



EU ENLARGEMENT AND PRE-ACCESSION ASSISTANCE IN THE NEXT MFF

Eulalia Rubio, Jacques Delors Institute, November 2024



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Russia's aggression against Ukraine and the subsequent decision to grant candidate status to Ukraine, Moldova and Georgia has put enlargement back on top of the EU's agenda and has risen the number of candidates and potential candidates to ten.

Despite huge uncertainty, all seems to indicate that most candidates will not be ready to join the Union during the next MFF, with the possible exception of one or two Balkan countries. In this context, the next MFF will be crucial for supporting candidate countries' efforts towards accession. It is also recommendable to start reflections on how to adjust the EU's major spending policies to future accession and preparing the next MFF negotiations by keeping in mind the eventuality of different enlargement scenarios. Regardless of Ukraine's accession timeline, financial support for Ukraine is likely to remain a major budget item in the next MFF. Assuming that a sustainable peace agreement is reached by 2027, the focus will shift from short-term macroeconomic aid to long-term support for post-war reconstruction.

1. The interaction between accession negotiations and MFF negotiations

The impact of enlargements on the EU budget is uncertain until the conclusion of the accession negotiations. The Commission usually initiates preparations to adapt the EU budget well before this moment but it is difficult to make precise cost estimates as the year of accession is unknown and the accession Treaties may contain specific budgetary clauses or transitional arrangements phasing in access to EU funds¹. The proposal to amend the EU budget is usually presented after the Accession Treaty is signed².

This proposal will then remain pending with the two EU budgetary authorities, who will have to wait for the Accession Treaty to be ratified by all parties before amending the MFF.

¹ An example of early preparatory work is the 'Agenda 2000' communication, a strategic document published in July 1997, well before the Accession Treaties were signed with the ten Central and Eastern European (CEE) countries. Agenda 2000 included cost estimates for enlargement, which were incorporated into the 2000–2006 financial framework. These estimates, however, were based on policy assumptions that proved wrong. Notably, it was assumed that six countries would join the Union in 2002 (instead of ten in 2004) and that new Member States would not receive CAP Pillar 1 payments.

² This was the approach followed during the 1995 enlargement as well as Croatia's in 2013. An exception occurred during the large Eastern enlargement in 2004, when the European Commission proposed amending the Multiannual Financial Framework (MFF) in February 2003, two months before the accession treaties were signed in April 2003.

Accessions pose different challenges if they take place at the start, in the middle or at the end of MFFs. If the Treaty is ratified well before the start of a new MFF (as in the case of Bulgaria and Romania) extra spending needs can be incorporated in the MFF preparation. If ratified in the middle of an MFF (as in 1995 and 2004), the MFF will have to be adjusted to incorporate the extra expenditure needed. If there is the accession of a small country during the last year of a MFF (as in the case of Croatia), budget margins may suffice to cover the extra expenditures for the last year but this is not possible if a legal requirement mandates amending the MFF³.

2. The next round of enlargements: state of play, including pre-accession assistance

Excluding Türkiye (with whom accession negotiations have been at a standstill since June 2018), the EU now has a total number of nine candidate and potential candidate countries. Seven countries - Albania, Moldova, Montenegro, North Macedonia, Serbia, Türkiye and Ukraine - have formally initiated accession negotiations. Two countries - Bosnia and Herzegovina and Georgia - hold candidate

³ This was the case for the accession of Croatia, which took place at the very end of the 2007-2013 MFF (July 2013). As the II inter-institutional agreement for 2007-2013 included the obligation to amend the MFF in the event of enlargements, the Commission had to propose an amendment to the MFF to accommodate Croatia's extra expenditure needs

status but have not yet started negotiations. Kosovo has applied for membership but has not yet been granted candidate status.

The timing of each accession is very uncertain as it hinges on factors like candidates' efforts to meet accession criteria, the EU's readiness and geopolitical pressures. Given the EU's commitment to a 'merit-based' approach, a large-scale 'big bang' enlargement like 2004's is unlikely. Instead, a 'regatta-style' approach, where candidates join individually over time is expected.

The relaunch of the EU enlargement agenda has also resulted in changes in the EU's approach to the support in the form of pre-accession assistance. The classic support provided through the "Instrument for Pre-Accession Assistance" (IPA III) has been complemented with assistance provided by two new 'Facilities' adopted in 2024 and targeting Ukraine and the Western Balkans (WB)⁴. IPA III provides mostly unconditional grants⁵ disbursed according

to the cost incurred. The Facilities offer a more diversified type of support - 'soft' loans, grants, and guarantees - tied to reform implementation. More precisely, they provide one third of support in form of grants and two thirds in the form of 'repayable support' (loans and guarantees). Loans are provided on highly concessional terms⁶.

