, common to all Member States. This task is particularly difficult in the context of economic, social, territorial, political, administrative, cultural diversification, which characterizes the European Union. For this reason, also for the programming period 2014-2020 was considered appropriate to establish a *Common Strategic Framework* designed to facilitate designing the strategic guiding principles in the programming process at national and regional level. This Common Strategic Framework shall ensure *coordination of sectorial and territorial* EU intervention through ESI funds, and coordination with other relevant EU policies and instruments in accordance with the goals and objectives of the Europe 2020 strategy and also to address the challenges of territorial diversity at EU level. Basically, it is necessary the ***integrated use of ESI funds*** in order to meet as closely as, the horizontal principles, as well as, the cross political objectives active at EU level.

Summarizing, the principles that governs the European Union support through ESI funds are:

- ✓ partnership and multi-level governance;
- ✓ compliance with union and national law;
- ✓ promotion of equality between men and women and non-discrimination;
- ✓ sustainable development.

5. Conclusions

EU financial support (especially ESI funds) plays an important role in achieving the Europe 2020 strategy for smart, sustainable and inclusive growth and therefore requires an overview of financing needs to focus efforts and maximizing effectiveness.

Understanding the principles, procedures and practices in the use of funds ESI is fundamental to *policy makers* both in the design of strategies and directions for development and implementation phase of development policies. Basically, it is necessary to identify those correlation measures between the effectiveness of ESI funds with the good economic governance.

In the programming of ESI funds, there is the need to ***coherence*** between the *Common Strategic Framework* and the *Partnership Agreements*. On the other hand, the ***coordination*** of ESI funds in conjunction with other existing financial instruments and the contribution of the European Investment Bank funds management ensure *predictability* and *focus* them towards the achievement of Europe 2020 objectives.

Therefore, the ***performance*** of ESI funds and of others EU financial instruments is determined by the *quality* of the development and implementation of programs in each Member State and of the scale of the program in relation with the gross domestic product of the state. Thus, each Member State is responsible for channeling of ESI funds, ensuring that the *effectiveness* of expenditure is supported by *sound economic policies*.

ESI funds support takes many forms: grants, prizes, repayable assistance, financial instruments, or a combination thereof. Thus, each Member State has extended opportunities to choose the most appropriate form of support to meet identified needs.

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