EU'S FUNDING IN THE CONTEXT OF THE FINANCIAL CRISIS

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At the arising question whether the financial crisis would affect the EU's budget intended for the development the official position is a reinsuring one.

"The EU political priorities were thus translated into concrete financial terms. The current Financial Framework marks a new era in the financing of the EU with a significant shift of resources towards economic progress and solidarity of the enlarged Europe of 27 Member States. The best possible use of EU funds will be strengthened: modernised EU financial rules adopted with the 2007-2013 Financial Framework will simplify access to funding and provide greater transparency of all beneficiaries. EU tax payers' interests will be better protected. The EU budget is a highly political tool – by acting together at the European level we will be better prepared to the increased pace of globalisation and rapid technological change."[1]

Taxpayers' money is used by the Union to fund activities that all Member States and parliaments have agreed upon in the Treaties. A small amount – around 1% of the Union's national wealth, which is equivalent to about 235 Euro per head of the population – comes into the EU's annual budget and is then spent mainly for its citizens and communities.

A wide range of activities are funded in the Member States, for example in agriculture, fisheries, infrastructure (construction of roads, bridges and railways), education and training, culture, employment and social policy, environmental policy, health and consumer protection, research, to mention a few. Initiatives are also underway to offer EU citizens an area of freedom, security and justice without internal borders. Part of the EU budget is also spent on funding economic development around the world and on humanitarian aid to help non-EU countries afflicted by natural disasters and other crisis situations. EU Budget is decided democratically. The annual spending plans are negotiated between the European Parliament and the Council of Ministers on a basis of a proposal by the Commission.

The budget covers the spending of all the Union's institutions. It fixes income and expenditure for the year, lists all the activities that are to be funded and sets out the total amounts of money and staff available for each. It also cites the authorising acts for each action. Before they can be implemented, almost all activities also require a Community law – an authorising act or legal base - proposed by the Commission, and agreed by the legislative authority – the European Parliament and the Council of Ministers together, in many cases. EU budget revenue and expenditure are limited by agreement

EU spending is limited by the Treaties. The Union budget is not allowed to be in deficit, which means that revenue has to cover the whole cost of all the different activities. This revenue, or income, comes from three main sources: customs duties, a share of the harmonised value added tax (VAT) base of each Member State, and a further contribution from the Member States based on the size of their gross national income (GNI).

The amount of money which can be made available to the Union is limited by agreement of the Member States and parliaments. This ceiling is currently set at 1.24% of the Union's gross national income for payments made from the EU budget. As a comparison, about 45% of the Union's gross national income goes to national, regional and local public expenditure in the Member States. EU spending is further limited by a multi-annual agreement between Members of the European Parliament, the Council of Ministers, and the European Commission. This

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[1] *Dr Dalia Grybauskaitė,* European Commissioner for Financial Programming and Budget, http://ec.europa.eu/budget/library/publications/financial_pub/investing_2007-2013_en.pdf, p. 2

agreement contains a "multi-annual financial framework". The recent ones cover spending plans for the seven-year periods from 2000 to 2006 and 2007 to 2013.

The Commission implements the budget on its own responsibility, but shares most of the management with the Member States. A Community legal act – the Financial Regulation - agreed upon by the Member States sets out the rules for calling on, budgeting and using EU funding. All income and expenditure must be accounted for. Financial statements are drawn up showing the assets and liabilities of the Union and general and budget accounts are maintained.

Commission staff are largely organised into policy departments called Directorates-General – DGs for short - each of which is headed up by a Director-General. Staff of the DGs manage the EU programmes and activities in their particular policy area, in liaison with their counterparts in the Member States as necessary.

Audits are conducted both by internal auditors and by the external auditor (the European Court of Auditors). The Directors-General have to draw up a report each year, reviewing the work of their departments and commenting on the use made of the resources that were put at their disposal. These Annual Activity Reports are presented to the Members of the Commission and a report of them is transmitted to the budgetary authority, i.e. to the European Parliament and the Council of Ministers, by 15 June following each budget year. Commission is accountable to Parliament for the use of the EU budget.

Both the annual internal and external auditors' reports on the management of Union funds are sent to the European Parliament and to the Council of Ministers. Each year, under what is known as the "discharge procedure", the European Commission and the other EU institutions are accountable to the European Parliament for the use made of the resources at their disposal. The Commission is obliged to take follow-up action on the conclusions reached and recommendations made under the discharge procedure by the European Parliament and Council of Ministers. Parliament, Council and the Court check on these follow-up actions.

The EU budget is published in two volumes in all official languages of the Union. Volume I provides a detailed statement of EU budget revenue as well as the revenue and expenditure of each of the institutions, apart from the European Commission, in sections ordered according to their order in the Treaties. It covers the European Parliament (Section I), the Council (Section II), the Court of Justice (Section IV), the European Court of Auditors (Section V), the European Economic and Social Committee (Section VI), the Committee of the Regions (Section VII), the European Ombudsman (Section VIII) and European Data-protection Supervisor (Section IX). Volume II covers all Commission revenue and expenditure (Section III) linked to EU policies. Appropriations entered in sections other than Section III are of administrative nature. The EU budget is also accessible in electronic form[2]. Relevant documents are published on a regular basis from the time that the Commission brings forward the preliminary draft budget in late April or early May until the adopted budget is published in February of the year in question[3].

