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EFFECTIVENESS AND ADDED VALUE OF THE EU BUDGET

Edited by Alfredo De Feo and Brigid Laffan

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Editors:

Alfredo De Feo and
Brigid Laffan

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INTRODUCTION

by Alfredo De Feo and Brigid Laffan

In October 2015 the Robert Schuman Centre organised a workshop on the Efficiency and Effectiveness of the EU budget as part of a project on the Evolution of Budgetary Powers and their Contribution to European Governance. A first seminar dedicated to Own Resources took place in April 2015[1]

The EU budget represents only 1% of GNI but its impact on the economy is greater due to its leverage effects. How can the EU Budget be more focused on results, strengthening its efficiency and effectiveness? Improving the quality of expenditure is the challenge for the next few years. The workshop gathered several high-profile participants representing the private sector and European and national institutions, and it benefitted from in-depth analysis and comments by academics and practitioners.

This edited volume groups the presentations delivered during the conference by Pier Carlo Padoan, Italian Finance Minister, and Kristalina Georgieva[2], Vice President of the Commission, who was, at that time, in charge of the budget, and written contributions and reflections by some of the participants.

Brigid Laffan, Director of the Robert Schuman Centre for Advanced Studies

Alfredo De Feo, Visiting Fellow at the Robert Schuman Centre for Advanced Studies

1 A. De Feo, Brigid Laffan, eds., EU own resources: Momentum for a reform, EUI, 2016. http://ec.europa.eu/budget/mff/hlgor/library/selected-readings/01-DOC-COMM-EUORMomentumForReform-EUIDeFeoLaffan-Feb2016.pdf

2 Kristalina Georgieva, Vice President of the Commission in office from 1/11/2014 to 31/12/2016. She was appointed Chief Executive Officer of the World Bank 2/1/2017

KEYNOTE

by Pier Carlo Padoan[3]
Minister of Finance, Italy

Thank you very much for this opportunity. It's a pleasure to be back here in a different temporary job. In the past I used to come here because of my academic activities and I always very much enjoyed the initiatives here at the EUI. I'd also like to thank Vice-President Georgieva for her remarks. Yes, we sit around the same table, a round table so there is no issue over who is on one side and who is on the other side regarding very difficult complex management issues, which of course are never only just technical management problems. They are always also deeply political problems, which by definition implies that we have to strive for common agreement over our choices, which is, of course, very much at the heart of what Europe does every day.

You will excuse me if I do not go into the details of the EU budget story, which is multifaceted and complicated. Instead, I will take the opportunity to share my views with this highly perceptive group. I will put my reflections and remarks in the perspective of what at least from my point of view is now happening in Europe and in the euro area. Of course, what is now happening in Europe and in the euro area is discussion of crises: the Greek crisis, the euro crisis before that, and of course the refugee crisis. But also discussion about the future of Europe, the future of European governance. The bestseller in this regard is, of course, the Five Presidents' Report, which is about monetary union, but if it's about monetary union it's about the whole of Europe. I have always believed and I continue to believe that the euro area and the European Union are two sides of the same coin, so one of the themes that should be taken up by the debate at the political level, and also the technical level, is how we should make the best of the European project.

Of course, the European project is going through a difficult phase, not only because there are crises to deal with but also because we have never really recovered from the financial crisis. This is why we are still seeing sluggish growth, persistent high unemployment and deflation around the corner.

Europe needs to do better, not just because its macro-economic numbers have to improve but because European citizens are getting tired of not seeing good numbers. In fact, the numbers they look at are: Am I going to get a job? Is my son going to get a job? And what about the State? Is the State helping me? Is it providing welfare or not? Of course, this has much to do with national budgets, with national money. The question is: What can the European budget – which as you all know is tiny – do, and does it make a difference? I think it makes a lot of difference, and I think it could make much more difference because there is often, in European dialogue, conversations and political exchange, the risk that national solutions will prevail and a European solution will be missing. Therefore, in many areas we need to take Europe seriously and say 'This is the list of the 28 Member States' requests, which hardly add up in a coherent ex-ante way, but here is a high-level European solution, which should be a high-level compromise between the national solutions. The EU budget is exactly one of those instruments that can make a difference, because we must look at the EU's added value.

This is my first point, and it has much to do with the debate about the future of monetary union for the following reason. The future of monetary union is largely, if not completely, related to progress in institution-building: how we improve the governance of monetary union. The debate about the EU budget should be exactly the same question, but adjusted to geography. What is the future of the institutions in the EU and how do

3 The intervention by Mr. Padoan is also available on You Tube at https://youtu.be/zBnyZmlHuJU

they fit with the rest of the institutions? Therefore, from this point of view, I think that since the time is right to discuss the future of monetary union at the political level, the time is right to discuss the rest of the European Union's institutions.

I understand that this goes against the need to solve daily or yearly problems and to fix the budget – this is the right time of year. At the same time, we cannot simply say that closing the budget is the end of our task. We must make a strong effort to link the immediate challenge of finding a budgetary solution, in all its detail, and rule-based mechanisms with a longer-term perspective.

This is the first point that should be made when we discuss the future of the EU institutions nowadays. There is a risk that I see in the monetary union debate. It is that what countries, governments and ministers agree to do is only about the short term, because the long term is too long, is too far away, and in many cases involves treaty changes, so it is very difficult politically. I think we should overcome this temptation and should, albeit prudently and cooperatively, try to identify a long-term vision for the future of the European institutions. This is again where I think the EU budget can provide added value, as is already the case in many situations. As you all know, the EU budget finances initiatives, promotes EU-wide growth and employment, and fosters research projects, trans-European networks, economic and social cohesion, sustainability of natural environmental resources and so on. This means that the instrument is going in the right direction. But what about the future?

Here – and this is my second point – the answer about the future is related to our view on where the European economy stands, and, as I have mentioned, the EU economy stands in an unhappy place. We cannot be satisfied with muddling through, because political and social support for the European idea, politics and machinery is simply losing ground in all our countries. And although eurosceptics – I apologise for using that word here – have different colours on their shirts and flags, in the end they may simply unite against any EU idea because of the mere fact that a European solution is seen as part of the problem rather than a solution, and I am deeply concerned about this.

This is the task that I see for the policy-making community in Europe, which includes not just official policy makers, but all those who work on Europe and are thinking about how to improve it. This is the challenge. We cannot simply accept muddling through because muddling through – also in future crises – will not lead us anywhere, and will certainly not solve the problems of future generations.

A few words about the economic strategy to see how in my view the EU budget could contribute. What is the EU growth strategy today, apart from national policies? What is the mantra that Finance Ministers repeat to each other when they meet? Well, first of all, that Europe needs more investment. The question is: What can public instruments do? And the obvious answer is the Juncker plan. The Juncker plan is, as I understand it at least, exactly a marginal contribution by the public in terms of risk-taking, so that the overall global private sector response to investment is enhanced and magnified, multiplied. There is a role for public money, public resources and public leadership, so that the public sector can lead the private sector in areas where risk-taking is *ex ante* seen as excessive, but can become acceptable if the risk gap is filled by a public intervention. So this is by definition intrinsically strategic.

Therefore, a first point is that we already have an instrument in place that can further play a strategic role which could change the climate. The second point is that if we agree that this is for the long term and not the short term, then it has much to do with the structural agenda. Now, under the structural agenda you can imagine a long and diversified list of things to do. Structural reforms go from public administration to the labour market, but also involve all those things that are needed to boost a knowledge-based economy. The education system is for me a key structural factor, if not the most important structural factor, to boost growth.

Thirdly, how can public activity, public leadership, including public resources at the EU level, boost the structural agenda? Structural reforms can benefit from financial support, especially during the implementation stage because of adjustment costs. Structural reforms at the national level can benefit if the structural agenda at the EU level is enhanced. What I have in mind is a blend of old things like the single market and maybe new things like capital market union.

What has the budget got to do with this? Well, I don't want to enter into details, but in some cases resources can be thought of as supporting structural initiatives – not just traditional structural initiatives such as infrastructure – which is very important – but also other kinds of structural reform which would initially benefit in terms of picking up, of implementation, from additional financial resources which sometimes are not available in the national budget.

The EU resources included in the EU budget are already aimed at this, but maybe they could be tailored a little bit more to the structural reform agendas of individual countries. These have to be country-specific, but they also have a lot of overlap. One obvious point is that if a country is successful in a structural reform agenda, the neighbouring countries will benefit. This is because if we believe that structural reform boosts your growth potential, then this overflows and spills over to your neighbour. There is therefore scope for a renewed structural agenda at the EU level, including good old single market initiatives. However, I am not going to go into detail.

Still under the heading of structural reforms, where would I like to see European growth in the long term? Where it belongs – at the leading edge of technology. Europe cannot be a follower. Europe has to be a leader and it can be a leader. It is not a leader all the time for one very simple reason: because it isn't Europe. Again, I am sorry to be so naive, but the basic idea of where growth comes from in Europe remains valid, and that is that more growth comes from more integration. And more integration, when we talk about technology, implies building up a Europe-wide system which puts the minds of Europeans, especially young Europeans, in the best possible position to build their knowledge and exploit it so that it becomes system-wide action. This means not just improving the education system but connecting the education system to the business community, and finding financial, fiscal and regulatory instruments to facilitate it. This may sound very US-like. It is, but we can learn from good practices. And we have to do it at the European level. Different countries in the EU perform differently as knowledge-based economies. I am not satisfied. I want a European level knowledge-based strategy.

So, this is where I would like to see a larger role for EU resources, at least in terms of philosophy, also because Finance Ministers should always bear in mind that resources are limited. There is therefore an issue of priority. Where should we put the money? The money should be put where the marginal contribution is highest.

In a situation of rapid change, including technological change, setting priorities becomes even more difficult, because priorities may be in areas where you are not used to looking – skills that you are not able to understand today but which will be needed tomorrow or in the short term. We need systems at the European level which maximize the probability that the right people get the right skills when they are interacting with the business community, for instance.

Therefore, setting priorities is very complex. This brings us to another element in which the impact of the public-sector contribution can be very important, and this time it is directed towards the public sector. One of the problems with public administration, certainly in my own country, when we talk about investments, is certainly resources, but more importantly is projects. So another element which can generate a huge increase in added value is the capacity of public administration, possibly in collaboration with the private sector, to develop and implement good projects.

This means that, beyond the amount of resources that the budget can provide, what is even more important is to contribute to the selection and training process in public administrations. This would magnify the role of the budget.

Let me try to go a bit further. All the things that I have mentioned, if they have any value at all, in my view can be achieved without major institutional changes. It's about redefining strategies and about having the political support to do so. But we should not stop there. Like very much in the debate about the future of monetary union, one can think outside the box and imagine that the budget instrument can be transformed or expanded into other things. One obvious element I must put on the table is the idea of a eurozone budget, and I would like to see it not as a separate entity but as a component of a possibly reinforced EU budget. These two elements should be one thing because we have to develop much more and exploit much more the interaction between the euro area and the rest of the EU in ways that can be extremely powerful and helpful both for the ins and outs. So, a euro area budget within the domain of the EU budget could be an idea. To do what?

Here I will again be very simple and introduce a very well-known concept: providing resources for more risk sharing. I will come back to this. When I went to economics school, we studied optimum currency areas. One concept which was not believed to be an implied concept was exactly risk sharing. If you are a monetary union, you need to allow for an asymmetric shock to be dealt with. And this of course has to do with financial issues. It is very much at the heart of the debate about banking union nowadays. But, as far as I am concerned, I would very much like to see – and I have said this publicly, so I'm not saying anything new – the concept of risk sharing extended to the labour market, which is a key component of a well-functioning monetary union.

Again, the traditional theory of optimum currency areas starts by asking the question whether the labour markets are flexible enough to deal with giving up national currencies. It doesn't start with banks, it starts with labour markets. We have totally forgotten this in setting up the EU. Why am I saying this? Because it is another way in which the budget instrument can provide very powerful inputs to conversations about monetary union and the model of European economic governance. We must exploit these elements.

If you go down this line, you can think of other EU budget chapters which need to be exploited in this way, like guarantees of national budgets, and eventually the so-called euro bonds, and this in view to find projects which are worth studying and which are worth also being financed with EU budget guarantees. Also, on the financing side, I don't want to enter into the details, but I'll just mention one thing which comes more from my current experience than from my reflections at a more scholarly level: tax issues are extremely sensitive, domestically and around the Ecofin table.

Does this mean that the word taxes cannot even be pronounced? I am a little less pessimistic now than I used to be. There are a number of areas where, partly thanks to the crisis, countries are beginning to recognize that having a European dimension may be good and I have two areas in mind: one is an automatic exchange of information which has to do not so much with tax but with tax evasion, which is the other side of the story: how to deal with a revenue problem. Another is still in the making, but as my country is part of the group working on it I cannot avoid mentioning it: the Financial Transaction Tax (FTT). The agenda is very difficult, very instructive, but still there, and I am still hopeful that the 11 countries in enhanced cooperation can close the deal soon. Such a deal will change the picture. The rest of the countries will be facing the idea that cooperation on tax matters can be achieved, and this may change their attitudes in one way or the other, and this of course will introduce a question: We have a common taxing instrument, what do we do with the revenue? Is there a scope for European tax? This is very much still in the air, but things are changing because this is no more an academic debate.

My final point. The political dimension, which is essential, and my way of reading the political debate – be it on banking union stories, be it on budget stories, be it on employment insurance mechanisms – to make a complicated story short, boils down to the following: what are the drivers of change in European governance?

There is one driver which is very important to some countries, and some very good friends of mine who happen to be Finance Ministers in other countries, which goes under the name of 'moral hazard.' The problem with Europe is that your neighbour may be cheating you or may be thinking of cheating you, so basically it's a lack of trust problem. This is something you can feel in some meetings, but that, of course, leads nowhere. The political dimension is not about having leadership, in some cases. Leadership is there, but the fact is that leadership does not wish to apply itself in situations where there is no trust. Therefore, the issue is that moral hazard, fighting moral hazard and introducing regulations and constraints to avoid or to minimize the problems generated by moral hazard is what drives institution-building, because we have a big trust problem. My point is that this is not enough. It is only part of the story. The other part, as I have mentioned already, is risk-sharing. We have to trust each other because we need to do things together. We are not countries A, B and C; we all are Europeans.

One single example is the Single Resolution Fund, which is a pot of money where money comes in slowly with a national flag attached. After a few years in that bucket it comes out with a European flag, so it becomes something that country A cannot claim as its own money because everyone can claim some of that money according to a common rule. This is about risk-sharing. If you don't trust you neighbour, you are not going to put money in the pot, because you're afraid that your neighbour will take it away from you and, of course, you'll have big domestic political consensus problems: how can I justify this to my voters? This is very much everyday political discussion. We therefore need to find a way through: the 'moral hazard' story is there, but it's side by side with the 'risk-sharing story' and one way of thinking about it is that if you find moral hazard then you'll feel reassured about exploring risk-sharing activities. At the same time, if you see that there are risk-sharing activities in instruments which have been set in place, then you are more willing to give up the option of being undisciplined and therefore are more able to reassure your neighbour that you are not going to cheat him.

This sounds very abstract and theoretical, but, believe me, in my experience this is what you feel behind the formal statement: do this and do that; it is about whether I trust you or not. And this is very much the essence of any European initiative, be it money, banking, budget, you name it. And this for me is the situation we are in today, because this is the result of the crisis. One of the consequences of the great euro-area crisis, which is a systemic crisis, is exactly a destruction of trust. Three years ago, the markets were facing the risk of a break-up of the euro. We had a European currency and at the same time national money markets, all denominated in the same currency. How can you do that? Well, this is exactly the symptom of mutual trust breaking up: at the end of the day money is about trust. You have to overcome this, but the crisis has produced another impact, which is the traditional impact of crises: if you survive the crisis you take it as an opportunity for change.

I would like to end on this glass-half-full note by saying that this crisis has generated an impetus for building institutions together. So, my final remark is, as usual, do not waste a good crisis.

Thank you.

AN EU BUDGET FOR RESULTS

by Kristalina Georgieva[4]

Former Vice President of the Commission

I will start mentioning the changes in the Commission and from there I will lead into today's topic: how we can make the budget more effective, more efficient and more aligned with European added value.

The Juncker Commission has introduced an important change in terms of functionality and structure, transforming the vice-presidents from a title into a function. In the previous Commission we had vice-presidents, but vice-president was a title and a kind of seniority. However, a vice-president had the same – maybe more important – single-issue portfolio and no responsibility to coordinate others.

During the previous Commission, we very badly needed to create a horizontal coordination capacity. It was time for the whole to become bigger than the sum of the individual parts. For this reason, I was offered the position of one of the two vice-presidents that coordinate across all the commissioners, because I am responsible for human and financial resources, and of course for everybody to do their job this is what they need. The other coordinator is First Vice-president Timmermans.

Equally important is the fact that we now have cluster divisions and vice-presidents that have responsibility to lead in the new Commission's priority areas. I also find it incredibly important for Europe that we are moving in a world of small sets of clear priorities. In our case, we came with 10 priorities. You have all heard about them. I think that they are very sensible, because they are about investment, jobs and growth, and deepening and broadening the internal market. We know that this has been our strongest source of competitiveness and continues to be so. It is expanding our opportunities in terms of trade, especially vis-à-vis the United States, the TTIP coming up with it, the area of migration, and soon in the mandate that has become an overwhelming priority, and also touches on democracy: what is called the democratic deficit in Europe.

So where is budget in all this? I think the way we approach our budget, how we raise money, how we spend money and how we account for money are all extremely relevant in underpinning this shift towards priorities and collective deployment towards these Commission priorities. In the very first days of the Commission, we adopted as one of our transformative objectives what we called a 'budget focused on results.' I want to give a little explanation of the terminology. When we stepped into this discussion, the term that had been floating around was 'better spending' and I see that tomorrow we will be discussing 'better spending.' You may ask yourselves why we are not calling it 'better spending' but instead a 'budget focused on results.' The reason is that during the MFF negotiations quite a lot of significance was acquired by certain terms. Among these, 'flexibility' and 'better spending' are probably at the top of the list. 'Flexibility' was perceived by the so-called net payers to mean more money and 'better spending' was perceived by the net recipients to mean less money. We needed to get away from terms that had become loaded one way or another by the negotiations, and the result is a 'budget focused on results.' It is actually a clear and well-organizing term.