The two Facilities present some differences. First, loans to the WB are backed with a provision set at 9% (the standard provisioning rate applied to EU loans to third countries), whereas loans to Ukraine are guaranteed by the EU budget's headroom, meaning that the risk of Ukraine defaulting on these loans would be directly borne by future EU budget. Second, non-repayable support from the Reform and Growth Facility for the Western Balkans (RGFWB) comes from heading 6 of the MFF, 'Neighbourhood and the World'. In the case of the Ukraine Facility, the EUR 17 billion of non-repayable support is covered by a "Ukraine Reserve" established over and above the MFF ceilings. Placing this reserve above the ceilings gives more flexibility to adjust the amounts required every year to support Ukraine. Third, in the Ukraine Facility, only direct support to the central government (under pillar 1) is conditioned to the implementation of the national reform plan. Support

4 The Commission has also proposed a new Facility for Moldova which is modelled on the Western Balkans Facility but, at the time of completing this paper, it has not yet been adopted.

5 The IPA III regulation stipulates that assistance to beneficiaries should be differentiated according to their performance, particularly in the area of rule of law reforms. However, as pointed out in the mid-term evaluation of the instrument, "so far there is no evidence on the systematic application of the performance-based approach". In fact, the evaluation finds that "compared to IPA II, there are no significant variations of yearly allocations for bilateral annual action plans among IPA III beneficiaries". The main beneficiary of IPA remains Türkiye, despite the country's backsliding on the democratic reforms and the subsequent stalemate in its accession negotiations.

6 Ukrainian loans have a 35-year maturity whereas loans to Western Balkans have a 40-year maturity period. In both cases, repayment should not start before 2034.

for the Ukraine Facility's pillar 2 (de-risking private investment) is provided to International Financial Institutions (IFIs) via dedicated guarantee agreements and not conditioned to reform achievements. In contrast, all funding from the RGFWB is released gradually according to the countries' progress with the Reform Agenda (including the amounts channelled through the Western Balkan Investment Plan, aimed at de-risking private investment through cooperations with IFIs).

The adoption of these two Facilities has significantly increased EU pre-accession support for the WB and Ukraine. According to the European Court of Auditors, the Facility has increased by 40% the amount of the EU budget support to the WB⁷. According to the European Commission, the amount of support they receive today is equivalent (in aid intensity per inhabitant) to the support received by EU countries on average⁸. However, the Commission compares the total amount of repayable and non-repayable funds received by the WB with cohesion policy grants received by EU27. Besides, the average cohesion aid intensity of EU27 is skewed by the large populations of highly developed countries like Germany, which receive low

per capita cohesion funding (Todorovic and Milinkovic, 2024)⁹. If we focus on the non-repayable support, Todorovic and Milinkovic (2024) estimate that the six WB countries will receive approximately EUR 12.2 billion from the 2021-2027 IPA III budget¹⁰. If we add the EUR 2 billion recently added for the Facility, the amount of non-repayable support for the six Western Balkans countries will be roughly EUR 14.2 billion (EUR 2.2 billion per year on average). For Ukraine, the Facility provides EUR 17 billion in non-repayable support, averaging EUR 4.25 billion per year over a 4-year period.

3. The EU budgetary costs of future enlargements

Accession of less developed countries to the Union create pressures to increase EU spending. Candidates receive EU pre-accession assistance before joining, but as members, they access more EU funds through cohesion and agricultural policies. Though they contribute to the EU budget, they become net beneficiaries of EU funding.

⁷ European Court of Auditors (2024), [Opinion 01/2024 concerning the proposal for a Regulation of the European Parliament and of the Council on establishing the Reform and Growth Facility for the Western Balkans](#), 7 February 2024

⁸ European Commission (2020) "[Enhancing the accession process - A credible EU perspective for the Western Balkans](#)", COM(2020) 57 final, 5.2.2020

⁹ Todorovic, M and Milinkovic, A (2024) [The Great Gap: Assessing the New Growth Plan's Potential to Address Socioeconomic Disparity](#), discussion paper, European Policy Center, Belgrade, June 2024

¹⁰ The IPA III budget is not pre-allocated but there are no significant variations of yearly allocations for bilateral annual action plans among IPA III beneficiaries. To estimate the amounts for WB, the authors calculate the average annual allocation received by Türkiye over the preceding three years (2021-2023) and extrapolate this amount over a period of 7 years. They then deduct this amount from the overall IPA III budget excluding administrative expenditures.