Structured according to policy areas, The appropriations for EU policies, the operational budget, are contained in Volume II (Section III – European Commission). Since 2004, this section is activity based (ABB short for "activity-based budgeting"); the budget is divided into some 30 policy areas, each of which described within a title. Each title is broken down into chapters (each corresponding to an activity), which in turn may be broken down into articles, and those in turn, where necessary, into items.

The equivalence of activity and chapter provides the link between policies and the necessary resources for these policies. The cost of each policy can be estimated from the budget in this form. The Commission establishes objectives for each activity in its annual management plans.

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[2] http://eur-lex.europa.eu/budget/www/index-en.htm

[3] http://ec.europa.eu/budget/documents/2008_en.htm

Closely linked to the financial framework headings, the activity-based budgeting (ABB) nomenclature is complemented by a definition of each budget article or item according to the headings of the financial framework. The tables annexed to the Inter-institutional Agreement of - 17 May 2006 on "budgetary discipline and sound financial management" are thus respected. Budget data are also available according to financial framework heading.

The financial framework table contains a breakdown of the Community's budgetary expenditure in broad categories or headings, broken down in some cases into subheadings.

The present financial framework (2007-2013) comprises six headings:

- 1. Sustainable growth
  - 1a. Competitiveness for growth and employment
  - 1b. Cohesion for growth and employment
- 2. Preservation and management of natural resources
- 3. Citizenship, freedom, security and justice
  - 3a. Freedom, security and justice
  - 3b. Citizenship
- 4. The European Union as a global player
- 5. Administration
- 6. Compensations (related to the latest enlargement of the Union)

The vast majority of EU funds[4] (almost 80%) are handled by the national administrations and the responsibility to publish the names of beneficiaries rests with them. This is true for such crucial areas like the Common Agricultural Policy[5] or the Structural Funds that support regional development and employment, as well as the Fisheries policy and the European Refugee Fund. The European Commission also hands out directly grants and procurement contracts, amounting to some 20% of the EU budget[6], in such areas as research policy, education and training, transport and energy networks, etc. It has the obligation to publish the names of beneficiaries. To facilitate access to this information, up until now disseminated on the web pages of each Commission department, a new central Financial Transparency System[7] has been created which allows you to

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[4] "In 2009, the biggest share of the EU budget – 45% or €60 billion - will go to research, innovation, employment and regional development programmes to help Europe respond to the current economic crisis. An 11% increase in research and a 22% increase in the EU's innovation programme will help boost competitiveness and a low-carbon economy. Funds for agriculture remain stable, taking over 40% of EU funding, while spending on the environment and rural development will rise by 2.9%. Europe's external policies will also see spending grow in 2009, including €0.6 billion for the €1 billion food facility to help developing countries respond to rising food prices" http://ec.europa.eu/budget/index_en.htm

[5] "Article 44a of Regulation (EC) No 1290/2005 lays down that Member States have to ensure the annual ex-post publication of the beneficiaries of the European Agricultural Guarantee Fund (EAGF), and of the European Agricultural Fund for Rural Development (EAFRD) and the amounts received per beneficiary under each of these Funds. Under the new legislation the first publications of beneficiaries have to be made by **30 September 2008** (EAFRD for payments made in the period 1 January to 15 October 2007) and **30 April 2009** (EAGF), respectively." http://ec.europa.eu/agriculture/funding/index_en.htm

[6] The European Union budget is mainly financed through the Union's own resources. These consist of: customs duties, agricultural duties and sugar levies; the value-added tax (VAT)- based resource; and the gross national income (GNI)-based resource. EU countries contribute more or less in proportion to their national prosperity. The UK, the Netherlands, Germany, Austria and Sweden, however, benefit from some adjustments when calculating their contributions.

[7] http://ec.europa.eu/beneficiaries/fts/index_en.htm

search the consolidated data. Its current version covers some 10 billion euros of aid. The system will be extended later to cover also the Commission's own administrative expenditure, i.e the contracts with the suppliers it uses for its day-to-day operations. A specific search engine has been set up to give access to the details of beneficiaries in the field of external aid.

A fear is taking root that the financial crisis will undermine the principal tenets of Western-sponsored global liberalism and encourage a retrenchment in US and European diplomacy.

There is a tendency of the EU's member states of attempting to allocate more and more resources for competitiveness. The net grantor states choose the existence of more important allocations for objectives that concern the EU's competitiveness, being – from this point of view – a tendency of abandon of the European policy for supporting the less developed member states. This tendency is welcomed by states with powerful administrations and experience in making profitable the funds and less welcomed for other states, like Romania[8], which are in a period of strengthening the administrative capacity.