Let me first stress that we have not come to this 'focus on results' from nowhere. In the presentations in the previous session, we heard comparisons between the previous programming periods and the one we entered in 2014. Fortunately, by and large they were overall positive comparisons. The

4 The intervention by Mrs. Georgieva is also available on You Tube at https://youtu.be/BG79W_fRh0E

new programming period is much more oriented towards performance and this orientation is done in three ways. First, in programmes and projects we now require indicators of performance. You cannot simply get money; you have to say up-front what you are going to achieve with the money. These performance indicators are now penetrating all the partnership agreements and programmes that are put out.

Second, we have introduced macro-economic conditionality. Minister Padoan spoke about structural reforms and their link with the budget, and I want to emphasize this point. If we are using the budget to create a programme to support, say, labour market job creation but it is placed in a labour market that is completely dysfunctional, where there are all kinds of distortions, then we are actually wasting money. Therefore, when we fund programmes, we have to align, we have to make sure that the programmes are implemented within macro-economic contexts, within structural contexts, that are actually conducive for positive results and money is not thrown into a kind of big black hole.

Third, we have introduced performance reserves. This is a very important instrument. It is an incentive, so if you do the right thing you get rewarded. In the cohesion funds, it is 6% of the funding. However, we also have to be very clear, as we heard in the presentations, that this is the beginning and not the end of the road. In fact, my expectation is that it will take all the time of our term and then we will see a real systemic change implemented in the next MFF. During this period, we will make improvements. Maybe during the mid-term review there will be some elements of the systemic change introduced, but shifts of this kind – what we are talking about here is quite dramatic in terms of how we use the EU budget – are going to take time. We must be sure to not create false expectations and clear that the shift to performance, results and outcomes is not going to happen overnight.

Why do we have to be so cautious? Partly, because if we do it recklessly we may cause more damage than good. I still remember my old days at the World Bank, where there was a push for results and one of the unintended consequences was that people shifted money towards things that are easy to measure. Putting kids in schools is easy to measure, and it is a good thing, but you should not forget that there is infrastructure to be built, and that there are innovations to be stimulated where it is much more difficult to create a simple indicator. We also have a very big problem with the enthusiasm that we have created for the new programming period. We now have flowers blooming everywhere but we are trying to make sense of the indicators that are being introduced in projects and programmes, and the result is that my colleagues in DG Budget are pulling out their hair because although we now have lots of indicators it is not necessarily easy to lump them together or to use them as clear drivers of everything, because they are not very compatible and sometimes there are too many of them.

When I talk about these difficulties it is not to stifle my colleagues' enthusiasm. On the contrary, one of the best groups in which a vice-president has a role is the group we have created on a budget focused on results. We have all the big spenders in this group, inside and outside the European Union, together with the key vice-presidents that are dealing with macro-economic conditionality, so we can align the budget and the policy advice. What does this work on a budget focused on results consist of in a nutshell? What exactly are we working towards? We now have an agreed framework within which we work and it consists of four parts: where we spend, how we spend, how we are assessed, and how we communicate the results.

On the first question of where we spend, obviously we are saying 'Ok, if these are our priorities, the budget has to be aligned with the priorities. If creating jobs and growth is a priority, we have to see an increase in the budget going in that direction. If dealing with the refugee crisis is a priority, we have to see the budget lifted up in this direction. In fact, we made our first budget proposal as a new Commission in the May 2016 draft budget. It had three areas of significant increase and they were exactly these three: jobs and growth; competitiveness; migration and external action helping people in the places that they are running away from. Interestingly enough, when we put this budget to the Parliament and the Member States, what did the Member States do with our proposal at the first reading? Any guesses? Chop chop. And where did they do that? Obviously in the areas that are not in the moral hazard field of 'what do I put in, what do I get out?' They did not touch the approximately 80% that was going into national envelopes; they oriented the cuts outside of the national envelopes. This is now changing, and I want to say very clearly that there is a great deal of sobriety and focus today in the context of the refugee crisis, which creates an opportunity to rethink how we work, how we use the budget. We are much more focused on horizontal alignment, something that has traditionally been a weak spot. We look at components in different parts of the budget and then see how they connect in a territorial context, or in terms of priorities. That is, if you take an Italian region and there are agriculture funds, Horizon 2020 and structural cohesion funds, how do all these work towards the bigger objectives for Italy? How do they connect? This connectivity is like totally common sense, but what do we know about common sense? It is not very common! It had not really been done systematically but we are now seeing much traction in that direction. Moreover, in a much more dramatic way, we are thinking of changing the construct of grants versus loans and other financial instruments within the budget. Traditionally, the European budget has consisted of grants and it has traditionally been loved for that. Who does not like free money? If somebody gives you free money, you take it and you say why 'don't you give me more?' This has been pushing the share of the EU budget in projects up to the point where now we have 100% of EU funding implemented for Greece. I think we should be creating much more responsibility by bringing down the EU grant component

On the question of grants, today 92% of the EU budget consists of grants and we have introduced the EFSI, European Funds for Strategic Investments, which is taking a chunk from the budget and using it to draw in private sector money by reducing the risk – Minister Padoan has talked about it – by using it as a risk-suppression mechanism, because what is blocking investment in Europe to a great degree is this perception of a high level of risk. We would not like to abandon grants because there are many projects that you have to do with grant money, such as if you are investing in a rural school, but there are many projects where we have been misaligning the instruments with the objective.

Then comes the question of efficiency, which leads me on to how we spend. For the sake of focusing our minds, I will limit my comments to one issue: the still excessive bureaucratic wrangling over the way we manage our programmes. I have talked to some good friends who have access to money who say to me 'Your EU budget, Kristalina, thank you, but no thank you. You are more trouble than I want to swallow.' This is terrible, because we should not be perceived as a source of trouble; we should be perceived as a source of inspiration, of values, of an ability to lift up Europe collectively, clearly defining the additionality that we bring with our money, but also working on simplification, day in, day out. We also have much work to do with the Parliament and the Court of Auditors, because there is of course concern that if we were to move too far too fast we might undermine the financial viability of Europe. This would mean shooting ourselves in the foot, because citizens only give us money if they believe that we use the money effectively. An example is that now we have simplified cost options. Applicants no longer have to fill in multiple forms. They receive 25% whether they buy pens, drive cars or use it for machinery of some kind. They know what they need for their office, but it is 25%. It used to be that they got a pen and they filled in a form. That is, unfortunately, how it used to be. We are moving towards simplification, but I am not convinced we have moved far enough. We are now forming an inter-institutional working group on a budget focused on results, or actually on performance-based budgeting – slightly different things but still in the same area. It is absolutely paramount for us to have a budget that gets to where it has to be, one that achieves results with minimum waste and minimum sunk costs. Let me put it that way.

On the third question of how we are assessed, we have been consistently assessed mostly from the perspective of financial accounting, and more specifically the measurement that is known as the 'error rate.' Of course, we have been working to bring down the 'error rate' and we will continue to work to do so. I am a very practical person and I ask myself a very simple question. If for 20 years in a row we have not been able to bring the 'error rate' anywhere close in shared management, while in direct management we do it without problems as we are in control, and all I can pray for is that we go 0.1% or 0.2% down vis-à-vis the previous year, is this where we should concentrate 100% of public attention, 100% of our efforts? For me, the answer is no. We should continue to strive to bring down the 'error rate,' push the Member States and simplify, because the Court tells us that simplifying cost options means fewer errors. We should continue to push Member States to be alert to take action and we should still aim for this 2%. However, if this is going to happen for the next 20 years, the question is what we should do in the meanwhile. We have made two proposals to the Court and the Court has been – from the standpoint of my mandate – unable to accept one but has accepted the second one. Our first proposal was to concentrate on the 'residual error rate,' and I know the complications.

I need to explain what 'error rate' and 'residual error rate' are. 'Error rate' is this. When you implement a project, the auditors check whether all the accounting for the project has been done properly. If there is an inappropriate entry, a mistake in an entry or – and this is the really bad one – there is abuse of the money, money has disappeared, then it is counted as an error. In most cases the error is exactly that: an error. Somebody did not fill in a form properly. Sometimes it is much worse than an error. Unfortunately, the 'error rate' does not differentiate between fraud and corruption and error. In the mind of the public it is all amalgamated as fraud, as misuse. To make things even worse, errors get corrected. So, you make an error in 2013 in a multi-year project and in 2014 you correct it. There is no longer an error but it has been left in the accounting for 2013, leaving the impression that it is actually worse than it is by the end of the project. Therefore, what we are doing in the Commission is we are saying we should have multi-annuality. If a project is implemented over 5 years, why don't we calculate the 'residual error rate' – what is left after all the corrections have been made? When we do the calculations, in fact, the 'error rate' goes down, sometimes very close to the 2% that the Court wants us to get to. Therefore, I believe – and I have been very up-front with the Court – that it is important to create an incentive for corrections to be made because corrections then matter and in the end you end up in a better place. I also believe that in my time as commissioner – in the next 5 years – if I want to see something that is in the vicinity of 2% in shared management – those programmes where the Commission and the Member States work together – it can only be on the basis of the 'residual error rate.' Obviously I am mindful that for the Court this is not easy. In fact, the Court says it is not possible but I also hope that the Court will understand our position. In the end, what matters is for projects to be implemented in the best possible way, from A to Z.

And then comes performance, where the Court and the Commission are on the same page. The Court is now looking keen on performance and we are looking keen on performance and we feel very strongly that we have to work together on defining what exactly performance is and that is not a simple and straightforward conversation, because how you measure input is easy – you put money in; how you measure outputs, outcomes, results and impact is a very, very different conversation. We have to continue to work relentlessly.

Finally, there is the question of how we communicate about what we do. I think we should communicate in a much more political way and in a much more systematic and coherent way. Today, we say to everybody that we are very transparent and it is true. Anything and everything we do is somewhere there, but only God knows where exactly because we are so complicated in the way that every little programme has its own website. Countries do one thing and we do another. Our Director Generals have programmes and each one says 'Oh, that's me, stay away!' which creates an impossibility of communicating. We want to get to a point where we do systematic studies. For example, this has been done for the impact of cohesion programmes on trade growth in three countries: Poland, Lithuania and Latvia. This study concluded that cohesion funding has increased the GDP in Latvia by 2.1%, in Lithuania by 1.8%, and in Poland by 1.7%. But this is one little slice, one study. How do we get to the point where we look at this kind of aggregate political results? We did something at the first conference on a budget focused on results, a database in which we now have 5 countries and 18 projects that presents what was spent and what the results are in a more or less systematic and comprehensive manner. We should have made a demonstration, but it is too late for that now. I didn't think of it earlier. However, it is possible to see it.

I want to conclude by saying we are in a hugely difficult place as a world. Not us as Europe, but as a world. Here in Europe we have our additional complexities. We have a tendency in Europe to focus on our belly button and just talk about ourselves, which is understandable because we are a young union. However, in this very tough place, the world in which we are, unless we dramatically change the conversation with our people to one in which we are clear about what is at stake at the high political level – our ability to be a competitive region – and then translate this overarching objective into what it means for what we do with the budget and what it means for each and every one of us in the Commission and in the Parliament, then I think we will be in a tough place. However, like the Minister I believe that we have a crisis that is a fabulous crisis. It is not to be missed and we can come out of it much stronger.

THE PERCEPTION OF THE EU BUDGET

by Maria Lodovica Agro

Director General of the Italian Agency for Territorial Cohesion

General objective

The EU Budget accounts for only 1% of Gross National Income, but its impact on the economy is definitely higher because of its leverage effects. How could the EU budget be more result-oriented, enhancing its efficiency and effectiveness? Improving the quality of expenditure is the challenge of the coming years. This Workshop will seek to provide an answer to this question by drawing on the experience of EU fund beneficiaries and comments provided by academics and professionals.

Panel 1: How are EU Budget contributions perceived by their beneficiaries?

As Director General of Italy's newly established Agency for Territorial Cohesion, the issues debated today are of the utmost relevance to my everyday activity, and to Italy, a net contributor to the EU budget. Being aware of the increased complexity of implementation, through the Agency Italy wishes to ensure it has a Cohesion Policy. That is, a policy with a seven-year period to reach results, effectiveness, strengthened support for its implementation and supervision, and to successfully meet the challenge set by the 2014-2020 programming cycle.

My intervention will seek to assess how beneficiaries perceive the regulatory innovations concerning the implementation mechanisms introduced in the 2014-2020 programming cycle.

First of all, it is worth specifying that the term 'beneficiary' means a public or private body; only for the purposes of the European EAFRD Regulation and of the EMFF Regulation, it means a natural person who is responsible for the initiating or both the initiating and implementing operations; in the context of state aid schemes, it is the body which receives the aid; and in the context of financial instruments, it means the body that implements the financial instrument or the fund of funds as appropriate: a varied set of categories.

Changes introduced by the Financial and General Regulations

From the point of view of implementation mechanisms, the 2014-2020 programming cycle is characterised by a strongly enhanced management and control system compared to the previous programming cycle as a direct result of Article 59 (shared management with Member States) and Article 80 (rules on recovery) of the new EU Financial Regulation.[5]

The significant points in the proposed Financial Regulation concern the introduction of annual financial management of programmes, a strengthened control chain, alignment of accounting and reporting on financial management, and a positive statement of assurance of the regularity of accounts by the European Court of Auditors (ECA). These innovations result in a significant alignment of Cohesion Policy financial management with Common Agricultural Policy rules, although in 2010 the European Court of Auditors itself observed that "replicating the administrative arrangements surrounding agricultural payments will not necessarily be easy. Nor can it be assumed that the change proposed will automatically transfer to other parts of the budget the apparent strengths of the current system for dealing with agricultural spending" and that "around 70 % of expenditure should be calculated not on the basis of cost reimbursement

5 Regulation (EU, Euratom) No. 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Regulation (EC, Euratom) No. 1605/2012.

but on the basis of objective criteria e.g. land eligible for Single Payment Scheme payments."[6]

A further innovation is introduced by Article 2 of the General Regulation,[7] which defines two annual cycles governing the 2014-2020 programming period, namely:

- The accounting year, i.e. the period from 1 July to 30 June, except for the first accounting year of the programming period, in respect of which it means the period from the start date of eligibility for expenditure until 30 June 2015. The final accounting year will be from 1 July 2023 to 30 June 2024;
- The financial year, i.e. the period from 1 January to 31 December.

The accounting year is applicable to the financial management of a programme; the financial year is related to the execution of the EU Budget. The former, therefore, regulates annual accounts.

The introduction of the accounting year results in a marked tightening of the financial procedures for programmes.

The result of the entire legislative package confirms that the financial management of multi-annual policies will be carried out on an annual basis, with an ensuing introduction of new responsibilities. The reference to the accounting year and the closure of annual accounts may also have an effect – the scope of which we cannot assess at the moment – on the current mechanism for selecting/deselecting projects within a given programme. How will this affect 'beneficiaries'? How will they perceive the value that EU contributions can bring to development and employment? Certainly, the changes to implementing mechanisms (as set out above) cannot fail to impact beneficiaries as they represent a major component of the management and control system. Such repercussions may result in a need to select beneficiaries that can assure the authorities in charge of programmes that they will meet financial management time constraints, even at the expense of beneficiaries, selection of whom involves too risky an innovation rate with respect to financial constraints. Also with regard to financial management time constraints, the selection of operations should be oriented towards 'quick' execution operations, thus significantly favouring implementation efficiency even over effectiveness on the ground. It should be ensured that the result will lie in "more finance and less economy."

It is worth pointing out that within EU policies other than the Cohesion Policy (all characterised by direct management), administrative complexity is certainly more limited, probably because expenditure is calculated not on the basis of the cost reimbursement principle, but on the basis of objective criteria, e.g. land eligible for aid under the CAP single payment scheme.

Being aware of the increased complexity of implementation, Italy has created the necessary tools to successfully meet the challenge set by the 2014-2020 programming cycle.

Partnership Agreement innovations and governance strengthening

At the level of each Member State, the Partnership Agreement defines: development needs; programming thematic objectives; and the expected results and actions to be implemented through the use of structural funds. The laying down of the strategy document was launched in December 2012, defining the methodological

6 Opinion No. 6/2010 on a proposal for a regulation by the European Parliament and the Council on the Financial Regulation applicable to the general budget of the European Union (2010/C 334/01).

7 Regulation (EU) No. 1303/2013 by the European Parliament and by the Council of 17 December 2013, laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

framework for the new cycle, and identifying the innovations necessary to enhance efficiency and the quality of fund expenditure.

The 2014-2020 Cohesion Policy legislative package introduces major changes, such as greater programming coordination of the four EU funds linked to the 2014-2020 Common Strategic Framework in a single strategy document, as well as strong consistency with the Europe 2020 objectives of a smart, inclusive and sustainable growth of the EU. The budget supports this approach.

The main methodological innovations proposed are:[8]

1. **Expected results**, expressed in measurable terms by means of quantitative indicators of the impact on citizens' lives of government interventions;
2. **Binding timing**, explicitly associated with the parties responsible for meeting deadlines;
3. **Mobilised partnership**, to be promptly involved in the processes leading to policy decision-making during both the programming and implementation phases.

On the methodological basis thus defined, in a very extensive prime consultation phase partnership discussions were set up to lay down the Partnership Agreement, with four thematic tables arranged by grouping the eleven objectives of the new EU Regulation:

1. Work, competitiveness of production systems and innovation;
2. Enhancement, management and protection of the environment;
3. Quality of life and social inclusion;
4. Education, training and skills, by holding thematic hearings involving more than six hundred subjects.

The extensive discussion phase allowed the 'expected results based on indicators-actions' combination for each of the thematic objectives covered by the regulation to be defined according to the common methodology. A proposal was thus drawn up for intense discussion with the regions over the articulation of the strategy at the regional level. The formal negotiations ended on 29 October 2014 with the adoption of the Partnership Agreement by the European Commission.

Italy's Partnership Agreement implements and develops the changes introduced by the 2014-2020 legislative package, first by shifting the programming focus onto results, with the aim of achieving more efficient and effective expenditure of both national and EU resources.

The Partnership Agreement pattern of "expected results and actions" responds to the need to explain in a more timely, clear and concrete way the choices of intervention selected (duly laid down in the operational programmes) in order to improve transparency, ongoing accountability and control of the quality of co-financed investments. Hence the decision to complement Italy's partnership agreement with the Expected Results-Actions scheme (not required by EU Regulations), which identifies for each single intervention area (thematic objective) of the funds the results expected from the programmed investments, coupled with relevant indicators, and the individual actions to be undertaken to obtain these expected results.