Estimating the EU budget impact of accessions is challenging. There is a numerical formula to calculate the cohesion funding a country should receive – mainly based on GDP per capita and population¹¹ – but this approach does not apply to the Common Agricultural Policy (CAP), where national allocations are established in the regulation and stem from historical decisions¹². The impact of enlargement on non-allocated spending is also hard to predict. There is no legal obligation to increase this expenditure in case of enlargements. In past enlargements, the Commission proposed increases proportional to the increase of EU's GDP but the amounts were subsequently reduced during the MFF negotiations.

Several studies have been published estimating the net EU budgetary costs of integrating all or some candidate countries into the EU if they were to join today (that is, applying current EU cohesion and CAP rules). The estimates vary due to differences in scope and methodological approaches (see Annex I for more detail). Most studies arrive to similar estimations as regards to the extra EU cohesion costs but there are important differences in the estimations of extra CAP funds. A first source of variation is the parameter used to determine the level of CAP aid intensity (that is, the amounts of euros per

hectare) granted to new Member States. Most studies assume that new Member States will not receive more CAP funds per hectare than current Member States but there are different approaches to set the exact aid intensity for newcomers. One can apply the same aid intensity than those Member States benefiting from lowest aid intensity, or – as done by Darvas et al (2024) and Rubio et al (2024) – apply the average aid intensity of the 13 countries having joined the Union after 2004. Some authors, however, interpret 'current CAP rules' as implying that full external convergence would be achieved and would also apply to new member states (e.g. Matthews 2024)¹³. A second parameter is whether an overall ceiling is imposed to the CAP budget. Most studies do not impose any overall ceiling for CAP; they assume that current Member States maintain their own CAP allocations and the overall CAP budget increases to cover the CAP allocations of new Member States. An exception is Rubio et al (forthcoming), which analyses the impact of accessions on national CAP allocations for current and new Member States under the assumption that the overall ceiling for the CAP pillar 1 budget remains constant in real terms.

Even in the case of leaving the CAP budget uncapped, the total overall net EU budget cost would be manageable. Darvas et al (forthcoming) estimate an annual net cost of 26 billion euros. This represents

11 Included in the Annex XXVI of the Common Provisions Regulation.

12 Allocations for pillar 1 and pillar 2 are included in current prices in Annex V and Annex XI of Regulation (EU) 2021/2115.

13 Matthews, Alan (2024) [Adjusting the CAP for new EU members: Lessons from previous enlargements](#). SIEPS publication, september 2024.

less than 0.2% of the EU's GDP. Payments resulting from these extra-costs could be easily covered with today's margin within the Own Resource ceiling¹⁴.

Several caveats should be considered when interpreting these estimates.

First, they are 'static' estimates, assuming candidate countries join the EU today. They do not account for dynamic factors like future changes in income per capita in both candidate countries and Member States, which will influence eligibility for EU cohesion policy funds.

Second, they do not factor in potential changes to EU cohesion or CAP regulations after 2027, which could alter eligibility for funding.

Third, in Ukraine's case, there is significant uncertainty regarding the country's future territory, population, and GDP at the time of accession. Yet, most estimates assume that Ukraine will regain its territorial integrity and pre-war population after the end of the conflict and that it will not suffer a drastic and permanent GDP decline¹⁵.

¹⁴ In 2024 the margin between the MFF ceiling for payment appropriations (0.96%) and the own resources ceiling for payment appropriations (2%) stands at EUR 183 398 million, or 1.04% of GNI. If we exclude from this 1.04% the 0.60 percentage points earmarked to finance the contingent liability stemming from NGEU, there is still 0.44% of EU GNI available to cover MFF payments

¹⁵ An exception is Darvas et al (2024), which estimates the impact of Ukraine's accession on the EU budget under two scenarios: a baseline scenario (assuming territorial integrity and the economy and population developing according to 2020 projections)

In addition, it is important to highlight that the direct net EU budget cost from accessions can be an investment with some economic and political returns.

- The EU funds spent in the new countries will increase domestic demand, translating into more export opportunities for EU27 companies. A 2011 study commissioned by the Polish Ministry of Economic Development¹⁶ estimated that during 2007-2015, the EUR 120 billion of EU cohesion funds spent in the 4 Visegrad countries had induced new exports for EU-15 for an equivalent amount of EUR 76.9 billion.
- EU-15 based companies will be involved as contractors or suppliers in EU-funded projects in the new Member States. According to the same study, EU15 companies received around 15% of the total cohesion allocations spent in V4. This generated EUR 19.7 billion of direct export and capital benefits for EU15 economies.
- The integration of Ukraine into CAP would reduce the Union's import dependency in critical sectors such as animal feed and fertilisers. Ukraine's EU accession would also significantly increase the EU's military and security capabilities.

and an alternative scenario (assuming Ukraine's agricultural land is reduced by 20 percent and there is a permanent decline in Ukraine's GDP and population by 20 percent).

