



European Economic and Social Committee

ECO

Brussels, 22 August 2016

To the members of the Section for
Economic and Monetary Union and Economic and Social Cohesion

The secretary-general of the European Economic and Social Committee is pleased to enclose the

APPENDIX

TO THE

MINUTES

of the 158th meeting

of the

Section for Economic and Monetary Union and Economic and Social Cohesion,

held at the Committee building in Brussels

on

29 June 2016

Public hearing on

**A performance-based EU budget and its focus on real results:
The key to sound financial management**

The ECO president, **Mr Joost van Iersel**, welcomed the participants and gave the floor to the three keynote speakers.

Commission Vice President, **Ms Kristalina Georgieva**, responsible for Budget and Human Resources, explained that until 2012 there had always been more money available in the EU Budget than was ultimately spent, whilst currently demand for funding was exceeding the means available. That gave an impetus to put more focus on the results achieved by the corresponding budget expenditure, and on the European value added. However, the definition of the latter and the measurement of results were complex issues. Ms Georgieva recommended making a closer connection between the administrative and legislative conditionalities of the programmes and the relevant country specific recommendations under the European Semester and Europe 2020, by which a Member State commits itself to a number of structural reforms. If these conditions were not fulfilled, EU funding could be suspended. Leveraging private investment with the EU budget and moving from grants to guarantees had proven to be successful in the context of the European Fund for Strategic Investment (EFSI) and in particular its "SME window". In order for the EU to be able to re-allocate budgetary resources following unforeseen events, Ms Georgieva advocated more flexibility in the use of the budget. She concluded that it was important to align the budget to the EU priorities, to choose the appropriate instruments, to assess the budget performance and to better communicate to the public the results achieved.

Mr Nicola de Michelis, Head of Cabinet of Commissioner Crețu, Commissioner responsible for Regional Policy, highlighted that focusing on results enabled us to evaluate and monitor what was being done with taxpayers' money, and to make the political authorities more accountable for it. He recalled that in some Member States EU Budget expenditure had very significant effects on GDP. There was a clear track record of what was being done with the money. He lamented the complicated legislation governing the management of the funds, and advocated a radical simplification of those rules.

Ms Martina Dlabajová, Vice-president of the Committee on Budgetary Control, European Parliament, stated that monitoring was necessary to improve results. According to her, there was still a lot of room for improvement in terms of value added and results. The selection of the right indicators was crucial. She applauded the work of the Commission on performance-based budgeting and highlighted the importance of transparency and accountability. Premises for performance based budgeting to be successful were data collection and sharing, data quality and quantity, communication between the EU and Member States and simplification. Modern approaches had to focus on the financial instruments for deploying cohesion policy resources, on market failures and imperfections, and on the evaluation of the real priorities within an appropriate period of time. Her slideshow is available as a separate document.

In the ensuing debate **Mr Edelényi**, an external participant and the ECO president took the floor: The following issues were raised: the EFSI and its multiplier effect, the choice of projects in the EFSI and the European value added, possible effects of a Brexit on the EU Budget, and the effectiveness of the Cohesion Funds in terms of eliminating divergence between Member States.

In her reply, **Ms Georgieva** explained that a third of the EFSI guarantee had been used so far. As projected, the multiplier was 15, and we were well on track to reach the goal of mobilising EUR 315 bn. She announced a possible extension of the EFSI beyond its initially planned lifetime by recycling the guarantee once the money becomes available again. She also stated that the administrative burden was a factor that hampered investment. Concerning the role of the UK in financing the EU budget, she pointed out that the net contribution (= brut contribution minus projects and rebate) amounted to approximately EUR 5 billion. If the UK outside the EU wanted to have access to the internal market in the future, there should be a price related to this. She concluded by explaining that the crisis had contributed to using up the budget, that new priorities had come up (such as migration, the EFSI, and saving the Eurozone), and that less money was available, both in relative and absolute terms.

Mr De Michelis stated that success stories with the EU budget should be better communicated. He pointed out that convergence in terms of GDP per capita was not the only and not necessarily the best way of measuring the results of cohesion policy. Quality of life, infrastructure, connectivity, education, and equal opportunities were also determining factors. He added that the administrative capacity of a country mattered, and the Structural Reform Support Programme had been set up to support capacity building. He also emphasised that the ex-ante conditionalities put pressure on Member States to implement the necessary structural reforms.