8 The others are: 1. Actions, to be indicated in punctual and operational terms; 2. Transparency, through dialogue with the territories concerned and through open data; 3. Assessment of the effects produced by co-financed development projects and how such effects will take place; 4. Enhanced national supervision of implementation, through systematic monitoring of co-financed programmes and on-site verifications to ascertain the state of interventions, support and structured assistance from national competence centres to the implementing authorities, in the most critical situations.

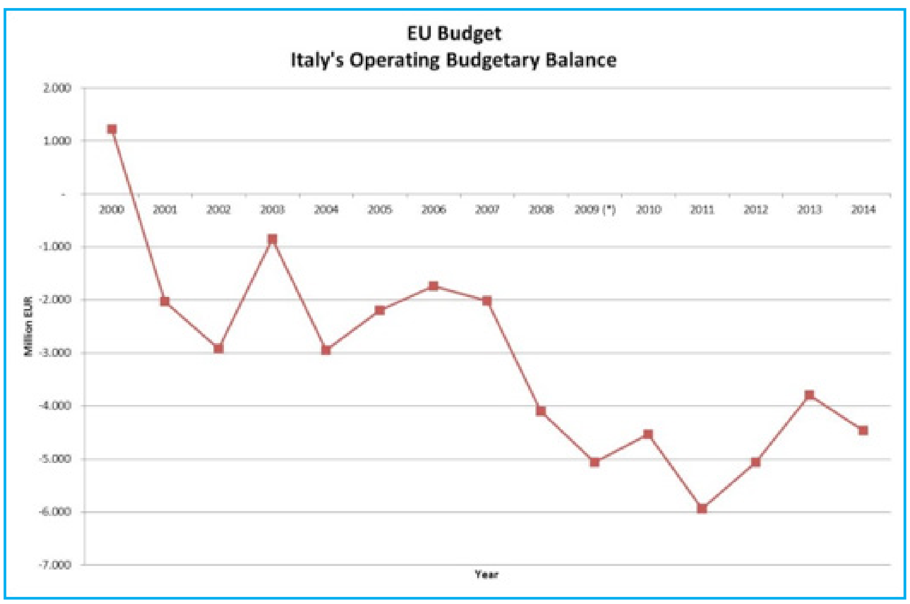
Italy's programming document provides for important choices in the concentration of the funds available. The share of resources allocated to the thematic objectives linked to the Europe 2020 Strategy (research and innovation, production system competitiveness, digitization, energy and sustainable mobility, social inclusion) has been increased with respect to the thresholds set by the EU regulations (so-called 'ring-fencing'), and resources are allocated for significantly higher amounts than the minimum required by the EU regulations (33.6% compared to 26.5%) for European Social Fund (ESF) interventions aimed at supporting employment and strengthening human capital and social inclusion (thematic objectives 8, 9, 10 and 11 of the ESF). Investment priorities were identified taking into account the Country-Specific Recommendations issued by the Council of the European Union in July 2014 for areas relevant to the Cohesion Policy on the basis of the National Reform Programme (notably market interventions, schools, infrastructure, regulatory framework simplification, strengthening of administrative capacity). The strategic choices also aim to address key territorial challenges (in inner-city, urban and rural areas) to reduce internal imbalances, taking into account useful leverages in the territories concerned.

Furthermore, the regulatory provision establishing *ad-hoc* dedicated bodies (i.e. Italy's Agency for Territorial Cohesion and the Department within the Presidency of the Council of Ministers) that focus on different segments of the definition of the Cohesion Policy and the programming and implementation of the ensuing interventions is aimed at governance strengthening. Hence, both the Agency and the Department are aimed at the effectiveness of the Cohesion Policy, both by performing guidance, programming and coordination functions and by strengthening support for its implementation and supervision, in order to consolidate the result-oriented programming approach, enhance investment quality and improve the absorption capacity of funds.

Italy: net contributor to the EU budget

The main item (a percentage hovering around 70%) in the revenue for the EU Budget concerns Gross National Income (GNI). On the basis of this parameter, the Member States that most contribute to the EU Budget are the richest and largest ones. Thus, in terms of revenue Italy was the third main contributor in 2014 (it would be the fourth in the absence of the 'British rebate' mechanism, which rests primarily on France and Italy), and the fifth country in terms of European budget expenditure. As for the balance between contributions and expenditure, over the last 15 years Italy has been a net contributor to the EU budget with the only exception of the year 2000, as shown in Figure 1 below. Moreover, in 2014 Italy had the fifth largest negative operating budgetary balance of the ten such EU Member States.

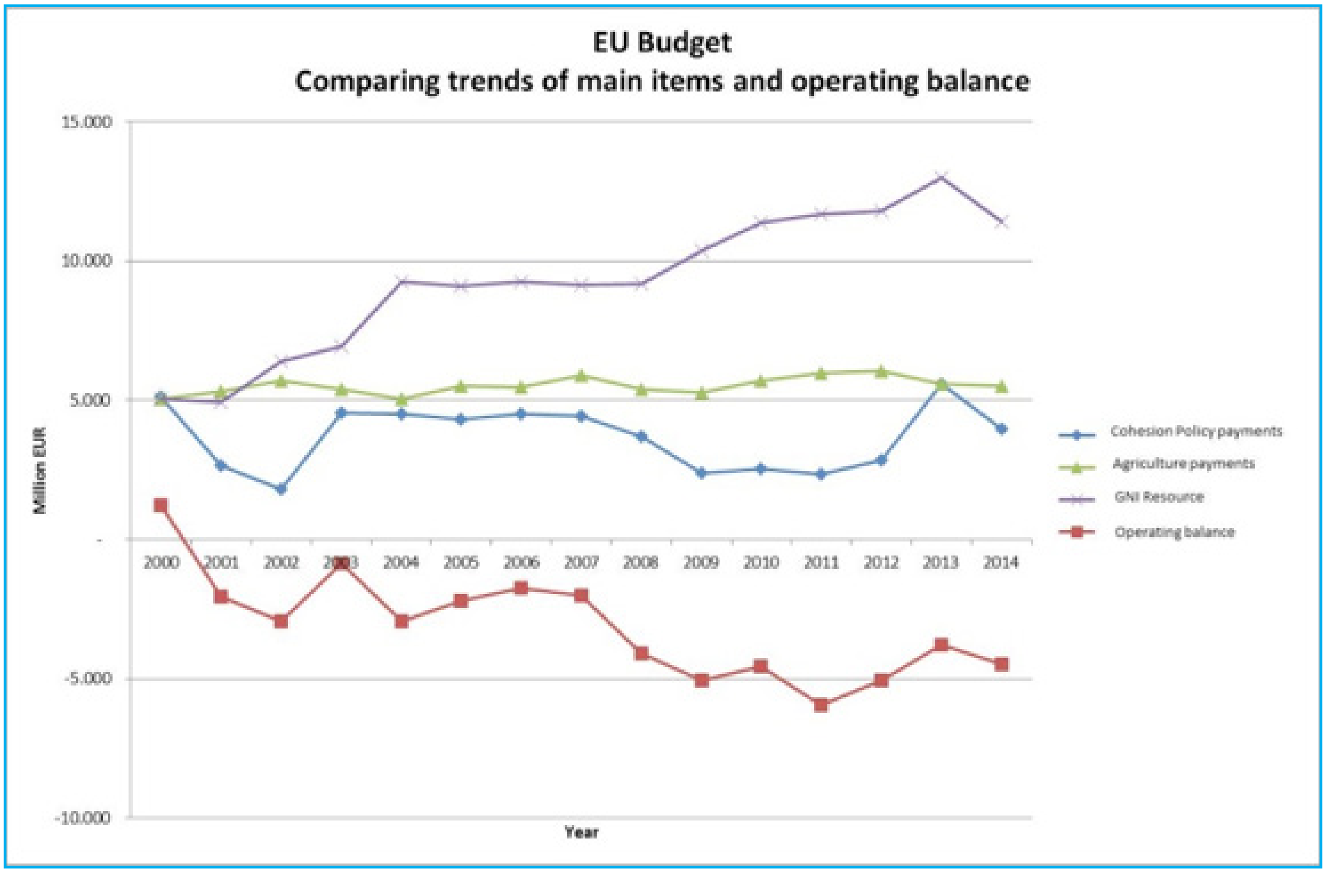
Figure 1



Source: ACT processing of EC data – DG Budget

Figure 2 below compares the trends in the main EU Budget items and the operating budgetary balance for Italy. As can be seen, there is strong correlation between Cohesion Policy payments and the balance, mainly due to the fact that the Cohesion Policy implementation mechanisms are more complex than the Common Agricultural Policy implementation mechanisms, i.e. agricultural aid is mainly granted on the basis of physical parameters so the payments are virtually constant over time, although decreasing in real terms.

Figure 2



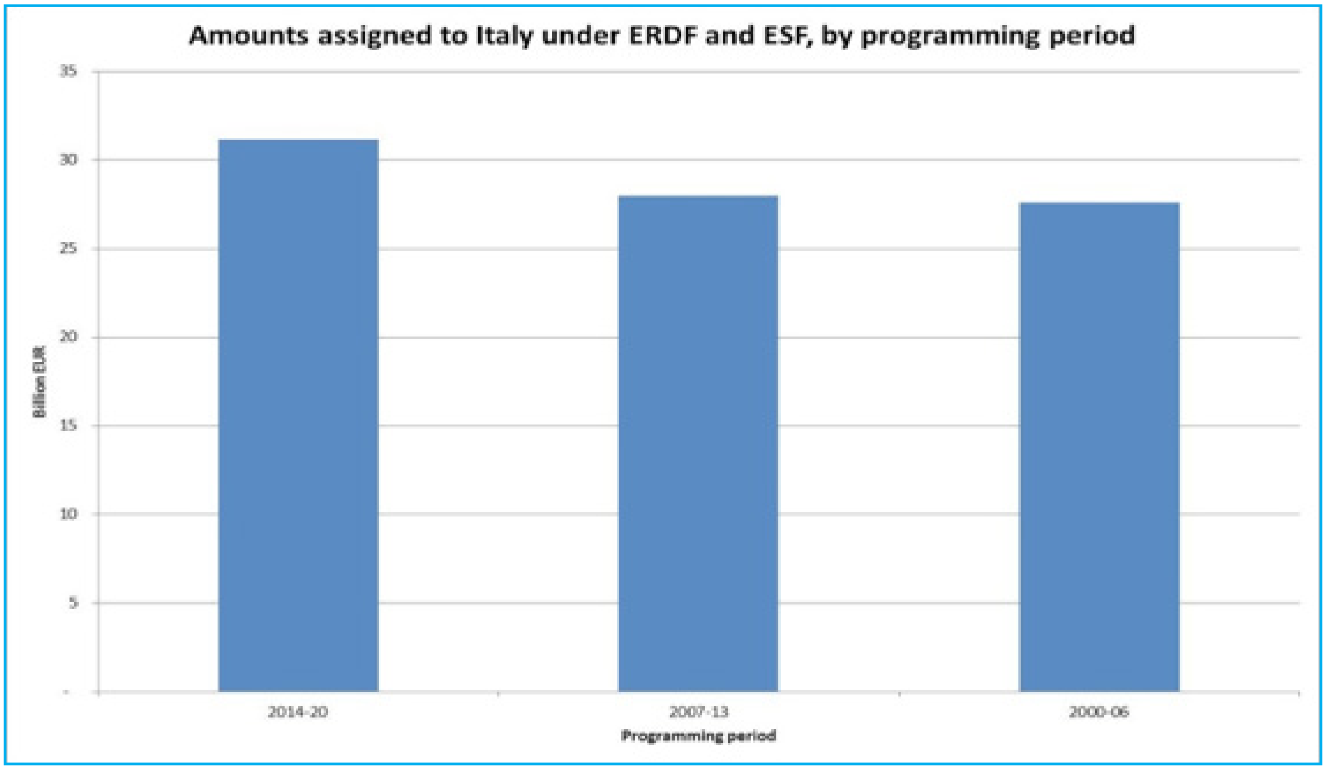
Source: ACT processing of EC data – DG Budget

the economy grows and/or because of inflation. As Figure 2 shows, while payments, which are also expressed in nominal terms, oscillate around a constant average value, the operating budgetary balance shows a decreasing trend, which may be explained by the fact that Italy's total national contribution tends to increase (from EUR 9.5 billion in 2000 to EUR 14.4 in 2014). Therefore, even in the absence of volatile Cohesion Policy payments, the operating budgetary balance would in any case experience a downward trend. It is to be noted that annual EU budget revenue has been increasing in nominal terms, from EUR 92.7 billion in 2000 to EUR 143.9 in 2014.

The other part of the balance accounts for the overall national contribution from the Member State, thus it excludes traditional EU own resources. As mentioned, the GNI-linked resource is the most important and, as nominal sizes are involved, this resource tends to grow if

As can be seen from Figure 3, the amounts allocated to Italy under the European Regional Development Fund (ERDF) and the ESF in current values have not greatly changed between one programming period and the other.

Figure 3



Source: ACT processing of EU programming data

The average payment from the EU budget between 2000 and 2014 for the Cohesion Policy amounts to approximately EUR 3.7 billion. The sum of EU funds for ERDF and ESF over the three programming periods amounts to approximately EUR 87 billion. Assuming that all three programming periods are concluded by 2025, then annual payments at the level of the previously calculated average value would enable, at least theoretically and with due caution, full use of resources.

THE ADDED VALUE OF EU SPENDING

by Eulalia Rubio

Jacques Delors Institute, Paris

What is 'European added value'? The term is widely used in official documents and academic reflections on the EU budget, but it lacks conceptual clarity. The most common answer is that it is "*the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone.*"[9]

But what does it mean in practice, and how does it apply to the EU budget? Is it just a rhetorical device used to justify existing EU spending or can it be used as a workable criterion with which to evaluate programmes, build consensus on new priorities and guide the re-allocation of EU funding?

In the following, I will try to provide my view on the utility and relevance of 'added value' in current EU budgetary debates. I will do it by re-visiting a paper I wrote in 2011.[10] In that paper, I analysed how the notion of added value was used in the contributions made by national governments, think tanks and academia to the open consultation launched on the occasion of the 2008-10 budgetary review. The analysis revealed the existence of at least four different ways of using 'added value', which can be summarised as follows:

1. As a criterion with which to determine the optimal distribution of spending assignments between the EU and the national level;
2. As a criterion with which to judge the opportunity costs of spending in one area vis-à-vis other policy areas of intervention;
3. As a criterion with which to evaluate the results and impact of EU spending programmes;
4. As a criterion with which to evaluate the positive side effects of EU spending programmes (that is, in addition to achievement of the programme goals)

These four uses of added value differ along two dimensions:

The source of additionality: that is, whether additionality derives from classic economic gains such as benefits of scale or cross-country spillover benefits (cases 1 and 3) or from political or policy-related gains, such as the merit or political relevance of public intervention in a certain policy area or positive effects of EU spending in terms of visibility or improvements in national policy-making practices (cases 2 and 4).

The way added value is used in the EU budget process: in particular, whether it is used at a macro-level, to build consensus on new priorities or to guide major EU spending re-allocation decisions (cases 1 and 2), or at a micro-level, to evaluate the design, implementation and impact of particular programmes (cases 3 and 4).

Table 1- Four ways of using 'added value' in EU budgetary debates

	ECONOMIC CRITERIA	POLITICAL/ POLICY-RELATED CRITERIA
MACRO-LEVEL	to distribute spending assignments across the EU and national levels	to judge the relative merits of spending in one EU policy area vis-à-vis the others
MICRO-LEVEL	to evaluate the results and impact of EU programmes ("the capacity to generate added value on the ground")	to assess the positive side effects of EU spending programmes (that is, in addition to achievement of the stated objectives)

Source: Rubio (2011)

9 This is indeed the definition provided by the Commission in a Staff Working Document published in 2011 (European Commission, The added value of the EU budget", Staff Working Document SEC (2011) 867 final, 29.6.2011).

10 Rubio, Eulalia (2011) The added value in EU budgetary debates: one concept, four meanings, policy paper. Notre Europe – Jacques Delors Institute, Paris.

Things have changed since I wrote that paper but overall I think the classification is still valid. My perception is that some of the uses of 'added value' have lost importance, whereas others are gaining in relevance. Let me discuss each of these four meanings in detail and how relevant I believe they are in the current circumstances.

1. Added value as a criterion to distribute spending assignments between the EU and the national levels

This has traditionally been the most extended use of 'added value,' at least among think tankers and academic experts. It is rooted in fiscal federalism. The classic argument is that the EU should finance actions whose objectives can be better achieved at the EU level than at national level – due to economies of scale, threshold effects or the existence of cross-national spill overs – unless there is major heterogeneity in policy preferences across member states.

The teachings of fiscal federalism are very useful, and we are obliged to take them into account as they are enshrined in EU law (with the principle of subsidiarity). They should be integrated, as they are indeed, into any ex-ante appraisal. However, assessments of 'added value' should be interpreted with caution given the inherent limitations of this type of analysis. There are basically two methodological problems. The first is the difficulty in estimating the counter-factual, e.g. how should we estimate the benefits and costs that would be created in the hypothetical situation of agriculture spending being decided at the national level? We can make comparisons with other developed nations but the situation is never exactly the same (there is no other experience of deep market integration in the world comparable to the single market). The second is the difficulty in comparing the 'value' of public interventions at different levels of government. We can evaluate the effectiveness and efficiency of EU actions against the stated objectives, but how should we compare the results of our evaluation to evaluations of national actions that do not necessarily share the same orientation and goals? Assessing the value of a policy requires a judgement about the desirable outcomes and preferences with respect to it, which might differ across jurisdictions, or from country to country.

In addition to these methodological limitations, I would argue that using 'added value' at a macro-level (that is, to identify the optimal assignment of spending competences in a given domain) does not seem very useful to me. There have been many studies trying to do this in a rigorous way[11] and most of them provide rather intuitive results (e.g. defence is an area presenting major scale benefits while the contrary is true for education; trans-national infrastructure or programmes promoting mobility provide clear added value, etc.). These sorts of findings have little or no influence on major EU budgetary decisions, which are mostly driven by politics.