¹⁶ https://www.ewaluacja.gov.pl/media/32979/EU-15_report_final_EN.pdf

Finally, the 'costs of enlargement' should not be compared to the status quo but to the cost of a non-enlargement scenario in the next MFF. To maintain a credible commitment to enlargement, the Union will need to maintain the level of aid provided to the Western Balkans and offer comparable support to Moldova and Georgia, provided they demonstrate a similar level of engagement. As for Ukraine, the country will need massive support for post-war reconstruction irrespectively of their membership status.

4. Enlargement and the next MFF

As said before, all seems to indicate that most candidates won't be ready to join during the next MFF except one or two Balkan countries. In her confirmation hearing at the European Parliament of November 11th 2024, the Commissioner-designate on enlargement, Marta Kos, announced that Montenegro could close the negotiation of all chapters by the end of 2026 and Albania by the end of 2027. The budgetary impact of such accessions would be minimal. For instance, Montenegro's accession would result in net cost of approximately EUR 0.13 billion for the EU27¹⁷.

Against this background, the next MFF should be mostly focused on sustaining the efforts of candidate

¹⁷ According to calculations from Rubio et al (forthcoming).

countries towards accession and, in the case of Ukraine, supporting post-war reconstruction. However, it is also wise to begin reflections on how to accommodate the MFF and the main EU spending policies (Common Agricultural Policy and Cohesion Policy) to the eventuality of different enlargements scenarios.

4.1. Pre-accession support

There will be a need to decide the design of the future EU pre-accession instrument. There seem to be overall satisfaction with the Facilities' approach, which is more aligned with the 'gradual integration' approach. At the same time, it is unclear whether the Commission will impose strict policy conditionality to all pre-accession assistance or will combine conditional and unconditional support. Some scholars highlight the need to guarantee unconditional support for civil society. Other scholars note that, in a more competitive geopolitical landscape, imposing strict policy conditionality on certain projects of EU interest, such as transnational infrastructure can backfire, as it could render EU funds less attractive compared to those from countries like China, which come with few strings attached (Steinbach 2024).

It is also worth noting that the Parliament has raised some concerns about the functioning of the RGFWB¹⁸ and will

¹⁸ See in particular the EP Resolution of 29 February 2024 on deepening EU integration in view of future enlargement (2023/2114(INI)) and the opinion by the BUDG committee on the proposal for a regulation

probably impose some minimal conditions of accountability and scrutiny over the use of EU funds to generalise the use of Facilities to provide pre-accession support.

Finally, by providing two thirds of support in form of concessional loans with large maturities, the Facilities also introduce additional contingent liabilities to the EU budget. Strong pressures to reduce national GNI contributions may also result in a preference for loans rather than grants but these contingent liabilities merit careful consideration.

4.3. Support to Ukraine's reconstruction

Financial support to Ukraine is likely to remain a significant item in the next MFF. Providing there is a sustainable peace agreement by 2027, attention will shift from the provision of short-term macroeconomic support to support for post-war reconstruction. Currently, the Ukraine Facility is organised around three pillars but most of the financial support comes from Pillar 1, which covers urgent needs. In the post-2027 period, it would be wise consolidating Pillar 1 and Pillar 3 into a single pillar providing support to public authorities conditioned to reforms, while keeping Pillar 2 for de-risking private investment (and significantly expanding it).

establishing the RGFWB (https://www.europarl.europa.eu/doceo/document/A-9-2024-0085_EN.html#section5).

Since 2022, the European Commission has led the 'Multi-Donor Coordination Platform for Ukraine,' aligning efforts among the EU, Member States and G7 countries. Going forward, a key question is whether the Commission will limit itself to taking on a coordinating role, managing contributions from national governments and third countries, or whether will there be a more significant role with larger EU joint financing – within or outside the MFF - for Ukraine's reconstruction. Ensuring credible coordination with limited EU funds presents a significant challenge.

4.4. Cohesion policy

Future accession will not 'blow up' the EU cohesion budget but may affect some countries through the so-called 'statistical effect'¹⁹. As in previous enlargements, it may be advisable to provide temporary "phasing out" assistance to those regions affected by this phenomenon.

