Innovative financial instruments in the context of the next multiannual financial framework

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This Communication, entitled "**A Budget for Europe 2020**" contains the Commission's proposals concerning the **Multiannual Financial Framework (MFF) for the period 2014-2020**.

The Commission's ambition for the next EU budget is to spend differently, with more emphasis on results and performance, concentrating on delivering the Europe 2020 agenda through stronger conditionality in cohesion policy and greening of direct payments to farmers.

The next budget should be modernised by reallocating resources to priority areas such as pan-European infrastructure, research and innovation, education and culture, securing the EU's external borders and external relations policy priorities such as the EU's neighbourhood. It addresses cross-cutting policy priorities, such as environmental protection and the fight against climate change, as an integral part of all the main instruments and interventions.

The overall amount proposed for the 2014-2020 period is EUR 1 025 000 million in commitment appropriations, broken down as follows:

- ***Smart and inclusive growth*** (including social, economic and territorial cohesion): EUR 490 908 million;
- ***Sustainable growth***: natural resources (including market-related expenditure and direct payments): EUR 982 927 million;
- ***Security and citizenship***: EUR 18 535 million;
- ***Global Europe***: EUR 70 000 million;
- ***Administration***: EUR 62 629 million.

In the design of the next MFF, the Commission has implemented **the principles** it outlined in the 2010 budget review:

- focus on delivering key policy priorities;
- focus on EU added value;
- focus on impacts and results;
- delivering mutual benefits across the European Union.

The programmes and instruments included in this MFF proposal have been redesigned to ensure that their outputs and impacts push forward the key policy priorities of the EU. Major hallmarks of the next set of financial programmes and instruments will be a focus on results, increased use of conditionality and the simplification of delivery:

1) Results will be clearly related to the implementation of the Europe 2020 strategy and the achievement of its targets. This means concentrating programmes on a limited number of high profile priorities and actions that achieve a critical mass. Fragmentation and uncoordinated interventions must be avoided. Where possible, existing programmes will be merged (for example in areas such as home affairs, education and culture) and/or redesigned (such as research and cohesion) to ensure integrated programming and a single set of implementation, reporting and control mechanisms.

2) Simplification: current funding rules have evolved not only in response to the need for accountability on how public money is spent but also to take account of previous problems. The result is a diversity and complexity that is difficult to implement and control. This complexity imposes a heavy administrative burden on beneficiaries as well as on the Commission and Member States, which can have the unintended effect of discouraging participation and delaying implementation. Work is currently under way to simplify both the general rules (Financial Regulation) and the sector specific rules.

3) Conditionality: in order to sharpen the focus on results rather than on inputs, conditionality will be introduced into programmes and instruments. This is particularly relevant in the large spending blocs of cohesion policy and agriculture, where Member States and beneficiaries will be required to demonstrate that the funding received is being used to further the achievement of EU policy priorities. More generally the Commission will ensure coherence between the overall economic policy of the EU and the EU budget, in particular to avoid situations where the effectiveness of EU funding is undermined by unsound macro-fiscal policies.

4) Leveraging investment: by working with the private sector on **innovative financial instruments** it is possible to magnify the impact of the EU budget, enabling a greater number of strategic investments to be made, thus enhancing the EU's growth potential. Experience in working most notably with the European Investment Bank (EIB) group, national and international public financial institutions has been positive and will be taken forward in the next MFF. Guarantees and risk sharing arrangements can allow the financial sector to provide more equity and lend more money to innovative companies, or to infrastructure projects. In this way, such financial instruments can also contribute to the overall development of post-crisis financial markets.