2. Added value as a criterion to judge the opportunity costs of spending in one area vis-à-vis other policy areas of intervention

In analysing the contributions to the 2009-2010 EU budgetary review, I identified another way of using 'added value' which is a variant of the first. Some people made claims that EU resources should be shifted from one area to another on the grounds that the second would provide greater 'added value' for Europe. While theoretically grounded on fiscal federalism arguments, this is essentially a political argument. Ultimately, it is about

11 e.g. Alesina et al (2005), "What does the European Union do?", Public Choice (2005) 123: 275–319; Ercorys (2008), A study on EU spending, study commissioned by the DG Budget; Bassford et.al. (2013), The European Added Value of EU Spending: Can the EU Help its Member States to Save Money?, Exploratory Study, Bertelsmann Stiftung, Gütersloh.

comparing the 'value' of EU public intervention in different domains. This is subjective: if you conceive of Europe as essentially an economic project, you will consider it more important to increase competitiveness-enhancing spending items. If you see it as a societal project, you will attach more value to other types of spending, such as those supporting the transition towards a low-carbon economy or strengthening territorial and social cohesion.

3. Added value as a criterion to evaluate the results and impact of EU spending programmes

Added value can also be used as a criterion with which to assess existing programmes. Indeed, in the contributions to the 2009-2010 open consultation, many people called for more efforts to assess added value "on the ground." In my view, this is a more interesting and potentially useful way of using 'added value.' It resonates with current calls to render the EU budget more focused on results. Indeed, a thorough evaluation of the results of EU spending should include an analysis of its additionality.

How should we integrate 'added value' in ex-post evaluations? One option is to identify the sources of additionality justifying the EU intervention (scale benefits, critical mass effects, cross-country spillovers) and demonstrate by means of pre-selected illustrative examples that these sources of additionality are being addressed in the programme. This is in essence what the Commission does in the Staff Working Document accompanying the 2015 Report evaluating the EU's finances.[12] However, this type of exercise does not lead us very far. It easily ends up being a way of justifying existing EU programmes by re-stating the reasons why they were originally adopted (already identified in the ex-ante appraisal).

Another option is to consider that EU programmes maximise their 'added value' when they deliver in terms of effectiveness and efficiency. This has sometimes been done by the European Commission. For instance, in its 2011 Staff Working Document on 'added value' it recorded the number of jobs created, railway kilometres financed and firms supported as part of the evidence that the cohesion policy entails added value. But this is not really a proof of additionality.

A third option we could imagine is to generalise the 'additionality' test applied in the context of the EU cohesion policy. The additionality of ESI funds is measured by looking at trends in the overall level of national public investment. This is a necessary test to prevent risks of replacement in countries receiving important amounts of ESI funds. However, the accuracy of the measure is frequently put into question. Moreover, it is a crude aggregate measure of input additionality. It might be useful to assess risks of replacement on a large scale but it does not detect problems of substitution or overlaps at the level of individual EU programmes or measures. In my view, there is a need for more refined indicators of 'additionality' tailored to the characteristics of each EU spending programme.

In some areas (e.g. SME support schemes) EU actions can frequently be seen to co-exist with similar national interventions. In these cases, both ex-ante and ex-post assessments should systematically assess whether there are redundancies or overlaps with national schemes and the capacity to generate complementarities and synergies with them.[13]

12 European Commission, Examples of EU added value, Staff Working Document accompanying the Report evaluating the Union's finances based on the results achieved, SWD (2015) 124 final, 26.6.2015.

13 For instance, a 2011 European Court of Auditors special report on the SME guarantee facility highlighted that this facility co-habited with similar national schemes, without providing any qualitative differences vis-à-vis the national schemes in terms of scope, capacity to coordinate or financing cross-national investment.

In other areas (e.g. EU foreign policy, migration) EU action is broadly justified in terms of scale benefits or cross-national effects, but there might be deficiencies in the design or implementation of the policy that result in weak additionality on the ground. For instance, a 2014 special report by the European Court of Auditors identified this problem in the use of the External Border Fund (the predecessor of the current AMIF fund). Although one of the top priorities of the fund was to develop consular cooperation, and cooperation actions were eligible for higher co-financing rates, this financial incentive proved ineffective, with most of the EBF funding ending up being used to renovate, adapt and equip national consulates.

Finally, in many areas a growing use of 'financial instruments' is expected in the years ahead. In this respect, it is also important to reflect on ways to assess possible risks of overlap and substitution between the EU level and national-level financial instruments. In a recent study we published on the Juncker Plan,[14] we draw attention to the specific risk that the EIB may use the guarantee of the new European Fund for Strategic Investments to cover projects co-financed with national promotional banks which would have been financed anyway by these banks alone.

4. Added value as a criterion to assess the positive side effects of EU spending interventions

In my 2011 paper, I also noticed that some people – particularly EU cohesion policy experts – used added value to refer to reported benefits from EU spending that are additional to achievement of the stated objectives. These can include somewhat ethereal things such as the visibility of the EU project or increased support for EU integration, but also more tangible features such as a positive impact on national policies and administrations.

14 Eulalia Rubio, Thomas Pellerin-Carlin and David Rinaldi, Investment in Europe: making the best of the Juncker Plan. With cases studies on digital infrastructures and energy efficiency. Notre Europe – Jacques Delors Institute, April 2016.

In particular, I argued that cohesion funding – through its delivery process – induces important policy and administrative changes at the national level, such as promoting long-term planning, diffusing a culture of evaluation, introducing monitoring and auditing practices, and aligning national policies to long-term EU goals.

Some people dismiss this way of using 'added value' on the grounds that it is not rigorous and that it can ultimately serve to justify all types of spending. It is true that sometimes it has been used to justify existing cohesion envelopes against accusations of wasteful spending or ineffectiveness. Having said this, I do think this way of thinking about the 'added value' of EU spending is very promising. It chimes well with growing calls to use the EU budget to support or induce positive changes in national policies and actions. There have already been some changes in the current programming period that go in this direction:

- An important increase in the amount of structural and cohesion funding devoted to strengthening public governance (thematic objective 11);
- A reinforcement and extension of conditionalities (macro-economic conditionality, systematic ex-ante conditionality);
- The recent proposal to create a Structural Reform Support Programme, whose main goal would be to support reforms at the national level.

Furthermore, there may be more changes in the future. At a recent EU conference, Wolfgang Shäuble called on the budget to "systematically use EU money to help finance the implementation of the political priorities which we have agreed on in the European Semester."[15] Of course, these are only the words of Mr Schäuble and they may not

15 Speech by Dr Wolfgang Shauble at the Conference "EU Budget focused on results", Brussels, 22 September 2015 (http://www.bundesfinanzministerium.de/Content/EN/Reden/2015/2015-09-28-keynote-eu-budget-focused-on-results.html).

even represent the official position of the German government. However, they are illustrative of a long-term vision for the EU budget that is dominant in certain circles.

Can this type of 'added value' be an object of more or less rigorous assessment? Such assessment is challenging, but not impossible. It is similar to what is called 'behavioural additionality' in research on the impact of public funds on research and innovation, and there have been attempts to quantify this type of impact. At the EU level, a recent ESF evaluation report[16] tries to capture this form of added value on the basis of findings from a set of country reports. Apart from 'volume effects' (increases in terms of funding) the report finds evidence of:

- 'scope effects '(cases in which ESF spending has broadened the scope of national action by supporting groups or policy areas that would not otherwise receive support);
- 'role effects' (cases in which ESF spending has helped to diffuse innovative practices);
- 'process effects' (cases in which ESF spending has induced changes in policy-making practices and organisational structures).

I believe this type of assessment should be made more systematic – again, by developing indicators of additionality tailored to the specificities of each programme.

5. Conclusion

Is 'added value' a workable criterion with which to evaluate programmes, build consensus on new priorities and guide the re-allocation of EU funding? My answer is yes, but under two conditions. First, added value is particularly useful if applied at the micro level (to assess the output and outcomes of existing EU programmes) rather than at the macro level (to build consensus on new EU priorities and guide the re-allocation of EU resources across policy areas). Added value at the macro-level constitutes a nice academic exercise, but has little or no impact on big decisions about EU spending allocations. By contrast, at the micro level additionality can be helpful to identify design failures and implementation gaps, and can provide inputs for programmes to be improved. To this end, however, it is important to develop tailor-made indicators of additionality, and to apply them more systematically in ex-post assessments.

Second, whether they are applied at the macro or at the micro level, we have to accept the inherent methodological limitations of any type of added value assessment. There is no sense in trying to convert them into rigorous quantitative tests to check EU spending. Not only are the difficulties in estimating counter-factuals important, but additionality can result from different factors (benefits from scale, cross-country externalities, coordination gains, complementarities, the capacity to conduct long-term goals), and some of them can only be apprehended through qualitative methods. Added value assessments cannot substitute political decisions on spending; they can only serve to better inform these political decisions.

16 ESF Expert Evaluation Network Final synthesis report: Main ESF achievements, 2007-2013, March 2014.

EUROPEAN FUNDING IN SAXONY

by Hansjörg König

State Secretary, Saxon State Ministry of Finance

Initial situation and challenges in Saxony after reunification

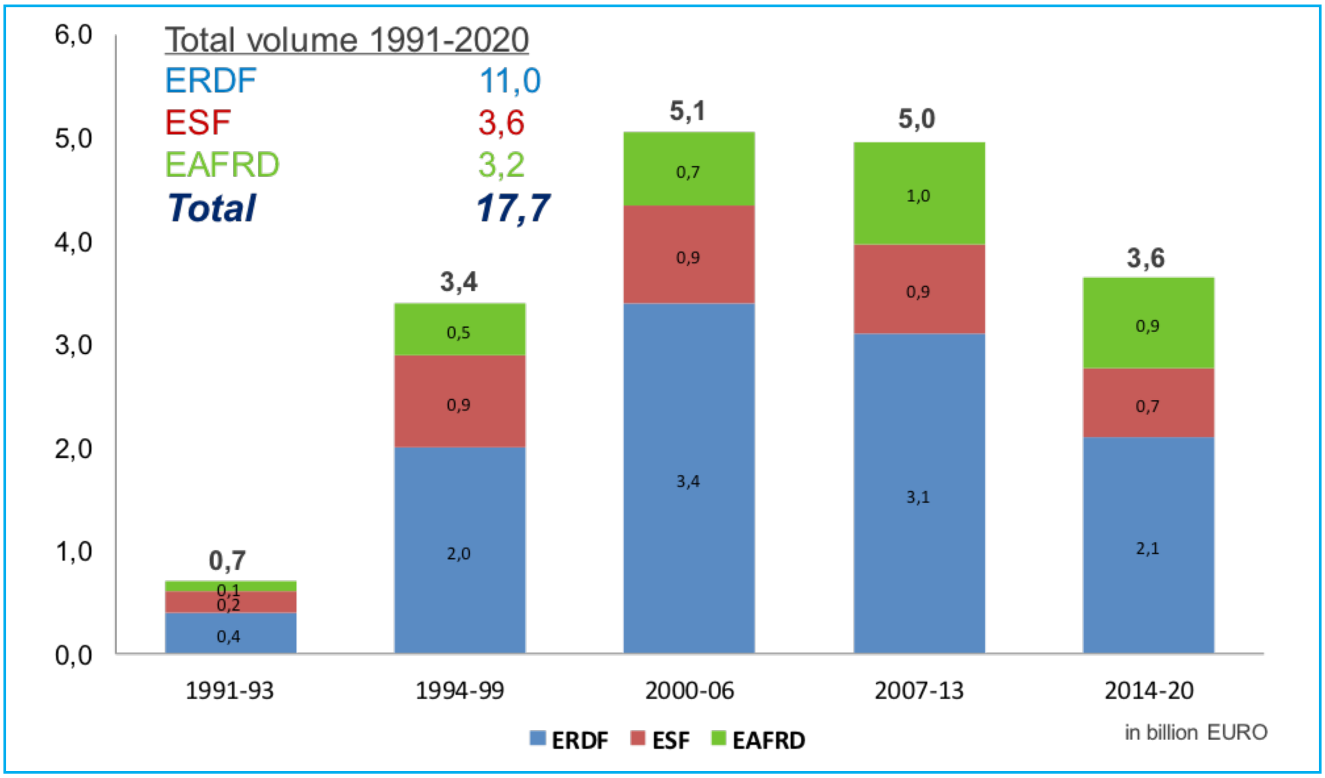
With German reunification on 3 October 1990, the Free State of Saxony was reconstituted as one of the five new Länder which arose from the GDR. Back then, the situation was very challenging. As in the other new Länder, the economy had nearly collapsed. Machinery and production methods were obsolete and many products were not competitive in terms of cost and performance. Most of the infrastructure, like streets and highways, airports, bridges and buildings, was tattered, rather primitive and highly insufficient. As a result, productivity was very low. In 1991 the Saxon gross national product (GNP) per capita equalled only about a third of that of West Germany, which was 22,000 EUR back then. With the economic breakdown, the collapse of many establishments and the structural change, the labour market was also hit very hard. For more than a decade, the numbers of unemployed increased almost steadily, resulting in an unemployment rate as high as 18 per cent in 2005. In addition to these social and economic problems, the record of the former GDR's environmental situation was also altogether alarming.

For the successful reconstruction and establishment of a sound economy in Saxony, many ambitious challenges needed to be tackled. There was a need for modern and enlarged infrastructure. Productivity-enhancing machinery and procedures had to be introduced in businesses. It was necessary to promote a structural change in industry to end up with more competitive firms. In order to reduce and prevent unemployment and to enlarge the human resources of firms which needed to be fully equipped for the new economic environment, education and training measures had to be taken on a large scale. Firms also needed support for research and the development of successful products capable of surviving in increasingly globalized markets. Last but not least, repair of environmental damage was necessary to reduce environment-related health disorders and to create a recreational environment.

The structure of European funding in Saxony from 1991 to 2020

Successful accomplishment of these objectives was essentially supported by European funding. It has represented a significant share of the many public investments which have been made in Saxony during the last 25 years. Saxony has invested in a wide range of fields for which different funds have been used, like the **European Regional Development Fund** (ERDF), the **European Social Fund** (ESF) and the **European Agricultural Fund for Rural Development** (EAFRD). Figure 1 shows EU funding for Saxony over the period 1991-2020. The total budget provided by the EU was about 14.1 bn euros in the period 1991-13. For the current period 2014-2020, a further 3.6 bn euros are being provided.

Figure 1. **European funding 1991-2020 for Saxony**



According to reporting and accounting, Saxony was able to almost completely spend the funds provided and use them appropriately in the periods from 1991 to 2013.

Among all the European funds, Saxony has received the most support from the **ERDF**. In the 2007-13 period alone, more than 43,000 projects in the fields of science and research, education, economic development, traffic and flood prevention were supported. The primary goal of this Operational Programme has been sustainable development through an improvement in the prerequisites for environmentally friendly economic and employment growth. There were a total of six priority axes. With about one third of the total amount, the most subsidies were scheduled for 'strengthening innovation, science and research.' Single-company and R&D projects were supported to improve the knowledge base, and technology transfer, risk capital provision for new technology companies and the application of e-services in enterprises and administration were also targets in this axis. Almost a fifth of the funds were budgeted for each of 'enhancing the competitiveness of manufacturing industry,' 'improving the transport infrastructure' and 'expansion and improvement of the infrastructure to permit durable economic growth.' In these fields, not only were enterprise investment and business-oriented infrastructure funded but also environment-related projects like rehabilitating former mining areas, revitalising former industrial sites and conversion zones and investing in environmental protection, renewable forms of energy and flood protection. However, the level of education of the workforce also plays a decisive role in the development and competitiveness of the Saxon economy. Therefore, funds from the priority area 'improvements in education and training infrastructure' were devoted to enhancing the quality and effectiveness of schooling and vocational training systems. Finally, funds were allocated for 'technical assistance' in the implementation of the Operational Programme. In all these axes, the ERDF funds were supplemented by public and private national money. The funds were invested to support regional development and they contributed to the creation of new jobs.

Education and employment are the keywords for the application of the contributions Saxony received from the **ESF**, the second largest source of financial support from the European structural funds. In the 2007-13 period, EU funds and national money were used, among other things, to support vocational qualifications, vocational training and vocational orientation, and also to foster an entrepreneurial spirit, better access to employment, social integration and the acquisition of intercultural competences. In total, about 50,000 projects were able to be supported in this period, with more than 500,000 participants in different life situations – students and persons in further training or looking for an apprenticeship, unemployed and disadvantaged persons, but also entrepreneurs in search of advice or coaching. Important priorities were to support the adaptation of employees and enterprises to new requirements, to arrange sustainable education, training and research and to encourage more people into the workforce. These aims were accompanied by the challenge of coping with the demographic change of a declining and aging population and with a changing economic environment. Fostering equal chances for women and men and ecological, economic and social sustainability were additional important objectives tackled with the help of the ESF.

Finally, the **EAFRD** supports the sustainable development of rural areas, in addition to the Common Agricultural Policy. There were four focal points in the 2007-13 period. First, restructuring, development and innovation aimed at helping to improve the competitiveness of agriculture and forestry. Second, the environment and landscape were to be improved with the promotion of cultivation. Third, life quality in rural areas was to be increased and a diversified economy promoted. The fourth and comprehensive aim was continued support for the LEADER concept.

However, EU funds have not only been used for national projects. More than 700m euros of EU funding have been invested in cross-border projects since 1994 to develop the border region of Saxony, the Czech Republic and Poland.

Some examples of EU co-funded projects in Saxony

Our vision is for the Free State of Saxony to become among the leading scientific and economic regions in Europe. To achieve this target, one of the core strategies is to use EU structural funds for technology subsidies. In particular, the ERDF is being used to support research and development (R & D) projects which otherwise would not be realised. The co-funding contributes to a stronger Saxon economy and assists its often small and medium-sized enterprises (SME) to develop and improve competitive products and services.

One of the most famous Saxon success stories has been the establishment of an information and communication technology (ICT) cluster, also known as 'Silicon Saxony.' Silicon Saxony, which has also benefited substantially from funding from the ERDF and the ESF, is Europe's largest microelectronics site. This region in the triangle between the cities of Dresden, Freiberg and Chemnitz is one of the most innovative ICT clusters in the world. Dresden represents the core of Silicon Saxony and has a variety of institutions doing cutting-edge research in the field of microelectronics.

Another important use of funds from the European Union is support for the education infrastructure, in particular for vocational training. The dual system of vocational training in Germany is recognized worldwide and has been highlighted by the OECD because of its close connection between the education system and the labour market. Saxony strengthens this dual vocational training with funding from the ESF and ERDF. For example, ERDF funding has been used to promote the development of the numerous vocational training centres in Saxony. In total, 248 projects in the field of vocational training have been funded by the ERDF and more than 350,000 students have successfully graduated from these schools.