Another finding from our scenarios is that, **because the nine candidate countries have very low GDPs in absolute terms, applying the 2.3% GDP cap rule results in minimal cohesion funding per capita.** If candidates are not granted full access to CAP pillar 1 payments from the beginning (as it happened in past enlargements),

¹⁹ Some regions being automatically upgraded to a higher category as a result of the result of a decrease of the EU GNI per capita following the accession of poorer countries.

some countries may find themselves in a worse budgetary position than before accession.

If this occurs, it may be worth discussing the possibility to include temporary budgetary compensations in the Accession Treaties, as it was done in the Iberian and Eastern enlargements. An alternative option would be to increase the current 2.3% GDP cap in cohesion allocations. For instance, one could temporarily apply the 4% GDP cap that was applied during the 2000-2006 period to new Member States, to all candidates or only to Ukraine, which requires massive support.

4.5. Common Agricultural Policy

The participation of Ukraine in CAP poses significant challenges. Even if all seems to indicate that Ukraine's accession will not happen soon, the Commission and Member States should start exploring possible options for adapting the CAP.

A first option is to maintain the national CAP allocations of current Member States and mitigate the impact of Ukraine's accession on the CAP budget by **imposing a transitionary phase-in period**. The introduction of phase-in periods was done in the Iberian and Eastern enlargements and has various advantages. It gives to the Union some

time to accommodate but also to the candidate countries sufficient time to align with the EU agricultural acquis and build the necessary administrative capacity to manage payments to farmers. However, transitional periods do not avoid the cost of enlargement, they simply push them it into the future.

A second option - which can be applied in complement with the first - is **to offer to Ukraine access to the CAP on less advantageous terms**. This approach was also applied in the last enlargement: direct CAP payments to the CEE countries were calculated by using parameters of land areas and reference food production that resulted in much lower payments per hectare. However, as noted by various scholars (Régnier and Catallo 2024 and Matthews 2024) this is not a sustainable solution. Past experiences show that, once in the Union, the new Member States use their negotiating power to improve the conditions agreed in accession Treaties in view of progressively obtaining the same treatment than 'old' Member States.

A third option is **to revise the criteria for the distribution of CAP payments across farmers** in order to make the CAP fairer and more sustainable. This is, in essence, what is proposed in the "Strategic Dialogue on the Future of EU Agriculture" report. The report proposes adjusting various rules governing the system of CAP direct payments, including capping, degressivity (meaning progressively reducing payments to large

beneficiaries) and incentives for green practices or ecosystem-based schemes. Changing these rules would help ensure that CAP funds in Ukraine benefit small farmers and sustainable agriculture practices rather than favouring large agro-holdings. However, it will not alter the overall distribution of CAP funds across countries, which is determined by the extension of agricultural land and not by the structure of farms or type of agricultural production.

A fourth option would be **to define a new allocation principle to distribute CAP Pillar 1 funds across Member States**. Matthews (2024), for instance, argues that Pillar 1 funds could be distributed across Member States not on the basis of their total eligible agricultural land area but based on the amount of agricultural land managed by farms below a defined size threshold. This would reduce the amount of CAP funds to Ukraine. However, it would also have a disproportionate negative effect on current Member States having important amounts of land managed by large agro-holdings. Besides, it would also create a perverse incentive structure for member states, as they would be tempted to artificially break up large holdings (on paper, not in reality) to attract additional CAP resources.

Finally, there is the possibility of accepting **a major, horizontal reduction of national CAP allocations** and allowing Member States to co-finance CAP

payments – as it is the norm for cohesion policy.

4.6. Other horizontal issues

The prospect of new accessions will also impact various cross-cutting issues, requiring preparation or action in the next MFF. We identified four main areas.

First, from a procedural point of view, the EU will need to anticipate ways to adapt its budget to different enlargement scenarios. In the likely scenario of one or two Balkan countries acceding the Union before 2034, the necessary funds could be covered within existing margins. To manage this without reopening the MFF, it would be wise to maintain sufficient margins of unallocated commitments in key headings (e.g. cohesion, CAP) which could smoothly accommodate a minor enlargement. Drawing from Croatia's accession experience (see Chapter 2), it is advisable to avoid a mandatory revision clause for all enlargements in the MFF regulation. Instead, an optional provision clause triggered by a percentage threshold above anticipated budget demands, set at a level to cover early accession countries (Montenegro and Albania), might be envisaged.