In the following panel, EESC rapporteur **Mr Petr Zahradník** stated that the target was a systematic focus on the results and performance the EU Budget delivers in addressing the EU's priority areas, and not only on compliance with the rules of legality and regularity. Any discussion on a performance-based EU Budget was also a discussion on EU policy priorities. He emphasised that a closer linkage between the EU Budget on the one hand and partnership agreements, operational programmes and the European Semester on the other hand, was needed. Mr Zahradník pointed out the need to identify the budget's real effects, as measured by relevant macroeconomic indicators and benchmarks. His slideshow is available as a separate document.

Mr Lazaros S. Lazarou, Dean of the chamber "Financing and administering the Union", European Court of Auditors, stated that the Court of Auditors' focus was to always strive to do more with the available resources, similarly to measuring "return on investment". The citizens had a right to know what they had got for their money. He pointed out that focus was shifting from absorption of funds (compliance) to results. He also specified that the EU budget should be more flexible in order to be able to address some of the current pressing issues. Moreover, the rules for spending EU money should be harmonised, geared towards being cost-effective and proportional; no unnecessary requirements or gold plating should be introduced. He recommended that Member States should include in their partnership agreements the expected results to be achieved through the funds. He concluded with a call for sound financial management and respect for social values and ethics.

Ms Sabine Klok, EU budget attaché, Permanent Representation of the Netherlands to the EU, recalled that macroeconomic conditionalities were now combined with ex ante conditionalities and

ex-post evaluations, and in doing so the EU tried to achieve more results with less money. She agreed with the previous speakers that the Union needed to be able to respond in a quicker manner to unforeseen events. She acknowledged that performance could not be improved in one step and put emphasis on the right selection of indicators and performance audit. According to her, performance indicators could not replace the political decision making process, only supplement it.

Mr Petr Osvald, rapporteur for the opinion on the Simplification of ESIF from the perspective of Local and Regional Authorities, Committee of the Regions, advocated eliminating elements in cohesion policy that did not work well. He pointed out that there were problems with public procurement, in particular where there were monopoly suppliers, and certain problems of corruption.

Mr Jorge Núñez Ferrer, CEPS, highlighted the importance of well thought-out strategies, performance definitions and simplification. He emphasised the need to put an end to the net balance approach as it was based on old objectives (a lot of local project spending with little European value added) and as a result it blocks performance, efficiency and rationality. According to his analysis, the value added of EU-expenditure had already increased substantially. The financial investment flows caused by the budget were large, the funds mobilised through the EFSI alone were similar to those of Cohesion Policy in size. Finally, many of the reinforced budget areas also considerably benefited net contributors, for example in the context of the EFSI. His slideshow is available as a separate document.

The **ECO President** thanked the speakers for their presentations and opened up the discussion. In the ensuing debate the following members took the floor: **Mr Malosse**, **Ms Babrauskienė**, **Mr Edelényi**, **Mr Mavrommatis** and the **ECO President**. Topics raised included the lack of visibility of results achieved with the EU budget, the complexity of application processes that deterred SMEs and individuals from applying for project-financing, a lack of evaluation of programmes and a lack of information in certain Member States, indicators going beyond GDP and the complexity of their use, the difficulties in convincing citizens of the benefits of the EU budget, and the approach of the Court of Auditors when making controls.

The speakers replied to the various points raised, pointing out the interconnection of parameters; the role of governments which did not properly inform the public that infrastructure projects were financed by EU funds; the role of the Court of Auditors as an independent institution that expresses an opinion on legality and regularity, thereby using statistical methods; the difference between the error rate and mismanagement or fraud; the considerable costs of drawing up and introducing a project and the limited time to use the allocated money; the tendency of a culture of risk aversion in the EU; and the different priorities for future action, including an improvement in shared management, an overall simplification of rules, and common principles to allow a certain flexibility.

The **ECO president** thanked the speakers and the section members for the interesting discussion and closed the event.