With the successful modernization and enlargement of the education infrastructure nearly complete, in the current 2014-20 period the investment priority has changed to improving the climate efficiency of school buildings. This not only helps reduce operating costs but also makes a substantial contribution to reducing emissions of carbon dioxide and therefore promotes the climate targets of the European Union.

Status quo and foresight

The successful development of the Saxon economy is mirrored by its productivity catch-up with West Germany. GNP per capita was only about a third of that of West Germany directly after reunification but this measure has now doubled. In 2013, goods and services amounting to about 24,200 euros per inhabitant were produced in Saxony. This is equivalent to a productivity level at about 91 per cent of the EU 27 average. Consistent with the development of income, the unemployment rate also dropped to about 8 per cent in 2015.

Also thanks to the generous support from the EU structural funds, Saxony has had enormous success with convergence. However, much effort still needs to be made before harmonization of average income levels is completed. Therefore, in the current 2014-2020 period the money provided must still be used most effectively. In accordance with the successful convergence process, Saxony is no longer classified as an area eligible for the highest possible support. In line with intra-regional differences in productivity convergence, the allocation is split between areas with higher claims and phasing-out more developed areas.

As shown in Figure 2, six priority axes are defined for **ERDF** spending. Most of the funds are devoted to "strengthening research, technology development and innovation." In particular, the competitiveness of applied research institutes and research, development and innovation by enterprises in Saxony is to be improved in this area. A second priority is "strengthening the competitiveness of SMEs." The importance of this is highlighted by the fact that one of the main drawbacks of the Saxon economy is its lack of large companies and headquarters, resulting in a productivity gap which is hard to close. Hence, it is very important to encourage SMEs to grow and improve their productivity and competitiveness, for example by product and process innovation, increasing their presence in international markets, market access and broadband networks. Another part of the budget is scheduled for the "support of a decrease in CO2 emissions." This targets the private economy, public buildings, infrastructure and the traffic sector. The "risk prevention" priority axis aims at flood protection, higher levels of protection from the consequences of former mining activity and a reduction of risks in heavily polluted areas. Some funding is also planned to "support sustainable urban development" by reducing carbon dioxide emissions, improving cultural and tourism offers, utilizing waste land and reducing emigration from disadvantaged city quarters by empowering them as economic and social areas. The remaining financial means are to be spent on "technical assistance." To improve the quality of the Operational Programme, to check the environmental effects of the schedule and the efficiency of the financial instruments in the programme, a number of *ex ante* evaluations were conducted prior to drawing up the Operational Programme.

Figure 2. Priority axes ERDF 2014-20

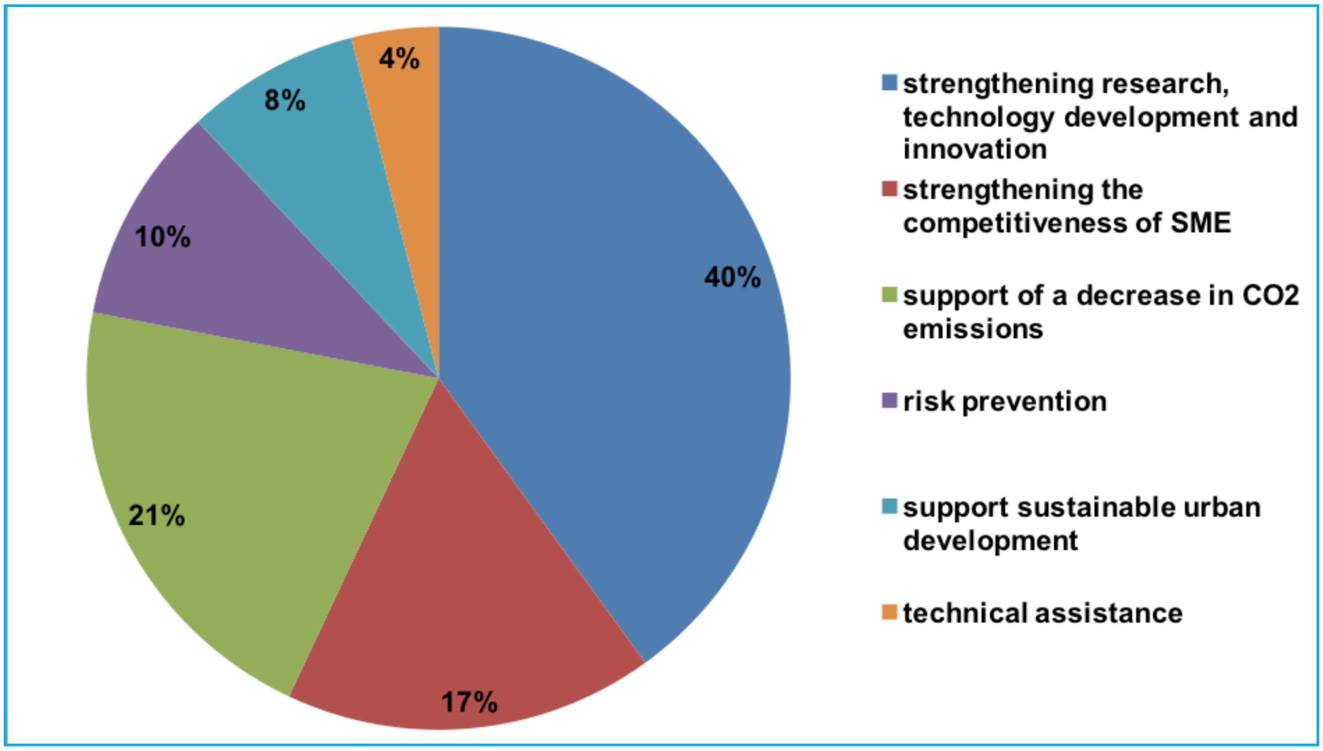
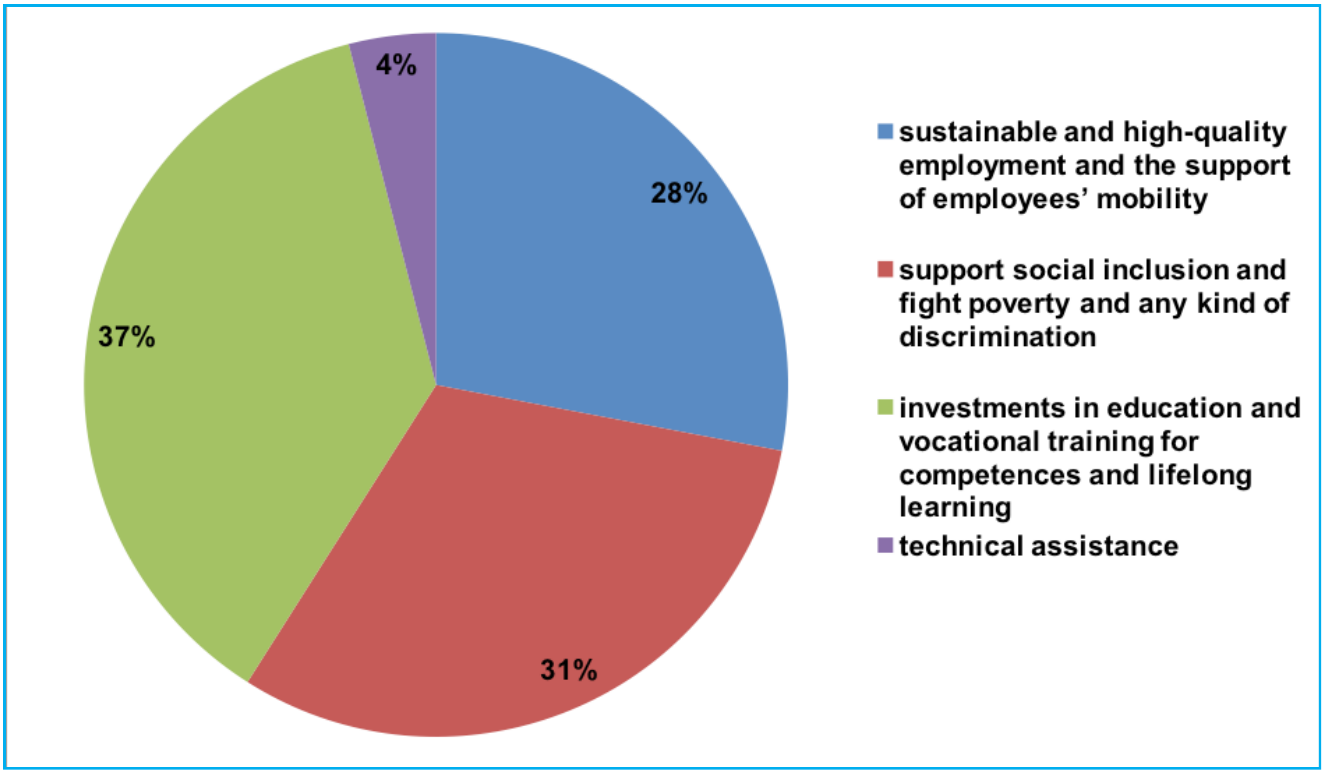


Figure 3 shows the core elements in the ESF use in the current period: support for education, vocational training, sustainable and high-quality employment, social inclusion and the fight against poverty and discrimination. An important part of the funding is scheduled in the priority axis of "sustainable and high-quality employment and support for employee mobility." Particular sub-goals in this area are encouragement of start-ups and an entrepreneurial spirit, stimulation of cooperation between academic research and the private economy, strengthening of the innovation capabilities of enterprises, support for the availability and development of qualified employees and improvement of the work-life balance and social responsibility. A number of specific goals are also summarized in the priority axis of "supporting social inclusion and fighting poverty and any kind of discrimination." For example, the money is to be used to improve the labour market opportunities of unemployed and long-term unemployed persons by providing them with qualifications and strengthening their employment abilities. Another goal is social inclusion and integration in employment for people in socially disadvantaged city quarters. Functional illiterates are to be supported, as are ex-prisoners who need assistance with social integration and integration in the labour market. Most of the money is devoted to "investments in education and vocational training for competences and lifelong learning." The full individual educational potential of disadvantaged children and teenagers is to be tapped and the vocational orientation of young persons improved. Other goals in this area are a strengthening of the dual vocational training system and an increase in the number and qualifications of academic employees. The remaining part of the ESF funding is again scheduled for "technical assistance."

Figure 3. Priority axes ESF 2014-20



Saxony borders on Poland and the Czech Republic. It is therefore very well suited to cross-border projects. There is a **cooperation programme** to enable the funding and implementation of cross-border cooperation projects in the Saxon-Czech border region. This is divided into four priority axes. The first supports projects aiming at adaptation to climate change, risk prevention and risk management. A particular focus is on investments to cope with special risks, to ensure disaster control and to develop emergency management systems. The second priority is the preservation and protection of the environment and support for resource efficiency. In this area, investments in water supply and distribution, in the preservation, protection, support and development of the natural and cultural heritage and in deepening cross-border coordination to preserve and support biological diversity are subsidized. The third priority axis supports investments in education, vocational training and lifelong learning and the development and implementation of joint programmes for general and vocational education and vocational training. Priority axis four funds enhancement of the institutional capacities of public authorities, stakeholders and efficient public administration by supporting cooperation in matters of law and administration and cooperation between citizens and institutions. Funding comes from the ERDF and is granted for suitable projects with German and Czech partners which plan and implement the project together. A current programme in which Saxony cooperates with Poland has similar priorities.

With the efforts made by the people in Saxony and support from strong partners like the European Union, we are well on the way to completing the convergence process which started about 25 years ago. The successes so far are reasons for pride and gratitude. We are highly motivated to use any future funding from European structural funds in the most promising and appropriate ways to strengthen Saxony's potential, the productivity of its economy and the prosperity of its people – as part of a strong and successful European Union.

THE 2013 MFF AGREEMENT AND HOW TO SECURE IMPROVEMENTS

by Giacomo Benedetto

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Introduction

The budget of the European Union (EU) is small yet controversial. For the period 2007-13, over seven full years payments amounted to €821 billion (in 2004 prices), which is equivalent to 1 per cent of the collective national wealth or gross national income (GNI) of the EU's then 27 member states. For the period 2014-2020, payments amount to €908 billion (in 2011 prices) or 0.95 per cent of GNI. To put these amounts in perspective, the average level of public spending by European governments is equivalent to 45 per cent of gross domestic product (GDP), and more during a recession.

The spending for 2014-2020 is subdivided as follows. 34 per cent goes to cohesion policy, 29 per cent goes on direct payments for agriculture and fisheries, 10 per cent covers rural development and environmental spending, and 13 per cent is allocated to 'competitiveness for growth and jobs,' which includes innovation, research and development (R&D) and transport. The remaining headings are 'Global Europe' (foreign policy), which accounts for 6 per cent of spending, administration, which is a further 6 per cent, and 'Security and citizenship,' which accounts for 2 per cent.

Calls for change in the budget are popularly centred around percentages and amounts, although targeting and use of leverage for added value have entered the discourse. Sometimes the focus is more on indirect policy objectives, such as achieving economic innovation (a public good), which may depend on how money is spent rather than actual amounts, although calls for reforms or reductions in the Common Agricultural Policy (CAP) are common. Given the complicated structure and rules of the EU budget, this chapter evaluates the failed reforms of 2013 and looks to possible changes in the EU's budget in 2017 or 2020.

The EU's annual budget is passed within the limits set in the multiannual financial framework (MFF), which is agreed for a period of seven years, currently 2014-2020. The MFF is agreed unanimously by the member states and the European Parliament (EP). Amending the MFF requires unanimity, and this is part of the reason why the EU budget changes little in most of the negotiating rounds.

Since the establishment of the European Social Fund (ESF) in 1958 and the CAP in 1962, the EU has expanded the budget to meet certain ends. Member states had always accepted this expansion for reasons that include cost effectiveness and the guarantee of more efficient economic integration. For example, running a single agricultural policy may cost less and be more efficient than 28 different agricultural policies at the national level. It also compensates a sector that may otherwise oppose European integration. However, there are many distortions. In the case of agriculture, for example, dairy farming benefits more in one member state than in its neighbour.[17] With regard to cohesion, effective redistribution is conditioned from one member state to another by the availability of co-financing.

The EU's enlargements to central and eastern Europe in 2004-13 and the global economic and eurozone crises have created demand for continued redistribution and investment in public goods to support economic innovation. On the other hand, there are counter-demands from

17 I am grateful to Jorge Núñez Ferrer for this observation.

some member states for the practice of national austerity to be applied at the European level. The Lisbon Treaty, vaunted as a simplification of the EU, has reinforced the power to block agreement on fundamental change in the budget (Benedetto 2013).

The negotiations for the period after 2013, which resulted in stalemate, had unique features, notably the effects of the global economic crisis since 2008 and contradictory desires. There were those who wanted Europe to deliver a stimulus for economic growth both through subsidies and the provision of public goods and those who desired domestic and EU-level austerity by fixing the EU budget at below 1 per cent of GNI while protecting agricultural expenditure. These issues and the need to respond to the ongoing questions of eurozone governance, perhaps via an eventual eurozone budget and a eurozone treasury, remain on the agenda.

The question is how to make the EU's budget more efficient and legitimate. In what follows, I summarise some of the literature on reforming the budget. Then, I analyse some of the previous budget changes negotiated in the context of the MFF and the financial perspectives. I propose further reforms based on efficiency and legitimacy which target public goods, redistribution, co-financing, the system of rebates/corrections, and reform of the own resources (or revenue base) of the EU. Finally, I assess some of the consequences of the possible reforms.

Thinking on Budgetary Reform

The division of spending appears difficult to shift. In the 2014-2020 MFF, 63 per cent of spending is direct redistribution – almost equally divided between cohesion on the one hand and CAP and fisheries on the other. Some net contributors benefit significantly from this redistribution, which is Europe-wide rather than being targeted at the poorest. The EU adopts policy commitments to support economic innovation and new technologies, yet directs comparatively little funding to these ends. The paradox of the EU budget is that it is both too much and too little. Too much is directed at redistribution and too little is invested in public goods that can provide a collective benefit for the European economy.

The Lisbon Agenda of 2000 could have been a major focal point for changing the EU budget to direct it to more efficient ends than traditional redistribution. The Agenda's ambitions of establishing the EU as the world's most innovative area for technology and the new economy by the year 2010 were dashed. Demands were renewed in the form of the 'Europe 2020' programme and Jean-Claude Juncker's European Fund for Strategic Investment (EFSI), which is supported by public goods spending. The objective of the EFSI is to provide leverage for investment in economic growth with public funds underwriting investment by the private sector. Public goods are defined as expenditure where there is a collective benefit that is not about redistribution, which would therefore exclude the CAP and most of the cohesion policy. There is no accepted definition of public goods investment, but it usually includes investment in R&D and would include infrastructure investments in the Energy Union, whose aim is collective energy security, or the digital single market.

According to Schild (2008), the odds on shifting the financial priorities in the consensus (and multiple veto) system of the EU are low. Institutional rules that encourage entrenchment are therefore part of the problem, besides the more obvious weight of veto players, who can block any change. Important package deals in the past – for example the creation of the own resources in 1970 and the doubling of the ERDF in 1988, the creation of financial perspectives and the GNI percentage own resource – have been reached when the cost of the status quo exceeded the costs of change for all parties. Such costs may be political or policy-based rather than purely financial. For Schild (2008), the roles of the Commission, Council and EP, the political context and the sequence of decision-making account for the fact that budgetary reform happened more radically and more rapidly in the few years immediately following 1988 than was ever the case after the mid-1990s. The Single European Act was ratified in 1987 and it was to establish an internal market by 1993. The need to finance the creation of that market was part of the pro-reform context in 1988 in a way that may not apply to the post-enlargement EU of the global financial and eurozone crises. However, the effects of the migration crisis since 2014 and of the UK's impending departure from the EU require rapid responses that may depend on reform to the budget and own resources.

The principle of fiscal federalism is that states in a federation retain control of most of their tax receipts and contribute revenue to a federal authority whose expenditure provides collective gains on a more cost-effective basis than would be the case at the state level. For Heinemann et al. (2010) and Osterloh et al. (2009), the EU budget does not conform to these norms. Redistribution occurs, but there is little provision of public goods that enhance economic growth. Public goods are blocked by a common pool problem, since spending maximums, or ceilings, imposed by the rules on own resources and the MFF, create incentives for over-spending on redistribution and under-spending on public goods. Osterloh et al (2009) argue that it is necessary to find a solution to this which would also take into account the British 'correction' or rebate, replacing it with a generalised correction mechanism. The threat of national veto has prevented its abolition in more recent times. Successful initiatives whose principles could be extended include the EFSI and its provision of leverage to encourage economic growth. The High Level Group on Own Resources, appointed in 2013 under the chairmanship of Mario Monti, investigated new sources of revenue for the EU budget in order to reduce GNI percentage transfers. This should permit an escape from the discourse of *juste retour*, which will be an easier task if the UK leaves the EU following its referendum.