While unlikely, geopolitical developments could prompt the accession of one large country, or a group of countries, before 2034. If such an enlargement were

foreseen by 2032, it might be worth exploring the possibility of a 5-year MFF. However, as indicated by Begg et al. (2023) there is little appetite among stakeholders for reverting to a five-year MFF. In the absence of consensus, a five plus five year-settlement might find more support.

An alternative approach to deal with the cost of a bigger enlargement could be to establish a special reserve for 'accession-related costs' over and above the MFF, to be mobilised through qualified majority voting in the Council, modelled after the 'Agenda 2000' agreement (Box 1). However, the establishment of reserves requires taking assumptions on the timing, scope of accessions and the result of accession negotiations. In the case of 'Agenda 2000', many of the working assumptions that were taken to estimate the costs of accessions proved wrong in the end – such as the working assumption that enlargement would start with six countries joining in 2022 rather than ten countries joining in 2004.

Box 1. Setting reserves to cover accession-related costs: the example of 'Agenda 2000'

The European Council meeting in Berlin in March 1999 reached an agreement on the financial framework for 2000-2007. This agreement was finalized before the Accession Treaties were signed with the 12 candidate countries at the time. Following the approach outlined

in the Commission's 'Agenda 2000' communication, the MFF was presented in two parts: Table A outlined adopted commitments for the EU15, while Table B was indicative and provided estimated 'accession-related commitments' based on the assumption that six new countries would join the Union in 2002. These estimates in Table B formed the common negotiating position of the EU15 during the accession talks.

In the financial perspective for the EU15 (Table A), a reserve of payment appropriations "available for accession" was set aside under the Own Resource ceiling from 2002 to 2006 to cover the costs arising from new memberships. The European Council agreed that, upon enlargement, Table A (the financial perspective for the EU15) would be adjusted to incorporate the accession-related commitments into the MFF, up to the maximum amounts specified in Table B. This adjustment would be made by the Council through a qualified majority vote

Source: Berlin European Council, 24-25 March 1999, Presidency conclusions

Second, ensuring adherence to the rule of law and democratic principles before accession is crucial. However, some rule of law reforms may require longer implementation timelines. To address this, a "post-accession rule of law mechanism" (see Darvas et al. 2024) could be introduced. This would operate similarly to the "Cooperation and Verification

Mechanism” applied to Bulgaria and Romania, but it would be linked to the disbursement of EU funds.

and CAP) to new accessions and when they should be discussed?

6. Conclusions

The cost of incorporating all candidates except Türkiye into the Union is manageable and can be accommodated within the existing Own Resources ceiling. Instead of focusing on the additional financial costs of accessions, the next MFF should prioritize providing adequate support to candidate countries in their accession efforts. While Ukraine’s accession does not seem imminent, it is advisable to start considering how to adjust the Common Agricultural Policy for its potential entry. Given the uncertainty surrounding new accessions, it is wise to reserve sufficient margins in key areas to cover the costs of one or two Balkan countries joining the Union. It is also recommended to prepare the MFF and IIA regulations for the (unlikely) eventuality of a large country joining before 2034.

7. Open questions

- How do you think the prospect of enlargement should be factored into the preparation of the next MFF?
- What kind of reform options should be envisioned to accommodate the two main EU spending areas (cohesion

Annex 1. Different estimates of the costs of eu enlargement

Table 1. – page 15.

Sources: Emerson, M. (2022), The Potential Impact of Ukrainian Accession on the EU Budget and the Importance of Control Valves, policy paper, International Centre for Defence and Security, September 2022; Lindler, J; et.al. (2023) What does it cost? Financial implications of the next enlargement, policy paper, Jacques Delors Center, December 2023; Rubio, E. et al (2024), Adapting the EU budget to make it fit for the purpose of future enlargements, study requested for the Budgetary committee of the European Parliament (forthcoming), Darvas, Z. and J. Mejino Lopez (2024), What enlargement could imply for the European Union’s budget, Analysis, Bruegel 12 December 2024.

Table 1. Different estimates of the budgetary costs of future enlargements (under the hypothesis of enlargement occurring today), EUR bn per year.

