



EU Budget Reform: Opportunities and Challenges for Global Sustainable Development

Summary

With the next Multiannual Financial Framework (MFF), the EU will define not only the financial but also the political priorities until 2030. Which political objectives the EU intends to pursue in the future will therefore be a key issue during the MFF negotiations. The 2030 Agenda for Sustainable Development and its 17 *Sustainable Development Goals* (SDGs), which the EU played a key role in shaping, should guide this debate.

In terms of EU domestic policy, the 2030 Agenda should help the European budget be more strongly tuned towards socially disadvantaged groups, reduce the EU's environmental footprint and promote sustainable economic growth. This, in turn, would enable the MFF to bolster public support for Europe. In terms of EU foreign relations, the 2030 Agenda requires the EU to not only focus on short-term security and migration policy interests but to allocate resources in the budget for supporting long-term sustainable development. This would allow the EU to position itself as a frontrunner for sustainable development – internationally as well as towards industrialised, emerging and developing countries.

Two questions are central to the role of the 2030 Agenda in the next MFF: Where does the EU have the biggest deficits with respect to implementing the 2030 Agenda and the SDGs? And in which areas can the MFF make important contributions? We make five proposals on how to include the 2030 Agenda into the next MFF. These proposals complement one another and should be followed in parallel:

(1) Embed the principles of the 2030 Agenda in the MFF:

Individual principles of the 2030 Agenda, such as *Leave no one behind*, universality and policy coherence for sustainable development, call on the EU to take the SDGs into consideration not only in its foreign but also domestic policies, for example in agricultural or structural funds. Moreover, these principles require the EU to reduce the negative impact of EU policies on third countries and to promote positive synergies.

(2) Assign the SDGs to individual headings:

The MFF should assign the global SDGs to individual headings and set minimum criteria for those SDGs and targets that each heading should contribute to. All headings should promote the three dimensions of sustainability – social, environmental and economic.

(3) Mainstream sustainability principle:

The principle of sustainability should be mainstreamed across all headings, e.g. the current climate mainstreaming, should be supplemented by objectives for social and economic sustainability.

(4) In heading IV (foreign relations),

the EU should align its strategies for bilateral cooperation with the partners' SDG strategies. In addition, three to four thematic flagship programmes should be created for cooperation with countries of all income groups, such as in the areas of urbanisation, inequality or climate change.

(5) Cross-cutting issues:

The successor to the Horizon 2020 programme should invest more in research on sustainability. EU *Impact Assessments* should take greater account of the social and environmental dimensions of sustainability. The next MFF should set clear guidelines for sustainable procurement.

The relevance of the 2030 Agenda for the MFF

Although economic growth in the EU is again on the upturn and unemployment figures are declining, the financial and economic crisis of the past ten years has left its mark. In particular, inequality between and within European countries has increased, and the impending structural change caused by demographic change and digitalisation is creating considerable uncertainty. The influx of migrants and refugees is increasing this uncertainty.

What is lacking at this time is a vision of what a European welfare state model in the 21st century could look like, one that takes into account the planetary boundaries of the Earth's ecosystem, ageing populations, the consequences of digitalisation, and the EU's interdependence with the rest of the world.

The 2030 Agenda is not a blueprint for such a vision, but it does provide a starting point for a political debate on how to reconcile the three dimensions of sustainability in a meaningful manner in order to adapt the European social model to the challenges of the 21st century. This in turn could also strengthen public support for the EU. In the debate on EU foreign relations, the 2030 Agenda can help enhance the EU's political profile and position it as a global actor for sustainable development.

The next MFF will play a central role in the EU's implementation of the 2030 Agenda. Undoubtedly, the 2030 Agenda will not only be promoted through financial expenditures, but will also demand major political reforms. On the expenditure side, however, the next MFF is the most important opportunity to make a difference at the EU level until 2030, since MFF-financed programmes will continue to be implemented through to the end of the 2020s.

No foregone conclusion: The 2030 Agenda in the MFF negotiations

Taking the 2030 Agenda into account in the MFF negotiations will not be an easy task. For one, the MFF negotiations themselves are likely to be politically challenging. What's more, there is no clear strategy for implementing the 2030 Agenda in the EU, which could now be made operational for the MFF.

The MFF negotiations have traditionally been a difficult period in the political calendar in Brussels. The EU uses the MFF to set its medium-term priorities every seven years. While the European Commission is trying to enlarge the overall financial volume and thus the EU's financial leeway, many member states are pushing for financial ceilings and the highest possible returns. Reforms within the four budget headings (see Table 1) can only be attained in the form of finely balanced package deals, since the headings and their various instruments are influenced by a wide range of stakeholders.