What is holding back reform? Mayhew (2009) identifies the problem of multiple veto players and an impenetrably complicated system of own resources and refunds as hindering progress. While the call for expanding the EU's commitments to spending on public goods is laudable, public goods spending is treated just like redistribution when member state governments calculate their net positions for their domestic audiences. And yet the case for public goods is compelling, whether it is to finance R&D, digital or energy networks, or the training of frontier police on the EU's common external land border to the east or its maritime border to the south, all of which provide collective benefits. In any bottom-up approach to public goods, policy-based spending fails because recipients of agricultural or regional development funds fear that they will have to finance any increase in public goods spending through cuts in redistribution. This problem has become acute since the absorption capacity of these recipients has been called into question. A reluctance among the contributors to fund absorption incapacity and a reluctance to accept cuts in distribution among its recipients leads the net contributors to impose inflexible ceilings on expenditure so that additional funds for public goods are impossible. For those who are sceptical of EU spending, a disadvantage is that the low and inflexible ceilings actually create an incentive to spend within a cut-off period that is annual or based on the seven-year MFF, whereas allowing unspent amounts to roll over may encourage lower and better spending overall.

There are several suggestions in the literature on how to break through this (De la Fuente and Doménech 2001; Rant and Mrak 2010). There is a need to aim either at the concept of net balances – which does not count the benefits of market integration for wealthier net contributors – or for a reform of redistribution in order to eliminate the political need for rebates or 'corrections.'

However, not all spending that results in simplistic net balances is the same. Heading 5 is the administrative budget of the EU, whose economic effects differ from those of Heading 1a (Competitiveness), which finances public goods like R&D, or Heading 2, which includes agriculture. There is also the effect of funds outside the EU budget but which are still EU spending, like the EFSI, the European Development Fund (EDF) and the European Stability Mechanism (ESM). To take the case of Heading 1a and medical research, monies disbursed to a successful contractor count as a grant to the member state of the consortium leader, yet the direct financial benefit may be shared among partners and subcontractors in many member states. If the research is successful, patients and the pharmaceutical sector will benefit regardless of location, as will subcontractors. Saving lives also saves money if active tax payers survive. A true net balance is therefore impossible to calculate, and it becomes even more difficult if the economic effects of funds outside the EU budget, like EFSI, are added to the mix.

If new own resources are agreed that provide the EU budget with significant financing outside the GNI percentage transfers, a limited rebate system could still be considered, not on a net balance but on a gross contribution. If the value of a member state's gross contribution exceeds the equivalent of a notional figure such as 1 per cent of its GNI, then a rebate could be permitted, although this may seem to defeat the point of moving away from GNI-based own resources. This might overcome the objections of member states that would otherwise block change to the GNI-based own resource for fear that they would lose out financially – for example, those member states with carbon-intensive economies in the event of an own resource based on carbon consumption. The new rebates, rather than being unconditional as they are at present, could be tied to expenditure by the recipient member state on EU policy priorities including cohesion, so that the steering effect of any new resource, such as reducing carbon consumption, would not be affected.

The CAP could be part-financed by member states, thus reducing incentives for its perpetuation (Heinemann et al 2010), although this would produce a veto danger. Traditional rebates may have to survive if the legitimacy of certain types of expenditure, such as on agriculture, is not wholly accepted.

An alternative solution is to embrace the mantra of pre-defined net positions (Heinemann et al 2010). The status of a member state as a net contributor or recipient would be publicly recognised and made clear in the management of revenue and spending. Significant net contributors could then be compensated for 'over-contributing' in a more transparent way than happens under the system agreed between 2007 and 2013 and after 2014. Borrowing a proposal from De la Fuente and Doménech (2001), Heinemann et al (2010) suggest that member states should agree on the total level of redistribution and that net balances should be inversely correlated with income levels, so that poorer member states contribute less and receive more. Spending programmes would take effect without looking at contribution levels, following which a correction mechanism would ensure that the agreed distributions between member states are accurate. Spending on public goods (Headings 1a and 3) and spending on explicit redistribution through the structural funds (most of Heading 1b) could be excluded from the calculation of the correction mechanism, as is already the case for Heading 4 (Global Europe).

Heinemann et al (2010) argue that many supposedly logical strategies for reforming the budget fail to consider the constraints that preserve the status quo. Embracing pre-defined net balances and attempting a reform that encompasses revenue, spending and the fixation with net balances could be more efficient in terms of outcome, while at the same time making the provision of public goods more attractive.

While the proposals by Heinemann et al (2010) appear the most compelling, no definite solution to overcoming the veto of a single member state that anticipates a loss is proposed. It remains to be seen if the departure of the UK from the EU will weaken net balance demands and make it easier to achieve reform without rebates. Failure to agree on a new MFF because of a veto by a single member state automatically results in continuation of the amounts pertaining to the final year of the previous package. If the status quo is preferred by just one member state over any of the alternative options, reform can be blocked.

Previous Experience of Budgetary Agreements

This section compares previous budget packages and the 2013 agreement. The final section of the paper draws on this evidence to ask what type of reform may be possible.

As explained above, few of the past budget deals secured real policy shifts, notably only those of 1970 and 1988. Following the entry into force of the Single European Act in 1987, an inter-institutional agreement between the Commission, Council and EP was reached in 1988 which opened the way for a 'Delors' budget to replace the CAP-oriented, intergovernmental 'de Gaulle' budget of the past (Laffan and Lindner 2010; Linder 2006). This allowed for a doubling of the ERDF to hasten economic development in less prosperous regions and to facilitate the integration of the European internal market. This budget change of 1988 had major significance and matched the EU's development in other spheres, notably the internal market. The global financial and eurozone crises after 2008 provided a plausible launch pad for major changes to the budget, but these did not come to fruition. The post-2014 migration crisis and the departure of the UK from the EU may provide a real reform impetus. Otherwise, the political and economic costs of budget conflict will exceed those of continuity.

Table 1. Spending across MFFs 2007-2020 and the Commission proposal for 2014-2020

FP/MFF 2007-13	2007-2013 € M in 2004 prices	Spending %	Proposal 2014-2020	2014-2020 € M in 2011 prices	Spending %	Agreed MFF 2014-2020	2014-2020 € M in 2011 prices	Spending %
1a. Competitiveness for growth and employment	74,098	8.57		154,888	15.11		125,614	13.08
1b. Cohesion for growth and employment	308,041	35.64		336,020	32.78		325,149	33.87
2. Preservation and management of natural resources	371,344	42.96		382,927	37.36		373,179	38.87
of which, market-related expenditure and direct payments (CAP)	293,105	33.91		281,825	27.50		277,851	28.94
3. Citizenship, freedom, security, justice	10,770	1.25		18,535	1.81		15,686	1.63
4. EU as a global player	49,463	5.72		70,000	6.83		58,704	6.12
5. Administration	49,800	5.76		62,629	6.11		61,629	6.42
Total Commitments	864,316			1,025,000			959,988	
Percentage of GNI	1.048			1.05			1.00	
Total Payments	820,780			972,198			908,400	
Percentage of GNI	1.00			1.00			0.95	

Source: Official Journal of the European Union.

The multiannual budget package for 2007-2013 was initially agreed in December 2005. It set the level of commitments at 1.045 per cent – a real reduction compared to the commitment level of 1.08 per cent of GNI in 1999. However, following the enlargement of 2004 the EU had grown by ten new member states, so the total GNI had increased alongside a fall in GDP per capita. In January 2006, the EP rejected the agreement on the grounds that it opposed budget cuts and what it saw as insufficient resources being oriented towards public goods like R&D. The Council agreed to a small rise to 1.048 per cent of GNI in commitments.

The effect of the negotiations over the package for 2007-13 was that the Commission proposed an overall increase in spending, with big cuts in the CAP, smaller cuts in cohesion and a big increase in public goods. The end result in 2006 was an overall cut rather than an increase, with notable cuts in the CAP, although not as radical as those that the Commission proposed, a freeze for cohesion and a moderate increase in public goods.

With the publication of the results of the European Commission's review of the budget (European Commission 2010), the EP set to work on drafting its own priorities for the 2014-20 MFF. The EP supported a new growth strategy for Europe 2020 (public goods) and the notion of the EU providing added value, for which budgetary increases would be necessary. It also noted the new EU responsibilities under the Lisbon Treaty in foreign policy, climate change, energy, tourism and civil protection – public goods all of which would require budgetary increases. In 2006 it had been possible to improve funding to these areas while cutting the overall budget due to larger cuts in the CAP.

The EP called for more flexibility within and between headings in the budget so as to utilise under-spent resources, and it called for binding reviews of the MFF and the ability to raise its spending ceiling. It condemned the 1 per cent of GNI ceiling for payments, considering that it was too low for proper investment in public goods. Finally, the EP (2011) called for a new Convention among the EP, national parliaments, the European Commission and national governments to draft a new budgetary agreement.

As Table 1 shows, in June 2011 the Commission proposed freezing spending and setting payments at 1.00 per cent and commitments at 1.05 per cent of GNI – or €1,025 billion in 2011 prices – for seven years. Heading 1a, which includes science, research, innovation, nuclear safety, education, energy and transport, increased from a 9 to 15 per cent share in the Commission's proposals although the eventual agreement for 2014-2020 brought this down to 13 per cent. Heading 1b – cohesion – decreased slightly from around 36 to 33 per cent in the Commission's proposal, with the final agreement reaching 34 per cent. The part of Heading 2 which includes rural development and environment remained almost frozen at 10 per cent. The biggest hit was again taken by direct payments under the CAP and for fisheries, which were to fall from 34 to 27.5 per cent of the budget, although the final agreement for 2014-2020 fixed this at a 29 per cent share.

What we saw in 2005-6 and in 2013 were small reductions in spending overall, targeted at agriculture and cohesion, with modest increases for public goods, which in the case of infrastructure, education and R&D still amounted to no more than 13 per cent of commitments.

Given the modest reforms agreed in 2013, the following section will discuss what type of future reform may be possible, given the report by the High Level Group on Own Resources and the 2016 review of the MFF.

Future reform

This section concludes by speculating on the way forward for the budget after the 2016 review and the new MFF after 2020. The Lisbon Treaty and past practice make exit from the status quo difficult to imagine, given the ease of veto or veto threat. For example, net contributor member states with strong R&D sectors may nevertheless oppose a policy that moves funds from the CAP to public goods if they are influenced by a well-organised domestic agricultural lobby. A number of factors may be relevant in helping to secure a reform. Charles Blankart and Gerrit Koester (2012) have proposed escaping from the current constraints on the budget not by making cuts in redistribution but by creating a supplementary budget to support public goods by means of enhanced cooperation. The wider literature (c.f. De la Fuente and Doménech 2001; Heinemann et al 2010; Osterloh et al 2009; Rant and Mrak 2010; Schild 2008) proposes other exit strategies. While these may seem improbable – not least because of underestimation of veto use by any member state that is uncertain about the outcomes of change – the effects of the financial crises since 2008, the refugee crisis since 2014 and the almost certain British exit from the EU have been unprecedented. One solution to the crisis of the eurozone is further economic integration, with a budget increase sufficient to allow intervention in the case of asymmetric shocks. As the literature recognises, very little funding for public goods or economic intervention can be harvested from reductions in redistribution due to member state veto power. Only an increased budget – whose revenue may be direct or indirect – that can deliver that investment through expansion of leverage programmes such as EFSI may have some effect.

It is perhaps best to limit ourselves to asking about efficiency in the existing budget that is worth only 1 per cent of GNI. As we know, a single member state can prevent agreement on a new MFF and ensure the rolling over of spending commitments from the final year of the previous agreement. There is therefore a strong bias towards continuity.

As Milio (2012) has suggested, discussion of actual amounts of money can be beside the point. The way in which funds are distributed (rather than the amounts) can make all the difference in terms of effect and perception. With respect to the CAP and cohesion, Greer (2012) and Milio (2012) have suggested that a re-orientation of programmes in a public goods direction may have greater effect and may make them more palatable politically, much as co-financing of the CAP also would. In terms of cohesion, Milio's recommendations concerned concentrating funds, co-financing, additionality and re-orientation in favour of social rather than infrastructure priorities. The role of co-financing and the criteria for the release of funds can have positive effects on the capacities and internal discipline of sectors in receipt of these funds. Regardless of how much money is forthcoming (or not) in the future, we should expect the discourse on public goods to be more prominent than in traditional EU redistribution. Since 2014, there has also been much discussion of the budget's leverage potential if it is used not for co-financing but for underwriting, as is the case of the EFSI. As new institutions, the EFSI and the ESM provide significant financing and added value, but from outside the EU budget.

Some political actors may want something more radical than a marginal increase in Heading 1a for public goods or the guarantees of the EFSI, while the eurozone crisis may demand further intervention with public funds for economic regeneration. Other actors may want to block such intervention or protect existing areas of spending like the CAP, which requires a veto from only one member state to be possible. In 2006 and 2013 there were modest net shifts in favour of public goods, although smaller than the Commission originally proposed. A further net shift may occur but only at the expense of the CAP and cohesion policy. Public goods will not receive new money through a larger budget of the type that could absorb asymmetric shocks, which is demanded by the EP. It seems that the only ways to achieve funds for priorities in research and innovation, competitiveness, modern transport and infrastructure, training, nuclear safety, energy security and combating climate change are through politically difficult cuts to the CAP and cohesion, for new own resources to allow escape from net balance calculations while having a popular steering effect on negative behaviours, for example with regard to climate change or reckless activity within the financial markets, or to follow the suggestion of Blankart and Koester (2012) for a supplementary or parallel budget for public goods from which only the contributors would benefit – or perhaps a combination of the three.

Reform Proposals

The agreement of 2013 delivered continuity, a 5 per cent spending reduction, a small rise for public goods and a package that largely protected agriculture and cohesion. The few novelties included increased flexibility, a review of the MFF in 2016, and the appointment of a high-level group to recommend changes to own resources, all at the insistence of the EP.

More money in the budget to respond to the needs of a changing Europe would be desirable but difficult to achieve. As mentioned earlier, funds outside the budget like the ESM, EFSI and, historically, the EDF have addressed some of these needs but the creation of new systems is opaque and unaccountable. Moreover, much can be achieved by re-organising the administration or methods of the budget so that the amounts can be less important than how the amounts are spent.

My suggestions beyond those of Heinemann et al (2010) on a generalised correction mechanism and those of Milio (2012) on additionality and co-financing follow.

Clearly, added value that finances something which would not be there otherwise – rather than replacing national expenditure that should have been present in the first place – is important. Added value can have leverage effects promoting economic growth or innovation, particularly in R&D. One problem is that the term remains ill-defined. It can only be effective in expenditure that is differentiated and for which co-financing is required. It is difficult to achieve added value in areas of traditional redistribution unless there is much accountability and enforcement on the ground, which generates new levels of administration – thus complicating rather than simplifying.

Co-financing has been successfully used under Headings 1a and 1b for decades and is at the heart of the system of commitments, payments and outstanding commitments (RAL), since payments only follow commitments when programmes have been co-financed and successfully delivered. Co-financing has the advantage of requiring real commitment and partnership from the recipient structure.

A significant area of the budget where co-financing is absent is the CAP, which is non-differentiated. Ending this non-differentiation and reducing the commitments by, for example, 25 per cent – the figure that could be provided by co-financing – would reduce expenditure under Heading 2 and would reduce the justification rebates. This pill could be sweetened for Member States that do well from the CAP by allowing them to 'top-up' their co-financing on a voluntary basis to provide more income for the agricultural sector. 100 from the EU budget would therefore become 75 plus 25 from co-financing and a further 25 from a voluntary 'top-up.' While EU expenditure would fall to 75, farmers' incomes could rise to 125. The consequence would be a weakening of the CAP as a common policy, its partial re-nationalisation, and the chance that agriculture in some Member States would benefit from an extra subsidy denied to others.

Concerning cohesion policy, Milio (2012) argues that too many resources have been allotted to economic development and infrastructure. Such assets are often neglected after their construction but provide political benefits through their prestige. An area of policy that would deliver greater value is the social aspect of cohesion. Improved vocational and technical training in convergence regions could provide stronger bases for economic growth, including reduction of the brain drain, than the construction of an airport, for example.

Much of the literature has discussed the move away from redistribution and towards public goods (c.f. Heinemann et al 2010; Blankart and Koester 2012). The problem if this happens is indeed the fall in redistribution. This would be compounded by co-financing the CAP, which would result in less money being allocated to redistribution, not the least due to the potential non-affordability of local co-financing in poorer member states. Although all should benefit from greater investment in public goods, the funds under Heading 1a would be overwhelmingly distributed to wealthier Member States with innovative economic sectors.

The MFF for 2014-2020 has lower spending than its predecessor but is governed by greater flexibility than in the past – an efficiency advance since the EU is better able to respond to unexpected events such as the 2015 refugee crisis. Nevertheless, the elimination of the old article 272.9 of the Lisbon Treaty means that increases in payments that go above the MFF ceilings now require unanimity (Benedetto 2013).

Recognition that the *de facto* budget already significantly exceeds 1 per cent of GNI would be a step forward, given the costs of the ESM and EDP, of national government intervention in trust funds or the CFSP/CSDP, or when considering the leverage effects of the EFSI. It could allow for contemplation of a targeted budgetary expansion under the control of the EU institutions rather than through opaque intergovernmental processes.

Nevertheless, exasperation expressed to national governments in favour of expanding public goods or reforming the budget other than through cutting it rarely works. A permanent solution for the British and other corrections needs to be found if the UK remains a Member State. Reduction of CAP spending through co-financing provides a justification. More effective would be a proposal that temporarily increases the size of the British 'correction' by replacing its permanent formula with a time-limited lump sum that is larger than the amount that the formula currently delivers. Together with the other lump sum corrections, the British one could then be phased out over the course of a decade. A further reason to convert the British correction into a lump sum is that its current formula base discourages UK authorities from seeking EU finance, since for every extra euro spent in the UK, its correction benefits fall, and this reduces the financial benefit of EU membership for British civil society.