	Coverage	Annual net EU budget costs	Main assumptions and methodological choices
Emerson (2022)	Ukraine	18.9	<u>Cohesion</u>: Allocations to current EU27 remain unchanged, Ukraine obtains an allocation equivalent (in funds per capita) to the average between the receipts of Poland and Romania <u>CAP</u>: Allocations to current EU27 Member States remain unchanged, Ukraine obtain an allocation equivalent in aid intensity (CAP funds per hectare) to the average aid intensity of the allocations for Poland and Romania. <u>Other spending</u>: Ukraine receives the equivalent in aid per capita to the average between the receipts of Poland and Romania
Lindler et al (2023)	Ukraine, Moldova and Western Balkans	19	<u>Cohesion</u>: Application of the 'Berlin formula' (set in regulation 2021/1060 Annex XXVI) to current and new Member States <u>CAP Pillar 1</u>: Allocations to the current 27 EU Member States remain unchanged, new Member States obtain an allocation based on a regression of CAP Pillar 1 allocations per hectare on GDP per capita equivalent in funds per hectare to the average of EU27 plus an equivalent in funds per hectare to the average of market measures support of EU 27 <u>CAP Pillar 2</u>: Allocations to the current 27 EU Member States remain unchanged, new Member States obtain an allocation based on a regression of CAP Pillar 2 allocations per hectare on GDP per capita of EU27 equivalent (in funds per GDP/capita) to the average EU27 <u>Other spending</u>: New Member States receive the equivalent in funds per capita of the average EU27 (except for Heading 1, for which they receive an allocation based on a regression of Heading 1 allocations per capita on GDP per capita of EU27)
Rubio, Alcidi, Hansum et al (forthcoming)	Ukraine, Moldova, Georgia and Western Balkans	14.7	<u>Cohesion</u>: Application of the 'Berlin formula' (set in regulation 2021/1060 Annex XXVI) to current and new Member States <u>CAP</u>: CAP pillar 1 budget is maintained at the same level as today, candidate countries obtain an allocation equivalent in aid intensity (CAP funds per hectare) to the average aid intensity of allocations for post-2004 Member States <u>Other expenditure</u>: candidates receive the same amount in EUR per capita ... than the average EU27
Darvas and Lopez (2024)	Ukraine, Moldova, Georgia and Western Balkans	26	<u>Cohesion</u>: Application of the 'Berlin formula' (set in regulation 2021/1060 Annex XXVI) to current and new Member States <u>CAP</u>: Allocations to the current 27 EU Member States remain unchanged, candidate countries obtain an allocation equivalent in aid intensity (CAP funds per hectare) to the average aid intensity of allocations for post-2004 Member States <u>Administrative expenditure</u>: increase in proportion to EU's population increase <u>Other expenditure</u>: candidates receive the equivalent than what the 13 countries that joined the EU after 2004 receive (as average of aid per capita and aid as % of GDP).

Annex 2. Results from an study commissioned by the budget committee of the European parliament

An upcoming study prepared at the request of the European Parliament's committee on Budgets (Rubio, Alcidi, Hansum et al, forthcoming) analyzes the impact of future enlargements on the next MFF. The study focuses on the accession of all candidates and potential candidates except Türkiye. It examines the impact of three different scenarios:

- 'gradual integration': no accessions occurring before 2034
- 'small bang': only Western Balkan countries joining in 2030
- 'big bang': Western Balkans, Ukraine, Moldova and Georgia joining in 2030

Box 2. Data and policy assumptions underlying the three scenarios

All three scenarios assume that the rules and allocation methods determining the distribution of funds in the current MFF are unchanged in the next MFF and do not consider the impact of any transitional arrangements included in bilateral accession treaties.

Data

The scenarios rely on 2024-2034 population projections from IMF

(national) and Eurostat (regional). National GDP projections are constructed applying the IMF's projected GDP growth rate to the 2023 real GDP data. For the regional level, the study uses the regional growth rate projections from Capello and Caragliu (2021)²⁰ which are based on Eurostat 2019 regional GDP data. FAO data on amount of agricultural area is used to calculate CAP allocations of new Member States. For Ukraine, the study assumes territorial integrity and continuation of 'status quo' on both GDP and population.

Policy assumptions

With respect to cohesion, the cross-country distribution for EU cohesion policy funds (ERDF, ESF+ and Cohesion Fund) is based on the numerical formula set in Annex XXVI of Regulation (EU) 2021/1060. ERDF and ESF+ funds are distributed across NUT-2 regions.

With respect to CAP, the three scenarios assume that CAP pillar 1 2028-2034 will remain constant in real terms relative to the current MFF. The 'big bang' and 'small bang' scenario assume that new Member States will receive CAP's pillar 1 allocations equivalent in funds per hectare to those of the EU13. All current Member States' CAP pillar 1 allocations are reduced proportionally to keep the

²⁰ Capello & Caragliu (2021). "Merging macroeconomic and territorial determinants of regional growth: the MASST4 model." The Annals of Regional Science, 66(1), 19-56.

