How is the EU budget distributed?

A political agreement on the 2014 – 2020 multiannual financial framework (MFF) among European institutions was reached on 27 June 2013. The leaders of the European Parliament, Council and Commission agreed on a compromise that is to be formally endorsed by the European Parliament and the EU Council. MFF package was formally adopted by the Council on 2 December 2013.

BUDGET INCOME

The EU cannot run a budget deficit and the revenues and expenditures must therefore be equal each year. These are the main sources of income:

» Customs Duties: Payable at import of goods from third countries;

» Agricultural duties and sugar levies: Agricultural duties are payable at import from third countries, and the sugar levies are paid by sugar producers and used to cover Community expenditure within the sugar sector; EU Member States keep 25 % of the amounts as collection costs.

» The VAT-source: a uniform rate of 0.3 % is levied on the harmonised VAT base of each Member States;

» The GNI-source is used when other sources have been used up and is calculated based on a uniform rate of all Member States' GNI.

» Other revenues (around 1%): Derives from taxes paid by EU staff on their salaries, bank interest, interest on late payments, contributions from non-EU countries to certain Community Programmes and fines from companies breaking the law.

BUDGET EXPENDITURE

The EU's budget is annual and thus decided each year. The three main institutions - the European Parliament, the European Commission and the European Council of the European Union - conclude an Interinstitutional Agreement based on sound financial management for a multi-annual period allowing for long term planning. The first annex in this agreement - the Financial Framework - sets out the maximum ceiling appropriations concerning payment for each year, sub-heading and the period in question.

The Interinstitutional Agreement for 2014-2020 was concluded on 17th May, 2006 between the three main institutions. It was replaced by the current Interinstitutional Agreement on cooperation in budgetary matters and on sound financial management 2014-2020. The first four budgetary headings in the Financial Framework for 20147¬202020 reflect the EU's main priorities. The fifth one covers administrative expenditures, while the sixth is dedicated to compensations.

The table below shows the Financial Framework for 2014-2020.

EU Funding Structure TABLE 1: Financial Framework 2014-2020

Commitment appropriations	Total 2014-2020 (million EUR-2014 prices)	% of total 2014-2020
1. Smart and Inclusive Growth	508 921	47
1a:Competitiveness fro Growth and Jobs		
1b: Economic, social and territorial cohesion		
2. Sustainable Growth: Natural Resources	420 034	39
3. Security and Citizenship	17 725	2
4. Global Europe	66 262	6
5. Administration		6
6. Compensations		
Total commitment appropriations	**1 082 555**	100

- The commitment ceiling amounts to 1.00% of EU gross national income (GNI) compared to 1.12% for the 2007-2013 MFF.
- The ceiling for payments equates to 0.95% of EU gross national income (GNI) compared to 1.06% for 2007-2013.

The overall ceiling is also expressed as a percentage of the EU's estimated GNI. This percentage is updated every year on the basis of the latest available GNI forecasts in order to check that the EU's total estimated level of payments does not exceed the maximum amount of own resources which the EU may raise during a year (1.23 % of the EU's GNI).

1. SMART AND INCLUSIVE GROWTH

The first and largest heading, accounting for 47 % of total expenditures, is sub-divided into: **Competitiveness for Growth and Jobs** and **Economic, Social and Territorial Cohesion**. The two sub-headings are closely related, both aiming to boost EU's competitiveness, strengthen the economy and create more and better jobs, following years of economic crisis and stagnation. Several important Community Programmes are financed under the first sub-heading - Competitiveness for Growth and Employment - in the field of research, innovation, education, the internal market and the European networks. The second sub-heading - Economic, Social and Territorial Cohesion - covers the financing of regional policy by the Structural Funds and the Cohesion Fund. As a new element, the Connecting Europe Facility will gain prominence and receive extra funding from the Cohesion Fund (under 1a)

1.A COMPETITIVENESS FOR GROWTH AND JOBS

The renewed Lisbon strategy aims at making Europe the most competitive knowledge-based areas in the world and the stress on research and innovation as well as the inclusion of SMEs are important elements for the realisation of these aims. In line with this vision, sub-heading 1a has been designed with the purpose to reinforce the Union's scientific cooperation and excellence. To simplify administration but also to bring together the programmes which have the potential to stimulate research, innovation and technological development, this section comprises of several programmes, among which Horizon 2020 (which corresponds to the former FP7), COSME, Social Change and Innovation (Employment and Social Innovation Programme) and Erasmus+.