If, however, national 'corrections' are to remain but in a reduced form, a generalised correction mechanism more ambitious than that proposed by Heinemann et al (2010) may be appropriate if it can also lead to greater public goods investment. This also avoids the risk that a parallel budget for public goods – as proposed by Blankart and Koester (2012) – financed only by the participating Member States would undermine the residual budget. While Heinemann et al (2010) propose separating public goods from redistribution, and eliminating public goods and some cohesion expenditure from the formula for corrections, I propose a straightforward reform. Competitiveness (Heading 1a), the cohesion fund, the convergence components of the ERDF and the ESF (in Heading 1b), the environment spending in Heading 2 and Heading 3 (Security and Citizenship) should follow Heading 4 (Global Europe) and be removed from any formulas for corrections. These are public goods that provide collective benefits or are income-based redistribution (in the case of Heading 1b). Only the proportion of contributions represented by agriculture, fisheries and rural development in Heading 2 and structural funds consumed by prosperous regions in Heading 1b should be part of the correction formula. In due course, any correction based on funds that are locally co-financed could gradually be withdrawn.

Possible consequences of the reform

Either in 2017 or after 2020, an unintended consequence of a reform based on relatively minor reductions in amounts spent on the CAP and cohesion policy, together with their internal re-organisation, is that they will disappoint and render the budget unable to meet Europe's challenges for the future. How might this play out?

First of all, any further reduction in redistribution for agriculture or regions could trigger opposition from concentrated interests whose incomes will fall. Public opinion sympathetic to those interests could become more Eurosceptic, particularly in a context of continuing economic crisis. Second, it is not certain that reductions in cohesion spending for poor regions in wealthy member states will be offset by increased national subsidies for these regions. Third, a small increase in the budgets for competitiveness and other areas of public goods, financed through reductions in agricultural and cohesion spending, will not meet the EU's need for regeneration. As Blankart and Koester (2012) suggest, there may be pressure for a parallel or supplementary budget to fill the gaps. Such a budget would be intergovernmental and detached from the EU itself, just like the current structures of the ESM. An unintended consequence then of significant new investment in public goods could be that, given an expansion in Europe-wide spending on innovation, there will be renewed pressure from net contributors for further cuts in the budget of the EU itself. Finally, any budget reform taking effect after 2017 is likely to conform with the tendency identified by Ackrill and Kay (2006) that old structures remain in place and are further complicated and rendered more opaque and confusing by new structures. The creation of a parallel or separate Eurozone budget would be a prime example of this.

It should be remembered that the European Council must agree unanimously on changes to the MFF. Given that budget reform is full of uncertainty and consequences that may be unintended, and that any one member state may make a credible threat of veto, there will be a strong bias towards continuity, since spending continuity is the consequence of non-agreement. One conclusion is that the prospects for significant budget reform are weak and that changes to the EU budget itself are likely to be no more significant than those agreed in 2006 and 2013. Change is most likely via the creation of parallel and intergovernmental funding streams, such as those that have already established the ESM, EFSI, and EDF, unless a historical package can be agreed which is less costly to all parties than the status quo.

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THE EU BUDGET AS AN ADDED VALUE: A COMMENT

by Michael Shackleton

The debate about the EU budget reflects the argument about the European Union itself. The language of the budget community may be difficult for outsiders to grasp but the issues raised are not different from those that infuse all policy areas. The presentations on added value at the workshop offered a good opportunity to see where those issues stand, and in particular to see how they have evolved over the last twenty to thirty years. My own direct experience of the budget goes back more than 25 years and thus it was particularly interesting for me to try to evaluate how the debate on added value has evolved over that time. There was, in fact, a curious mix of continuity and change.

The most obvious change has been the overall size of the budget in relation to national budgets and the prevalent attitude towards its development. It is not simply that the idea of increasing the budget to develop Union policies has lost the hold that it had in the 1980s and early 1990s. No one now would dream of referring to the 1977 MacDougall report and its vision of a "small public sector federation" involving expenditure ranging between 5 and 10% of GDP. Quite the reverse has occurred: there has been a constant pressure to reduce the size of the budget, as illustrated in the discussions on the latest financial perspective. It is now a badge of honour, for example, for the UK government to claim that it succeeded in reducing the total amount of EU spending until 2020 (to 0.95% of gross national income), something that had never been achieved previously. As Kristalina Georgieva pointed out, this reduction has gone hand in hand with increasing demands on the budget, thereby pushing to the fore the need to look for added value: "we have to stretch every euro of our budget to the maximum, for the benefit of our people." Moreover, she notes that the budget has traditionally been set at levels that were more than could be absorbed, making spending it a primary driver, rather than assessing its impact. No one would have spoken in these terms in the era of Delors. The important issue then was to develop new policies and to press for the maximum financial allocation. It would have been seen as odd indeed to have the group of Commissioners specifically tasked to look at a 'Budget Focused on Results' as we now have.

A second area of change is the structure of the budget. The balance between spending in different areas has developed over time but in an incremental fashion rather than as the result of a broader bargain about what the budget should finance and how. The commitment to create a Single European Market in the mid-1980s went hand in hand with a readiness to double the size of the structural funds. This linkage was broadly accepted by all and served to cement agreement on the first financial perspective. In the intervening years, it has proved much more difficult to get an agreement on the fundamental principles that should guide spending. Those who thought that the financial crisis of 2007-8 would encourage policymakers to consider using the EU budget to soften the impact on European societies have been disappointed. The balance between policy areas has certainly changed – the larger share of cohesion as compared with agriculture is an example – but attempts to alter the overall shape of the budget by clear policy choice have all foundered, and with them any agreed definition of what added value is.

As Eulalia Rubio rightly points out, the term 'added value' is itself subject to very different definitions, thereby making it much more difficult to agree on what effectiveness and efficiency are perceived to be. There was no discussion of added value at all when the first financial perspective was discussed –

increased structural funding was seen as a valuable addition to the policy mix, a general good which did not require additional justification. The most common use of the term emerged in the context of the Maastricht debate and the promotion of the principle of subsidiarity, with the argument that increased spending needed to be justified in terms of the additional impact of spending at the European level beyond what could be achieved at the national level. However, the use of this definition of added value is fraught with difficulty. Rubio noted in her intervention that it assumes that there can be consensus on the different value of actions at the EU or the national level. What we are living with at the moment is a very much more marked level of disagreement about what the EU should do and how. This cannot be countered with the use of the arguments of fiscal federalism. No amount of technical definition of the impact of EU policies can overcome a basic political dissensus.

Rubio suggests that the most useful way of considering the idea of added value is to look at it in terms of the relationship between EU spending and behaviour at the national level, with the former being used to encourage changes in the latter. She points, for example, to the creation of 'reform contracts' to induce EMU countries to undertake necessary structural reforms or to the idea of using EU spending to sanction countries that do not apply decisions on the distribution of refugees. In this sense, EU spending would come to be seen more as a way of encouraging good behaviour. However, this should not be seen as an easy card to play: it immediately raises the question of the legitimacy of EU decisions and the readiness of national populations to accept the sanctions proposed. Will there be a readiness to accept a decision of the Commission or would member states appeal above it to the European Council to modify it? And how would the Commission hope to communicate such actions to civilian populations within which there is already a heavy dose of Euroscepticism?

My own view is that the sanctioning of states is only possible in a framework which is much more political, much less technical in the way it operates. As Commissioner Georgieva points out, the activity of the present Commission has been structured around the ten priorities established by Juncker at the time he was seeking election as President by the European Parliament. Juncker had been chosen as the EPP candidate in advance of the 2014 European elections and his party's ability to gain the most seats in the Parliament presented him with the chance to put forward a programme that could win majority support. The success of this strategy can be seen in the readiness of the Parliament majority to give its backing to him in the pursuit of his priorities. No one can claim that this automatically legitimizes the decisions of the Commission but it does give the institution a much more political mandate than it has had in the past. Without such a mandate it is hard to see how it could hope to induce member states to accept the kind of conditionality suggested by Rubio.

As we heard from the Commissioner, the spending priorities of the Commission are specifically aligned with the ten areas that Juncker had said he wanted to stress back in July 2014. This marks a very different kind of way of structuring the budget and its relationship with the political direction of the EU. It also makes it easier to get support from Parliament and Council for measures such as the European Fund for Strategic Investment, a guarantee fund designed to underpin an objective for private investment of 315 billion euros. This was an initiative that was flagged in advance of the election of the President, and indeed in advance of the elections themselves. It can thus be said to have had a degree of electoral support (in as far as electors were aware of the Juncker programme) but it also fitted more easily within the spirit of the times. Rather than proposing additional public finance on a large scale, it has illustrated how added value can be seen in terms of using public finance to encourage the commitment of private monies, without seeking to change the behaviour of the Member States. It must surely suggest a future direction for the budget when even the British government has been keen to give the initiative its fullest support!

Such a view might appear a heresy to those who were engaged in developing the EU budget in the 1980s and 1990s, but as Giacomo Benedetto points out, the passage of time has not made it any easier to reach extensive bargains on the shape of the budget. Every time that the MFF has been renegotiated, great hopes have been expressed about altering the budget framework substantially, but those hopes have been consistently dashed. This status quo orientation was underlined after the Lisbon Treaty came into effect in 2009. For the first time since the 1970s, the budgetary procedure was amended, giving the Parliament an equal say with the Council on all expenditure, as well as the right to give its consent to the MFF. However, this did not result in the substantial change that many, especially in the Parliament, had hoped for. The level of the MFF remains hostage to multiple veto players and the annual budget has arguably become more difficult for the Parliament to shape.

Perhaps the central problem with developing an accepted vocabulary about added value in the EU budget lies in any discussion for reform being discussed in terms of its impact on the finances of individual countries. Net beneficiaries always fear changes will involve a potential loss for them; net contributors are determined to ensure that they do not pay more. Both categories are reluctant to consider the impact of change on the EU as a whole. Nowhere is this frame of mind more obvious than in the UK rebate, established more than 30 years ago. It has become such an article of faith that any attempt to change it has either failed or led to complex formulae designed to compensate certain member states for their contributions to the rebate. Moreover, as Benedetto points out, it has acted as a discouragement to UK governments to seek EU financing. A good example has been the flooding that struck parts of Britain in early 2014 and at the end of 2015. On both occasions there was no great enthusiasm to seek funding from the European Solidarity Fund, which was specifically designed to assist member states affected by a natural disaster. At least part of the explanation lies in the fact that any increase in receipts from the EU would reduce the rebate which the UK had come to expect. The value of the budget is perceived as much in terms of reducing overall government expenditure as it is in achieving a specific public good. Hence the enormous challenge facing the Monti Group to alter perceptions of the way the EU can and should be financed. Its conclusions will immediately be examined through the lens of profit and loss for national treasuries.

In the face of a budget structure which is so status-quo oriented, there is a temptation to suggest, as Benedetto does, that the only solution is to allow for special arrangements that either apply to a smaller number of states, such as a Financial Transaction Tax, or that are based on intergovernmental arrangements. In the latter category, one might include the 3bn euros set aside for assisting Turkey in restricting the flow of refugees from Syria to Europe. However, it is not at all clear that such policy choices can easily be translated into budgetary reality. They rely on Member States fulfilling their commitments to collect or provide finance and they also raise questions as to how spending will be monitored outside the formal budgetary system. Moreover, it is by no means clear that they will be accepted as legitimate any more readily within national societies that are deeply resistant to solutions sought at the EU level.

The central issue that remains is one that has always bedevilled EU politics, namely how to define the general or Union interest in relation to the particular interests of the Member States. Is that general interest anything more than the sum of the individual interests? Or can it be used as a criterion to develop policies that go further?

As the workshop showed, this is not a technical question but a fundamentally political question. The suggestion by the Italian Finance Minister, for example, Pier Paolo Padoan, to develop an unemployment insurance mechanism as a way of underpinning economic and monetary union will appear to some as an excellent example of furthering the general interest, but for others it steps into the realm of national politics and challenges the specific interests of other states. How to resolve this conundrum remains the fundamental difficulty of added value in the EU budget now as it was 25 years ago.

A PERFORMANCE-BASED BUDGET TO IMPROVE EFFECTIVENESS

by Alfredo De Feo

Introduction

In times of economic crisis and instability there is an increased need to mobilise public funds to stimulate growth, but at the same time in these periods there is a scarcity of resources. This situation stimulates a search for more efficiency and effectiveness, and ultimately a better use of resources in terms of concentrating funds and focusing on results. Because of its size, the EU budget has a limited macro-economic impact but its leverage effect and its capacity to mobilize resources through co-financing are important and can make a difference.

The EU Budget has a potential capacity to contribute more to economic governance as it can drive changes in the European economy. There seem to be two necessary conditions for it to achieve this objective: a reform, with a new balance between its redistributive (agriculture and cohesion) and investment (competitiveness) roles, and more efficiency and effectiveness in delivering the expected results.

In spite of a global reduction of resources, the 2014-2020 Multiannual Financial Framework (MFF) has continued this (slow) evolution towards a re-balancing between redistribution and investment. Agriculture has been reduced by more than 13% with respect to the previous period and cohesion policy has been reduced by about 8%, while the heading of Competitiveness for growth and jobs – which includes research and innovation; education and training; trans-European energy, transport and telecommunications networks; social policy; and enterprise development – has been increased with respect to the previous period by more than 35%. This trend was already initiated in the 2007-2013 programming period.

Good coordination of financial efforts and a concentration of funds on shared priorities can have dynamic effects, but only on condition that fundamental EU principles are respected. EU legislation and subsequent support from the EU Budget should only intervene when the principles of subsidiarity and European added value are respected. The EU should only legislate when action at the EU level is more efficient than action at the national level and a European added value can be demonstrated. Another principle is the 'additionality' of funds (particularly for structural funds). EU funds should not replace national funds but always come as a complement. Furthermore, the allocation of funds should not be directed at single projects but should be part of a strategy aligned with EU priorities.

In spite of the control exerted by governments and national parliaments, the full respect for these three principles is at least questionable. In many cases, the adoption of a regulation is more the result of a sum of national interests than genuine European added value.

This article will raise the following questions:

a) Can EU policies gain efficiency if resources are allocated according to performance and results?

b) Could Member State experiences with performance-based budgeting (PBB) offer support and inspiration?

c) Which key indicators (KIs) are more suitable for use as budgetary indicators?

d) How can EU legislation influence the introduction of a budget more focused on results?

e) How can a budget oriented towards results be managed in the EU decision-making process?

The EU decision-making process

Using public funds in an efficient and effective way is a pre-condition for financing public policies which are the best tools to implement shared objectives. The Member States have numerous experiences of using performance-based budgeting and evaluating what is considered to be good performance at various levels. The starting point for this exercise is the decision-making process, as performance-based budgeting might ultimately influence the allocation of resources. In an individual Member State, the executive proposes a budget to the parliament. Discussion then takes place mostly internally between the government and its majority. After a vote in parliament, the ministries or executive agencies implement the political decisions included in the budget.

In launching the conference on a budget for results, the Commission has opened up reflections on performance budgeting within EU institutions. Before going into more detail, this section will describe some specificities of the EU environment which might influence these reflections on performance budgeting.

The EU Budget process is different: there is no predefined majority and co-decisions on Commission proposals can combine a composite majority of Member States (with governments of different political parties and often with diverging national interests), which needs to find a compromise with the European Parliament (which has its own majorities). These are, in short, provisions of the Treaties. Practice produces other complexities. Pre-allocation of funds might negatively influence the efficiency and effectiveness of the use of EU funds. Until the end of the 1990s, the Commission refused not only to guarantee any pre-allocation of funds but also to give ex-post information on implementation in individual Member States. The Commission then had more liberty to allocate funds in relation to the quality of programmes.

Pre-allocation to Member States, which has now become part of the negotiations, is not per se a form of poor performance but it certainly limits the Commission's choice to pick projects with the most potential for performance and EU added value. It has probably diffused a negative culture in EC and Member State administration: pre-allocated spending has become an objective in itself for EC managers, and for Member States even low-performance spending is better that no spending.

Evidence of this cultural approach can be found in the frantic negotiations that take place between the Commission services and some Member States over last-minute 're-programming' of the financing of new projects and pre-financed projects. The aim of these negotiations for all the participants is to spend EU money at any cost in full compliance with the rules, but not necessarily respecting performance criteria.

EU programmes which have a high absorption capacity are considered successful. The rate of implementation is perceived not only by the media but also by the control bodies in the European Parliament as a distinguishing element between successful and unsuccessful policies. Success of a programme has up to now been measured in terms of compliance with the rules and the level of disbursement. These considerations are clearly stated in the EU Court of Auditors report: "Financial management may largely focus on spending the budget available" (Court of Auditors, footnote 1, page 28). According to the Court, the different administrative cultures of European, national, regional and local administrations also inevitably lead to a poor quality of spending.

This should not be an alibi for reversing the charge to the Member States. The use of performance indicators in a European environment can only be be achieved in close cooperation with them, eventually by creating incentives to achieve a change of culture and therefore a change in the outputs of legislation which is implemented.

The elements mentioned above are not causes of inefficiency, but they have contributed to a certain culture of spending for the sake of spending which has more favoured the quantity than the quality of the implementation of EU funding. Most of the specificities of the EU decision-making process can be changed, and in any case they should be taken into account.

Measuring the efficiency of an EU policy starts with the adoption of the legislative act in which the objectives of the action are established. The clearer and more focused the objectives are, the more it is possible to measure and monitor the implementation of the policy. The practice of the legislative decision-making process provides for each regulation to have a financial envelope, which has a quite rigid status. This is generally respected during the annual budgetary procedure.

This practice of embedding financial envelopes in legislative acts started in the 1980s when the Parliament was excluded from the legislative process but had 'quasi exclusive' budgetary powers over non-compulsory expenditure, which covered most of the legislation but not agriculture. Through rigid financial envelopes, the Council indirectly secured budgetary decisions. This tradition of financial envelopes in legislative acts has even been maintained in the ordinary procedure under the EU treaty where the Parliament is a co-legislator. The financial envelope is certainly a useful tool for determining the magnitude of a policy but the institutions have recognized that its full rigidity negatively impacts the efficiency of policies and in an inter-institutional agreement they have admitted the possibility of diverging from the envelope by 10% in either direction. This is another element that should be taken into account in reflections on a more efficient budget.

To conclude, there are many specificities in the EU budgetary and legislative process which should be taken into account if we want to develop performance-measuring elements in the decision-making process.

