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BULLETIN

Controversy around the implementation model of the EU's 2028–2034 multiannual budget

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As part of the next EU multiannual budget, the European Commission (EC) reintroduced the "money for reforms" formula, which was at the heart of the Recovery and Resilience Facility (RRF) launched in response to the Covid-19 pandemic. The EC's intention is to better target spending towards EU priorities, whilst also making the budget structure more flexible. The proposal has been accepted by the Member States, but the European Parliament and regional authorities—who fear a loss of influence over the implementation of the budget—are seeking to amend it.

In its proposal for the EU's Multiannual Financial Framework (MFF) for 2028–2034, the European Commission has proposed merging the budgets of several common policies (including agriculture and cohesion) and programmes into a single "Super-fund." The latter amounts to €771 billion in 2025 prices. (43.7 per cent of the MFF) and is to be implemented in accordance with the RRF model. Member State governments would be required to present strategies for the use of funds, drawn up in cooperation with regional authorities and containing a set of objectives (dubbed 'milestones') tailored to national needs but also focused on the implementation of priorities defined at EU level. Under the RRF framework, these were known as Recovery and Resilience Plans, whilst in the current proposal they are referred to as National and Regional Partnership Plans (NRPP). When preparing the latter, governments will be expected to refer to the recommendations formulated as part of the European Semester—a review of Member States' budgetary and economic policies carried out at the EU level. Member States will only receive funds once the European Commission and the Council of the EU (by a qualified majority) have confirmed that the targets set out in the NRPPs have been achieved.

Towards a more flexible budgetary framework. Although assessments of the RRF presented to date are not entirely positive, the Commission emphasises that the performance-based funding is a way of maximising the impact of EU funds. The EC plays a key role in this model, as both Member States' plans and their applications for payment require its approval. The Commission's main argument in favour of the proposed solution is that it offers greater flexibility to adapt to changes in the international environment and the needs of individual countries. Ursula von der Leyen emphasised that currently 90 per cent of the EU budget is earmarked for specific programmes, which makes it difficult to respond to crises and new challenges. Meanwhile, whilst the Super-fund imposes certain constraints on Member States (for example, €261 billion is to be used for income support of farmers and fishers), it also includes a pool of funds (over €200 billion) which they can use relatively freely to promote cohesion and economic development in the broadest sense. Furthermore, 5 per cent of the Super-fund has been set aside for crisis response measures, whereas the allocation of a further 15 per cent can only be planned during the mid-term budget review. Finally, replacing multiple national programmes with a single, coherent plan is intended to prevent duplication, as well as to reduce and simplify the administrative procedures involved in applying for funding.

The Commission's proposal has been welcomed by several members who are net contributors to the EU budget, referred to as the "frugal coalition" (Germany, Austria, the Netherlands and the Nordic countries). They share the view that the new delivery model would place a stronger obligation on the net beneficiaries to carry out structural reforms that promote economic growth and reduce public deficits and debt. The "frugals" also attach importance to

strengthened conditionality mechanisms regarding the rule of law—if the EC identifies breaches of the rule of law, it may block payments, subject to the Council's approval by a qualified majority. Net beneficiaries, less enthusiastic about the proposal, did not, however, challenge it, on the assumption that the key aspect of the negotiations is the size of the budget, rather than the delivery model. They were concerned that attempting to get rid of the "money for reforms" model might encourage the frugal coalition to double down on their efforts to reduce the sums allocated to the agricultural and cohesion policies. The Council approved the model based on the Super-fund and NRPPs (though not specific amounts ascribed to it) in June this year.

Doubts about the RRF 2.0. The European Parliament is the super-fund's biggest opponent. MEPs believe that their role in the process will be insufficient as the creation and assessment of plans will proceed mainly through dialogue between the EC and the Member States. They also pointed out that the NRPP formula could lead to a weakening of the European dimension of agricultural and cohesion policies. Greater flexibility in allocating funds could trigger fierce competition for resources within Member States and result in significant disparities in the funding of these policies, which in turn risks disrupting the functioning of the single market. The Parliament has therefore called for all funds to be allocated to specific programmes in order to create more predictability for beneficiaries and to avert the risk of excessive disparities in policy implementation. This would maintain a spending structure similar to the current one.

This proposal is supported by the advisory bodies: the European Economic and Social Committee and the Committee of the Regions. They have expressed concerns that, under the new model, regional authorities will have less influence over how cohesion policy funds are used. They have also pointed out that beneficiaries of funds at regional level have limited influence over the implementation of specific reforms necessary to green-light the payments.

The European Court of Auditors (ECA) considers that the Commission's proposal fails to address all the issues identified in the initial analyses of the RRF implementation. The multitude of objectives that Member States are required to achieve under the NRPPs, combined with horizontal requirements (e.g. 43 per cent of expenditure must be allocated to climate and environmental measures), calls into question the actual extent of the flexibility available. It will also introduce a great deal of discretion into the Commission's assessment of whether all targets have been adequately addressed in the plans. The evaluation of the plans will also be hampered by a lack of precision in defining certain milestones and the criteria for achieving them. ECA has pointed out that the Commission's claim to create a "performance-based instrument" is not entirely justified. When assessing the achievement of set objectives, it tends to refer to outputs (e.g. equipment purchased or courses organised) rather than outcomes (e.g. improvements in the skills of the target group).

Conclusions and outlook. The Council's approval effectively seals the fact that the Super-fund and the NRPPs will form part of the new MFF, despite reservations of key stakeholders. In its negotiations with the EP, the Council will be reluctant to make concessions that would increase the chamber's influence over the drafting and evaluation of the NRPPs. Yet it could agree to earmark some unallocated funds to specific objectives. For Member States, particularly net contributors, this will be easier to accept than a budget increase—also called for by MEPs—and will allow them to avoid potentially troublesome internal competition for access to EU funds. This will entail a reduction in flexibility in expenditure planning.

The dispute over the "money for reforms" model is not merely a matter of inter-institutional rivalry. It is also a search for the most effective way of spending EU funds. In the context of the crises of recent years, the Commission's efforts to create a budgetary mechanism that could be adapted more swiftly to the challenges posed by developments in the international environment are justified. In turn, the need to carry out an increasing number of tasks whilst funding levels remain unchanged explains the efforts to ensure that these funds are spent on objectives agreed at Community level. It is also important to strengthen the instruments that will enable EU funds to be swiftly withheld from governments that breach common values. The success of the second iteration of the "money for reforms" model will largely depend on the implementation of the recommendations set out (primarily by ECA) in the analyses of the RRF implementation. These point to the need to precisely define milestones and the criteria for achieving them, as well as to ensure that regional authorities have adequate influence over expenditure planning.

A key challenge for Poland will be resolving the outstanding sticking points concerning the judiciary, in accordance with the judgments of the Court of Justice of the EU, to avert the risk of losing access to EU funds due to rule-of-law deficiencies. Second, the controversy surrounding the implementation of the RRF in the HoReCa sector shows that the NRPP must limit the scope for using EU funds in ways which—whilst formally correct—yield minimal contributions to the modernisation of the state and the economy.

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