Compared to previous negotiation rounds, preparations for the next MFF will be complicated by additional challenges. The forthcoming withdrawal of the UK is likely to leave a financial gap of around €14 billion annually (excluding the funds that would have gone to the UK). In addition, the EU faces new challenges for which additional funds must be mobilised. Additional resources are needed in particular in security and defence policy, but also for instance in internal and external migration policy. This implies that the EU must either make substantial cuts in agricultural and cohesion policy or member states must pay more money into the budget.

Despite the high pressure for reform, there is currently no overriding political programme that the next MFF should finance or that justifies the expenditures and necessary reforms of the headings in terms of content. The Europe 2020 strategy, which acted as the guiding vision for the current MFF, has yet to find a successor. The Rome Declaration of March 2017 outlines a comprehensive idea of the future of Europe but without concrete target figures. While political agreement has been reached in debates on EU reform, these are mostly on security and defence policy. In addition, the time frame for negotiations is tight. The Commission's timetable has in mind that the negotiations will be concluded by the European Parliament (EP) elections in May 2019. In view of previous negotiations, this does not seem all that realistic. There is therefore a risk that the process could drag on until the end of 2020, as the EP and the new Commission would first have to be formed.

In view of these challenges, the question of how the 2030 Agenda can be incorporated into the next MFF has been a marginal issue until now. This is also due to the fact that since its adoption in New York in September 2015, the Agenda has developed little political momentum in the EU. There is currently no EU strategy for implementing the 2030 Agenda, from which clear priorities for the MFF could now be derived. To be fair, the EU provided an overview of which policy areas are related to the Agenda and has also adopted the new European Consensus on Development. The Commission is now preparing a reflection paper outlining a strategy for SDG implementation. However, the paper will not be presented until autumn 2018 at the earliest and only the next Commission will take a decision on this basis. This is too late for the MFF debate, which is why possible options should now be considered.

Incorporating 2030 Agenda and SDGs in the MFF: Proposals

Two questions are central for incorporating the 2030 Agenda and SDGs in the MFF: (1) Where does the EU have the largest deficits with respect to the 2030 Agenda and the 17 SDGs? (2) Which SDGs can be influenced by the MFF? Answering these questions makes it possible to identify a specific added value and focus: the EU could concentrate on

areas where it has significant deficits and/or where little progress has been made to date.

The first question in particular can only be answered very provisionally for now. An analysis of where the EU stands with respect to achieving the SDGs is difficult because the EU has not yet operationalised the SDGs for the European context. The global SDGs cannot be applied 1:1 to the EU (and others) as not all SDGs have been defined with clear targets and indicators. Furthermore, the EU has yet to present a *gap analysis*, i.e. no analysis has been conducted of where the main challenges lie. The Eurostat report (2017) analyses where the EU has made progress in recent years, but it does not identify gaps. Analyses such as the SDG Index and Dashboards (2017) reveal that compared to the rest of the world, EU countries have considerable deficits at least with three SDGs: climate action (SDG 13), sustainable consumption and production (SDG 12) and protection of the oceans (SDG 14).

The MFF could contribute to almost all the SDGs, with the exception of those relating to education and health policy, where most of the expenditures to date have gone via the member states (with the exception of the Erasmus programme, for instance). Agricultural funds (heading II) could contribute to healthier nutrition, decent work or sustainable production, and also reduce negative impacts on the climate and water. Cohesion funds and funds for regional development could contribute to improved infrastructure, energy efficiency, renewable energy or the reduction of inequality. External instruments (heading IV) could support implementation of the 2030 Agenda and all the SDGs in industrialised, emerging and developing countries.

A general reference to the 2030 Agenda in the MFF Regulation will not be enough to make the Agenda relevant for the MFF. Instead, five courses of action should be considered:

(1) Embed the principles of the 2030 Agenda in the MFF:

Some of the principles of the 2030 Agenda should inform the MFF as a whole. *Leave no one behind* requires a stronger focus on reducing poverty and inequality. The principle of universality makes it necessary to embed the 2030 Agenda and SDGs not only in heading IV but also in headings I to III and to look more closely at the external impact of the EU. In this sense the EU should also underscore its support for policy coherence for sustainable development (PCSD), reduce conflicts of interest within and between individual headings, and promote synergies.