A budget for results: a Commission flagship

The Treaty of Lisbon raised the relevance of the efficiency and effectiveness of the policies financed by the Budget. Following art. 318, the Commission has to submit an annual report which evaluates 'the Union's finances based on the results achieved.' Since 2010, the Court of Auditors has drawn the attention of the institutions to the necessity of enhancing the assessment of the quality of expenditure.

This sensitivity has increased over the years. The renewal of all the legislation with a financial impact in the period 2014-2020 has allowed the introduction in the 'spending' regulations of a number of performance objectives and indicators, macro-economic conditionality and evaluation and reporting arrangements, including – in the case of structural funds – the possibility of drawing supplementary funds from a 'performance reserve.' In the 56 programme statements in the 2014-2020 legislative package there are about 300 objectives and 700 indicators, both general and specific. Almost half of the programmes have more than 10 objectives, while some have more than 20 and a few more than 40. Are these too many for real control? For a more effective use of performance-based budgeting, a concentration of objectives and key indicators will be necessary.

The Commission has to report on the legality, regularity and compliance with the indicators in its Annual Activity Reports and in its report ex art 318 TFEU. It was only in the fifth report ex art 318 TFEU evaluating the 'Union's Finances based on results achieved' (com(2015) 313) that it started to give more relevance to EU added value, which it defined as "the value resulting from an EU intervention which is additional to the value that would have been otherwise created by member states alone" and which can be assessed on the basis of the following three criteria:

a. **Effectiveness**. If it is the only way to get results, it may be more effective to create missing links, avoid fragmentation and realise the potential of a border-free Europe.

b. **Efficiency**. It may also be more efficient if the EU offers better value for money because externalities can be addressed, resources or expertise can be pooled and action can be better coordinated.

c. **Synergy**: It may create synergies where EU action is necessary to complement, stimulate and leverage actions to reduce disparities and raise standards.

To conclude, there is a new awareness of a switch from compliance with rules to effective results, but this is only the beginning of a complex process of which for the time being probably only the Commission – or more exactly only Commissioner Georgieva and DG BUDG – is fully convinced. Will the other Commission departments and the other institutions follow this movement? This is the question which will be analysed in the following sections.

The momentum for a step forward

Joint efforts by the Court of Auditors and the European Parliament – notably its Budgetary Control committee (see the discharge resolutions in 2013, 2014 and 2015 and the CONT hearings in 2013) – have contributed to creating a new approach which is more attentive to the quality of expenditure. The ten priorities announced by Juncker in November 2014 required a concentration of EU funds to increase the effectiveness of EU strategy. In the same period, the president of the CoA presented a document entitled 'Making the best use of EU money: a landscape review of the risks to the financial management of the EU budget' containing a lucid analysis of the risks and their remedies involved in making the best use of EU money.

The emergencies linked to the flux of migrants have made it evident that a sound use of EU funds is not only a moral obligation but also a necessity when high unforeseen expenditures from the EU budget are necessary. The full endorsement of this new approach focused on outputs by the Juncker Commission is a demonstration that EU leaders are marching in the direction of efficiency and effectiveness and the 'EU Budget focused on Results' conference organised by VP Georgieva in September 2015 launched a campaign to introduce a new administrative culture, beginning with the Commission staff.

The issues addressed by the Court

The CoA raised several criticisms of the current system. The environment is complex: 30 policy areas, often with their own financial requirements and multiple objectives; central, regional, and local administrations of 28 Member States with different administrative cultures; countries outside the EU; other international organisations; private companies. These are only the main points. These elements are not negative *per se* but they create favourable conditions for inefficiency.

In particular, the Court focussed on seven recurrent weaknesses: a) the purpose of funding is not clear; b) there are too many or unclear objectives; c) the needs of potential beneficiaries are not adequately assessed; d) the selection criteria are insufficient and aid is not targeted at projects most in need; e) eligibility criteria are unclear or inconsistently applied; f) the EU dimension and EU added value are often questionable; and g) there is no assessment of the reasonability of costs charged to EU actions. The Court pointed out that the Member States have no incentives to address the weaknesses of the system, as often from their perspective EU funds are always useful even if they do not totally comply with the principle of EU added value.

The CoA not only presented weaknesses but also opportunities. Especially at the beginning of a new financial framework, four main areas for improvement were identified: a) focussing on the added value of programmes; b) developing a performance management culture; c) reinforcing budgetary management; d) reinforcing cooperation with the Members States over the implementation of control.

The Member States, which manage 80% of EU funds, have to comply with rules and control mechanisms. The annual reports from the Court of Auditors and the level of material errors show that these rules are neither known nor fully integrated in national or regional legislation. The Commission's authority in negotiations with Member States is weakened and often in the interpretation of the rules the focus is on spending more than on the quality and achievement of objectives. The Member States, which are often reluctant to be too strict in controlling funds from which they are the primary beneficiaries, can become a support if incentives are created to stimulate more effective control of compliance with European principles.

Some budgeting methods

Since 2007, the OECD has conducted extensive comparative studies on 'Budgeting practices and procedures in OECD countries.' One of the conclusions is that performance information, despite being used by most of the states, is not the exclusive reference element in the preparation of a budget. Is a budget based on measurable performance more efficient and effective? The answer is not straightforward and is more complex. Outputs are fundamental to the appraisal of the effectiveness of a policy but at the same time they risk giving a distorted picture of the situation: they might disregard some other relevant parameters, they do not help to redress situations, and they cannot take into account political values which might be attached to poor output (e.g. the impact of investment in disadvantaged areas will not give the same output as investment in a developed area but it remains politically and socially important).

The OECD defines six areas in which to uniformly assess the use and quality of performance information: a) financial data (i.e. revenues received, resources spent, outputs and outcomes achieved); b) performance reports with operational data; c) performance evaluations ('results'-oriented data); d) spending reviews; e) statistical information; and f) external performance information. The results of this analysis are contained in an OECD publication entitled 'The metamorphoses of performance budgeting.'

Among various budgeting mechanisms, three are most used: a rolling budget, which improves forecasting and planning; an activity-based budget, which favours operational issues; and a performance budget, which is based on outputs. Each budgeting method has its own advantages and disadvantages, so the question is how these three methods can be combined to best advantage in the European environment.

Rolling Budget

Since 1988 the EU has formalised the planning of its expenditure over 7-year periods. While the multiannual financial framework has the merit of framing the financing of EU policies, it has two major drawbacks: a) it is extremely rigid, and b) it is a too long. These two drawbacks linked together make the instrument unsuitable for improving efficiency and effectiveness, and they might even have negative effects. In fact, once the MFF is established it is very difficult to modify, and any change is only possible at the margins (flexibility instrument). A rolling budget also has disadvantages: it creates a system which is unstable with a sort of continual revision of figures and consequently of the objectives to pursue.

A rolling financial mechanism could be compatible with the EU environment, but if it is linked to the results of the policies with public funding. The updates could be every three years, following assessment of implementation. The aims of the exercise should be to reduce allocations to underperforming programmes, to increase well-performing spending, and to re-prioritize spending to allow space for new priorities. The existence of a performance reserve could play an important incentive role for managers.

Although the MFF has a mid-term review clause and the Commission presents a mid-term assessment, for several reasons mainly linked to the Council's approach, this exercise, at least so far, has never produced concrete effects and never led to a revision. This is mainly due to the difficulty in re-opening negotiations. This political difficulty should not be underestimated but Member States should see the interest in having better results from EU-funded policies. Events in recent months show the need for a flexible budget capable of allowing new financing to face new challenges and unforeseen events. If the institutions make full use of the mid-term review in 2017, it could be the first step in the direction of rolling planning.

Activity-based budget

An activity-based budget[18] links the costs incurred by activities in a functional way. It allows strategic objectives to be aligned with financial and human resources. This is the budgeting method used by the EU since 2002. It has brought more transparency to the assessment of the cost of policies, but more than 13 years after the introduction of the EU-ABB the Court of Auditors singled out weaknesses which are linked not only to the budget but also to legislation (e.g. too many objectives, insufficient, unclear or inconsistent selection of eligibility criteria and often questionable EU added value). The ABB method needs to be revised to respond to the criticisms of the CoA.

18 Activity-Based Budgeting (ABB) is defined as a method of budgeting in which the activities that incur costs in every functional area of an organization are recorded and their relationships are defined and analysed. Activities are then tied to strategic goals, after which the costs of the necessary activities are used to create the budget. Investopedia http://www.investopedia.com/terms/a/abb.asp#ixzz3rq0SYVpr

Performance budgeting

Performance budgeting takes into consideration the relation between inputs, outputs and services achieved to measure the efficiency of public spending by means of indicators. Interest in performance budgeting has risen since the beginning of 2000 when governments sought to improve expenditure efficiency by linking funding to results and to find support for re-prioritizing their policies. The IMF has collected various elements linked to performance budgeting in the volume 'Performance Budgeting: linking funding and results,' which shows the complexity of the exercise and its implementation in different countries. It can be concluded that 'one size does not fit all.' Examples of performance budgeting, but with different degrees of integration in the budgetary process, exist in various EU Member States and also in the US.

Performance budgeting implies choosing shared indicators to measure the outputs and outcomes of a programme, taking into account external factors and time lapses which might influence the results. It provides more flexibility and autonomy in the management of programmes. The EU Financial Regulation should therefore be adapted. Experience shows that a large investment, especially in administration but also at the political level, is necessary when adapting to a performance budgeting method.

Measuring the output of legislation implemented can be a treacherous exercise. Either it is left to technocrats, with the risk of transforming the budgetary exercise into a 'perfect algorithm,' or the decision on defining the metrics is given to the legislator with the risk of achieving good compromises but not viable indicators. Using the performance budgeting model to establish the EU budget could expose the EU to risks and reduce the political impact of the budget.

A new budget model for the EU?

The EU needs more efficiency and effectiveness in managing its policies. A budget more focused on results is the objective that the Commission set with the conference on 22 September 2015.[19] This is an ambitious but necessary process and it is possible if the objective is shared by all EU stakeholders, Commissions, General Directorates, the Budgetary Authority and the Member States.

Which model for the EU?

Performance budgeting is a powerful tool which allocates resources on the basis of outputs/outcomes, and it is used by many governments around the world. The in-depth analyses by the OECD and the IMF[20] give a number of reflections which are useful before analysing the possible impact of performance budgeting methods on the EU decision-making process:

- ✓ There is no a single model of performance budgeting (PBB) and over time governments have experimented with variations on the leading principle. Most states include performance budgeting information during the budgetary process.
- ✓ No government uses PBB as an automatic mechanism to allocate financial and human resources.
- ✓ Translation of performance information into budgetary decisions is one of the hardest challenges. Even for governments which have used PBB for decades, in practice the link between the performance information and their budgetary decisions are often weak (or inexistent).
- ✓ The implementation of a PBB approach requires a change of culture for the managers in charge of budget implementation and they need flexibility in the financial and human resources available to achieve the best results. Administrations with many rigidities in the management of financial and human resources cannot enjoy the advantages of a budget focused on results.
- ✓ PBB works better in lower level administration (i.e. the local dimension) than in high level administration (i.e. supranational), and it works better in limited and specific sectors than on a wider scale.
- ✓ The success factor in PBB is the clarity and specificity of the objectives, which should not be too vague and should be related to the capacity to monitor.

Implications for the EU

Evolution toward a performance budgeting approach is not only necessary but also desirable to make EU disbursements more effective and visible to the citizens in terms of European added value. EU programmes should have clearly identified objectives and SMART[21] indicators need to be defined with the agreement of all the institutions to measure the effectiveness of the outputs and outcomes. This information should be used by the Budgetary Authority to make informed decisions on the allocation of funds to each programme and on positive and negative priorities.

The performance indicators should measure the effectiveness of European decisions. A performance budget is not only a budgetary technique; it might require a change of approach by the legislative authority. At the least, legislation should include clear objectives for each programme and the other elements of evaluation should be defined either during the legislative process (i.e. delegated) or by the control and budgetary authority.

A budget more focused on results does not need a financial envelope to be included in the ordinary law; instead an indication of the magnitude of a programme could be given as an upper ceiling.

19 EU Budget Focused on Results Conference, http://ec.europa.eu/budget/budget4results/programme/index_en.cfm

20 See References 5 to 9.

21 Specific, Measurable, Attainable, Realistic, Timely

Currently, the financial envelope embedded in the Regulation constitutes an implementation objective for each manager of EU programmes. Respect for the financial envelope year after year and independently of outputs is a guarantee given to each programme which will not be admissible if more stress is put on the results. The financial envelope included in EU legislative acts was introduced in the pre-Lisbon budgetary procedure, when the Council needed to secure the amount for each programme in the legislation to prevent a possible decision by the Parliament on non-compulsory expenditure.

In a budgetary environment aimed at results, the financial envelope should become a purely indicative element and the budgetary authority should be free to divert resources as a function of the performance of a programme. The 10% divergence from the financial envelope admitted in the interinstitutional agreement is a step in the right direction, but it is still too limiting and in reality it lacks a consistent procedure for its implementation.

The control and budgetary authority could contribute to stricter control of the performance and results achieved by legislation by adapting its working methods. Structures and procedures should then be put in place for the assessment of all legislation and this should involve budgetary and policy experts in both the Council and Parliament. The Commission should play a fundamental role in building this procedure, but the leading role should be left to the legislative and budgetary authorities, with the active support of the Court of Auditors.

A procedure combining discharge and budgetary procedures should be established. The annual report from the Court of Auditors should be linked and used as a basis for the establishment of the N+1 budget. Already for several years the Parliament has timidly created monitoring groups on implementation involving various stakeholders, but the difficulty in making political decisions due to the rigidity of the financial envelopes has discouraged MEPs from making any investment in this procedure.

To conclude, there is a need for legislation which can bring European added value. For it to be implemented its targets should be shared by all the institutions, and they should be ready to adapt their working methods. All the changes introduced should avoid performance budgeting becoming a technocratic exercise, but instead a tool which can lead to a decision to reinforce the European dimension of legislation and provide more political control over implementation. This cultural change can only be achieved if all the actors – EU institutions and also Member States – agree to put this new evaluation procedure in place. No legislative changes are necessary but more substance should be given to what are now empty procedures.

The mid-term review of a 5-year MFF could become the moment to bring the results of two or three years of monitoring to concrete decisions on the financial envelopes of programmes, translating positive and negative priorities which are also based on concrete outputs and performances. It is important that the decisions in this new monitoring system are not taken annually but at a precise moment. Apart from exceptional cases, annual decisions on the performance of a programme can be disruptive to its implementation. Annually, the discharge and budgetary authority may simply issue recommendations to draw attention to eventual poor performance in certain policy areas.

Finally, this new approach may endanger the allocation of funds to specific Member States. As described above, this is a practice which is, in my view, contrary to the European spirit. The allocation mechanism put in place by the EFSI, where projects are financed on their pure merits and not as part of a national envelope, seems to go in this direction. At the same time, it would probably be difficult to dismantle this practice, but more pressure and transparency should oblige Member States to aim at results.

To summarize, opening reflection on performance budgeting is definitely a necessary step to give EU financing a better image. On the basis of the experience of other states, including the EU Member States, a performance budget can operate at various levels, from being an information tool to an automatic decision mechanism, with other variations. The level should be decided by the inter-institutional working group which has been created (but not set up yet). This exercise may take a long time as it implies a change of administrative culture in the EU institutions, and also in the Member States and other stakeholders. It might entail streamlining some elements in the regulations. A change of this importance needs the ownership and full support of all stakeholders. A pilot on a limited number of programmes could be an interesting test and part of the learning process.

A final reflection concerns the performance not of a programme but of the whole EU budget. How can the EU budget be maximised to meet the challenges that the EU and in particular the eurozone is confronted with? How can the EU budget perform better to tackle European challenges? Are the means available sufficient? This reflection, which might be carried out by the newly created inter-institutional working group or by a separate entity, should open a reflection on the future of the EU budget, the own resources and the governance needs of the eurozone. This debate is probably too difficult to be popular, but it is necessary if we want to get away from business as usual and give some new vision to European integration.

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ANNEX: PROGRAMME OF THE WORKSHOP

The Efficiency and Effectiveness of the EU budget

European University Institute, Fiesole, Florence

1-2 October 2015

Rationale: The EU budget represents only 1% of GNI but its impact on the economy is higher due to its leverage effects. How can the EU Budget be more focused on results, strengthening its efficiency and effectiveness? Improvement of the quality of expenditure is the challenge for the next few years. The workshop will try to provide an answer, starting from the experience of beneficiaries of EU funds and the comments of academicians and practitioners.

1st October 2015

14.15 **Welcome:** Joseph Weiler, President of the EUI

Opening: Kristalina Georgieva, Vice President of the Commission

14.30 **Keynote speech:** Pier Carlo Padoan, Minister of Finance, Italy

Debate

15.15 **Panel I:** How EU contributions are perceived by beneficiaries

Chair: Brigid Laffan

Mr. Hansjörg König, Secretary of State, Ministry of Finance, Saxonia

Dott.ssa Ludovica Agrò, Director General of the Agency for territorial cohesion

Dott.ssa Giada Mennutti, Enterprises Europe Network

Mr. David Stefano Zolesi, responsible for the Kayser srl research project

Debate

16.30 **Panel II** – the EU budget as added value

How can efficiency be measured? Is the money going where it is intended to go? Are the policy objectives reached? Is the implementation correctly managed and monitored? How can ex-post impact assessment influence legislation?

Chair: Carlos Closa (EUI)

Keynote speech: Kristalina Georgieva, Vice President of the Commission

Speakers: Giacomo Benedetto (Royal Holloway, London University), Eulalia Rubio, Notre Europe, Brussels

Discussant: Michael Shackleton (Maastricht University)

Debate

18.30 Cocktail

2nd October 2015

9.30 Panel III – Better spending: can the EU budget be more effective?

How can the EU budget contribute further to the economic recovery? How can the budget support the reform of EU policies? Does the EU budget support the development of SMEs? What can be done to make public spending more productive? How is the EU budget perceived by beneficiaries?

Chair: Alfredo De Feo (EP/EUI)

Speakers: Jorge Nunez Ferrer (CEPS), Ian Begg (London School of Economics)

Discussant: Alexander G. Welzl, Economica Institute, Wien

11.15 Coffee break

11.30 Panel IV – Which steps to improve budgetary efficiency?

Chair: Adrienne Heritier, Upsala University

Keynote speech: Kevin Cardiff (Member of the Court of Auditors)

Discussant: Silvano Presa (Commission)

12.30 Debate

13.15 Conclusion, Brigid Laffan

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