Bearing in mind the Europe 2020 Strategy, the Commission has decided to increase the budget for Horizon 2020 and Erasmus for All (Erasmus+)programmes .

1.B ECONOMIC, SOCIAL AND TERRITORIAL COHESION

This sub-heading contains the financial instruments for regional policy, by which the EU aims to help less developed regions within the union to catch up and strengthen their competitiveness. In this sense, the policies under this section represent an important tool for investment and reforms, both on EU and national level. Recognising the precarious situation of the youth in several European regions, the European Council has made a priority of promoting youth employment and is relying on the Youth Employment Initiative, open to all regions where youth unemployment is above 25%. As a further stimulation, the Commission also proposes the frontload of YEI which will be balanced by a corresponding reduction of the Cohesion Fund contribution.

The designed cohesion policy is divided in three sections – European Regional Development Fund, European Social Fund, Cohesion Fund – which are to serve two main aims: Investment for growth and jobs (supported by all funds in all regions and member-states) and European territorial cooperation (supported only by the ERDF).

With regards to the first goal, the recipient regions are divided in three – less developed regions, transition regions, more developed regions – based on their GDP per capita. These calculations are to be reviewed at the end of the first half of the new financial framework, taking thus into account situations similar to that of Greece.

2. SUSTAINABLE GROWTH: NATURAL RESOURCES

The second budgetary heading accounts for 39 % of the EU's expenditures and covers the agricultural, rural development, fisheries and environmental support. Most of the resources are allocated to the direct support of farmers according to their area of eligible hectares of land through the Common Agricultural Policy (CAP)

To optimise the effectiveness of these programmes, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) will be brought together with the structural and cohesion funds under a Common Strategic Framework.

With regards to the CAP, the Commission reiterates the two-pillar structure – the first entirely funded by the EU and offering support to farmers, the second co-financed by member states with the purpose of delivering specific environmental public goods, improve the competitiveness of the agriculture and forestry sectors and promote the diversification of economic activity and quality of life in rural areas

3. SECURITY AND CITIZENSHIP

The third heading accounts for only 2 % but covers all the Community Programmes related to Security and Justice, as well as all the "softer" Community Programmes, such as protecting and promoting Europe's cultural diversity. This budgetary heading accounts for programmes under sections such as: Asylum and Migration Fund, Internal Security Fund, Rights and Citizenship, Food Safety etc. For the upcoming period, the Commission wishes to place emphasis on societies which may face high and disproportional migration challenges.

4. GLOBAL EUROPE

Accounting for 6% of the MMF, the Global Europe heading represents the EU's commitment and effort to position itself as an active player on the global scene. In this sense, the Union wishes to strengthen its relationship with non-EU countries while using its financial and political instruments to promote prosperity, stability as well as social and democratic reforms. At the same time, the heading aims to ensure cooperation among the existing member states and enhancing their solidarity in the event of natural or man-made disaster.

One of the key priorities for the upcoming period is to determine EU member states to commit 0.7% of GNI to official development assistance by 2015, for the purpose of respecting the Millennium Development Goals.

Some of the programmes are of horizontal character and offer support to regions in crisis, other to countries going through political and economic reforms or for Humanitarian Aid.

The following graph shows how the different funding programmes and initiatives form part of the EU funding system. It introduces the five Budgetary Headings representing the EU's main objectives.

EU funding system - based on eu budgetary headings

1. Sustainable Growth

1a: Competitiveness for Growth and Jobs

direct

Programmes: Horizon 2020, Erasmus+, COSME, Galileo, ITER, GMES, Connecting Europe Facility
Main policies: ICT, Transport, environmental technologies, Research, Education and Training, SME Development

1b: Economic, Social and Territorial Cohesion
Regional policy, Cohesion policy

indirect

- CF
- ESF
- ERDF

Initiatives
JASPER, JEREMIE, JESSICA, Youth Employment, Territorial cooperation,

EIF, EIB EBRD

2. Sustainable Growth: Natural Resources

Agriculture, Rural development, Fisheries, Environment

indirect

- EAFRD – Leader
- EMFF
- **EAGF** (normative support, Single Payment)
- LIFE+

3. Security and Citizenship

Programmes: Asylum and Migration Fund, Rights and Citizenship, Food safety, Health for Growth, Creative Europe, Consumers, etc;
Policies: Asylum, Migration, Culture, Media, Citizenship

4. Global Europe

Enlargement policy
External policy

indirect

- IPA II
- ENI
- DCI, PI

- MFA
- EIDHR
- IfS