(2) Align individual MFF headings to the global SDGs: The EU should also align the individual MFF headings to the global SDGs. As not all headings (can) make a contribution to all SDGs and competence for some SDGs is not at the EU level but rather among member states, it would be obvious to assign individual SDGs to the four MFF headings (Table 1). The headings would then have to take these SDGs into account in their expenditures and the SDGs should guide the reform of the programmes and instruments in the

Table 1: Potential allocation of the SDGs to the four MFF headings and options for mainstreaming sustainability principle

	Social	Environmental	Economic	Mainstreaming the three dimensions of sustainability (extending climate mainstreaming)
Heading I a Competitiveness for growth and jobs	Poverty (1) Gender (5) Inequality (10)	Climate (13)	Energy (7) Economy (8) Infrastructure (9) Cities (11)	
<i>Horizon 2020: Research on all SDGs</i>				
Heading I b Cohesion	Poverty (1) Gender (5) Inequality (10)	Climate (13)	Nutrition (2) Economy (8)	
Heading II Natural resources (agricultural policy)	Gender (5) Inequality (10)	Biodiversity (15) Oceans (14) Climate (13)	Nutrition (2) Economy (8)	
Heading III Security and citizenship	Peace and eff. Institutions (16); Discrimination & Migration (10)	Consumption & Production (12)		
Heading IV Foreign relations	<i>SDG 16 Peace, SDG 17 Partnerships and all other SDGs</i>			

headings. The EU should also ensure that the different dimensions of sustainability are taken into consideration in all MFF headings.

Assigning individual SDGs to individual MFF headings would allow the EU to clearly signal that implementation of the SDGs not only relates to foreign and development policy, but also EU domestic policy, particularly through the agricultural or cohesion funds.

Which headings should contribute to which SDGs and targets would still have to be defined at the beginning of the MFF's term, included in the planning process and regularly reviewed. This would prevent the EU from assigning certain expenditures to certain SDGs only retrospectively at the end of the MFF's term.

(3) Mainstream the sustainability principle across headings:

The MFF should also ensure that all three dimensions of sustainability are mainstreamed across the four headings. In the current budget, the EU has stipulated that 20% of the budget should be spent on climate-relevant measures. This climate mainstreaming could be continued and supplemented by targets for inequality, gender or sustainable consumption and production, or even further developed into a general mainstreaming of sustainability. For each of the three dimensions of sustainability, one concrete target figure could be agreed upon. One concrete proposal: 30% of the expenditure could be earmarked for climate-relevant measures (environmental

sustainability); 30% for the poorest 40% of the population in each European country to reduce inequality (social sustainability); and 30% of the MFF expenditure should promote sustainable production (economic sustainability).

(4) Go beyond 'one size fits all' in the geographic programmes of the external instruments as well as strengthening thematic instruments: Implementing the 2030 Agenda should be the central objective of a new, single external instrument currently being discussed in Brussels. EU cooperation with partner countries should be aligned with the partners' SDG strategies (geographical programming). At the same time, the EU should continue to limit its cooperation to a maximum of three sectors per country. The geographic programme should also mainstream the three dimensions of sustainability and could set clear target figures (similar to sustainability mainstreaming across the entire MFF). With respect to thematic cooperation, three to four flagship programmes should be designed for cooperation with countries of all income groups, for example to promote sustainable urbanisation, reduce inequality or climate change.

(5) Cross-cutting issues: The successor to the Horizon 2020 programme should not only focus on climate, but promote research on sustainability more broadly. In particular, research into conflicts of interest and synergies, linking the three dimensions of sustainability, as well as the external impact of EU policies on third countries ought to be strengthened. *Impact Assessments* should look more closely at social and environmental sustainability. Moreover, the MFF ought to set clear guidelines for sustainable procurement applying to all budget headings.

Recommendations for the negotiations process

In the absence of an overarching strategic framework, the European Council should prepare a short strategy paper outlining a political project for the next MFF. This strategy paper should build on the Rome Declaration and propose operational goals on this basis. The strategy should go beyond current proposals to strengthen security and economic policy by outlining a vision for a sustainable and social Europe. This European Council paper could also outline the cornerstones of a successor to the Europe 2020 strategy.

Despite the lack of a European SDG strategy, the 2030 Agenda should be embedded in the next MFF. A general reference at the beginning of the MFF Regulation emphasising the importance of the 2030 Agenda is not sufficient for this purpose. Instead, agreements should be reached that are as concrete as possible. The five courses of action outlined here are complementary and should be pursued in parallel. A clear commitment to the SDGs could not only improve public support for Europe but even position the EU internationally as an actor for sustainable development.

If this is to succeed, those in the Commission, member states and parliament responsible for implementing the SDGs would have to contribute concrete proposals to the MFF negotiations through various channels. The newly established EU Council Working Party on the 2030 Agenda should give priority to the next MFF in addition to preparing a European SDG strategy. The Council Working Group would also need a high-level counterpart in the European Parliament.

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