CAP pillar 1 budget under the ceiling. As regards pillar 2 allocations, current Member States maintain their allocations. New Member states receive CAP pillar 2 allocations equivalent in aid intensity to the amounts received by post-2004 Member States during the first three years after accession (2007-2009).

All other EU spending increases in proportion to the increase in EU's population and/or GDP.

The 'no enlargement' scenario assumes that EU pre-accession support is reinforced. In particular, Ukraine and the Western Balkans receive the same levels of annual support as it is today, and Georgia and Moldova receive pre-accession support equivalent to the average per capita support provided today to Ukraine and Western Balkans. In the 'small bang' and 'big bang' scenario, pre-accession assistance support to candidates is deducted once they join the Union.

Finally, in all three scenarios we assume that the EU budget will remain at 1% of GDP. As we maintain CAP pillar 1 rule on CAP and CP rules will lead to a fall in the share of the EU budget for these two heading for EU27. Therefore, for each scenario, we calculate the amount of additional funds available to reinforce current programmes, support new spending priorities or mitigate the negative impact of accessions on some Member States.

The main findings resulting from the three scenarios:

- If there is no accession before 2034 and the Union continues to apply current EU cohesion policy rules, the share of Cohesion spending in the EU budget will decrease. This is due to the asymmetric impact of caps and safety nets applied to EU cohesion spending, which results in a decline of the EU cohesion budget in real prices.
- Accessions of new, poorer countries will not significantly increase the overall Cohesion policy budget in 2028-2034. However, both the 'small bang' and 'big bang' scenarios lead to a 'statistical effect' causing a 16%-21% reduction in national Cohesion Policy allocations for some of the current Member States (two in the 'small bang' scenario, six in the 'big bang' scenario).
- If CAP pillar 1 is maintained in real terms in the next MFF, the net EU budgetary cost of new accessions is manageable. Under our 'big bang' scenario, CAP increases by EUR 34 billion compared to a scenario without accession ('gradual integration' scenario), an amount that can be accommodated within the current Own Resources ceiling margins.
- If CAP Pillar 1 budget is kept constant in real terms, enlargement countries are given immediate access to CAP

funds and they are granted CAP pillar 1 amounts per hectare equivalent to those received by post 2004 Member States, the CAP Pillar 1 ceiling can only be respected if current Member States accept cuts in their national CAP allocations. Average cuts would be 2.5-3.5% in the 'small bang' scenario and 15% on average in the 'big bang' scenario.

receives through the Ukraine Facility. To this, one should deduct Ukraine's expected contributions to the EU budget. Thus, if Ukraine does not have access to CAP funds during the first years after accession, it may receive fewer EU transfers than before enlargement.

- If CAP pillar 1 is maintained in real terms and the EU budget is kept at 1% of GDP, the Union will be able to liberate resources for new spending priorities while covering the costs of accessions. In our 'big bang' scenario, this approach liberates about EUR 350 billion in additional funds. These available funds could also be used to mitigate the negative distributional effects of the enlargements by compensating Member States impacted by the 'statistical effect' or cushioning reductions in national CAP allocations.
- Due to the very low GDP of the nine candidate countries, the automatic 2.3% GDP capping rule significantly restricts the cohesion funds they can receive. For example, if Ukraine were to join the EU in 2030, it would be eligible for around EUR 10.3 billion annually from the CAP but only EUR 4.8 billion in cohesion funds each year. This latter amount is comparable to the current EUR 4.25 billion per year in non-repayable support Ukraine

Table 2. Comparing the current MFF with three scenarios of enlargement in the next MFF: main results (EU bn, current prices)

	Current MFF 2021- 2027*	MFF 2028- 2034 in a 'gradual integration' scenario	MFF 2028- 2034 in a 'small bang' scenario	MFF 2028- 2034 in a 'big bang' scenario
Heading 2. Cohesion, resilience and values	429	434	449	469
Heading 3. Agriculture and environment	400	454	458	476
<i>Of which: Market related expenditure and direct payments</i>	276	317	317	317
Heading 6. Neighbourhood and the world (+ where applicable Ukraine reserve)	130	194	181	146
Other spending	276	309	315	327
<i>Available additional spending</i>		348	351	355
TOTAL MFF (commitments)	1235	1739	1754	1773
As % of EU GDP	1%	1%	1%	1%

*Adjusted following the 2024 mid-term review and including the €17bn of the Ukraine reserve

Source: Rubio, E. et al (2024), Adapting the EU budget to make it fit for the purpose of future enlargements, study requested for the Budgetary committee of the European Parliament (forthcoming)

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