Indeed, most European donors still pursue a very statist model to development and post-conflict reconstruction. The EU has, of course, also baulked at extending EU membership. And its determination to spread standards of trade – and investment – related good governance has weakened. Some have welcomed the prospect of a humbled Europe, in the midst of nationalising swathes of its own financial sector, no longer being able to impose IMF-style structural adjustment on developing countries. But this caricatures the nature of EU external economic policies in recent years. EU policies still require greater finesse to ensure that developing states are helped into global markets in a way that does not undermine local wealth generation. But even before the crisis struck, the challenge was to turn Europe away from inward looking market protection and self-interested mercantilism much more than it was to rein in any free-trade, structural-adjustment fervour. This challenge is likely to be magnified after the autumn of 2008.

It is essential for the institutes interested to benefit of support from the national and local authorities to improve the exchange of information with the local and national authorities, so that these to be informed where the European financing, granted in the area of innovation and research reach. The member states have a major role in making more efficient the usage of the European funds for research, innovation and cohesion. The representatives of the member states in the main consultative European organization in the scientific area - crest - have already elaborated a report concerning to the "way in which it can be established a better coordination in using the Framework Program and the structural funds in order to support the research and development" – a document which offers general indications regarding the access to the European funds in this domain.

EU can assist in both tempering the excesses of US deregulation and improving multilateral rules and governance. The crucial thing will be to ensure that such regulations work to facilitate, rather than restrict, global trade and investment. For sustaining research and development in Europe, the European Commission and the European Investment Bank (EIB) have joined forces and have launched at the beginning of June 2007, a new Risk Sharing Financing Facility (RSFF). This new instrument will help to make more financing available for

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[8] Romania is favorable to a policy of European cohesion, with larger competences, but also to a component directed towards competitiveness, without loosing from sight that our country's goal is to sustain the necessity of strengthening the "convergence" objective. Romania is preparing to absorb EU's structural funds for increasing the competitiveness, amounted to 2,554 billion euro. The program has as priority axis the development of an innovative prductive system (31% of the amounted funds), Research-Development (R&D) and Innovation (21%), IT & Communications (ITC) (15%), energetic efficiency (25%), promoting Romania as touristic destination (5%), and technical assistance (3%). The states which joined EU in 2004 have absorbed the highest values in projects for productive investments.

promoters of research & innovation projects, which often face more difficulties than traditional business sectors in accessing finance, due to the relatively high levels of uncertainty & risk inherent to their activity. The RSFF, part of the EU's 7th Research Framework Programme (FP7) & EIB's programme for Research & Innovation, will partially cover the financial risks assumed by the EIB when financing this type of activity. The contribution of one billion euro, each from FP7 & the EIB will therefore unlock billions of additional financing in this area.

In the support of those interested to access European funds for research and development comes the Informal Group of RTD Liaison Offices (IGLO), an unofficial non governmental organization that focuses also on match-making within FP7. Those interested of partnerships in different associations for accessing the funds FP7 can find through IGLO, organizations with similar objectives. On the site of the organization (http://www.iglortd.org/) can be accessed information and news about the financing opportunities within FP7, and also about the research-development project from EU. IGLO also offers a data base with the main institutions which coordinate the activity of research- innovation from each member state of the EU.

The European Commission (EC) has also adopted a Financing Program specifically dedicated to small and medium sized enterprises (SMEs), with preponderant activities in research and development.

The program named EUROSTARS is dedicated to SMEs from all those 27 member countries of EU and EUREKA, among which Romania. EC finances the program with 100 million euro, to which are added 300 million euro from the EU's member states, according to the Framework Programme Research 7, and another value amounted to 400 million euro will be withdrawn from private sources, for financing on a period of 7 years, partnerships in the research and development areas.

EUROSTARS is administrated by the Secretariat EUREKA from Brussels, under the authority of Eurostars Group at High level, set up by representatives of the participant countries to the program.

During the last ten days of July 2007, Romania received the first structural funds from EU – 75 million euro – representing the pre-financing POS Competitiveness. The pre-financing granted by the EU, represents 2% of the total value of program, in the first year of financing. Of these funds, the state covers the advance required for starting the projects elaborated by the public authorities and non-governmental organizations. It's a great challenge, especially for the local administration; because it isn't enough mature for elaborating public policies, meaning to identify the local priorities because, excluding the infrastructure, few Mayors focus on the competitiveness problem, inclusively jobs.

It should be remembered that despite the crisis and need in specific parts of the financial sector for state intervention and better market regulation, overall European economies still require more market competition and international interdependence not less. But the crisis may also provide a wakeup call. If development budgets do suffer this will certainly undermine Europe's soft power, but here public pressure can help keep member states to their commitments. And while the crisis might tempt at least some member states into resisting any further EU enlargement even more fiercely, it could also raise the costs of 'non-enlargement' as European governments desperately seek out new market openings to recover growth.

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