Research Report 400

MAY 2015

Cohesion Policy as a Function of the EU Budget

A Perspective from CEE Member States

Mojmir Mrak, Sándor Richter and Tamás Szemlér

The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche

Cohesion Policy as a Function of the EU Budget

A Perspective from CEE Member States

MOJMIR MRAK
SÁNDOR RICHTER
TAMÁS SZEMLÉR

Mojmir Mrak, Faculty of Economics at the University of Ljubljana.
Sándor Richter, The Vienna Institute for International Economic Studies (wiiw).
Tamás Szemlér, College of International Management and Business at the Budapest Business School.

This report is based upon research within the GRINCOH project which has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no. 290657.

The project involves the following organisations: Centre for European Regional and Local Studies (EUROREG, Coordinator), Academia de Studii Economice Bucuresti (ASE), Building Environment, Science and Technology (BEST), European Policies Research Centre (EPRC), Institute of Baltic Studies (IBS), Centre for Economic and Regional Studies, Hungarian Academy of Sciences (IEHAS), Institute for Economic Research (IER), Halle Institute for Economic Research (IWH), University College London (UCL), Karelian Institute – University of Eastern Finland (UEF), The Centre for Research in Economic Policy, University of Pécs (UP), The Vienna Institute for International Economic Studies (wiiw)
For more information about GRINCOH please refer to the project's website: http://www.grincoh.eu

Abstract

This study analyses the key patterns of cohesion policy within the overall framework of the EU budget, viewed from the perspective of the new Member States of Central and Eastern Europe. In more specific terms, the main objectives are, first, to analyse past trends of cohesion policy and the attitude of various groups of countries towards this policy; second, to assess the position of cohesion policy within the 2014-2020 medium-term financial framework of the EU; and third, to discuss alternative options for cohesion policy within the framework of the EU budget in the post-2020 period. In methodological terms, the conceptual parts are based primarily on a qualitative analysis of the literature while empirical inputs were provided first of all through an expert questionnaire survey and country case studies. The research results convey the important message that the feasibility of scenarios other than maintaining the 'status quo' will most probably not depend on the behaviour of the new Member States. Despite their strong and explicit interest in securing ample resources from cohesion policy funds for themselves, the new Member States' administrative and academic experts with their non-negligible influence on the political decisions of their governments cannot be seen as a stumbling block in the way towards reforms for a modernised and more rule-based EU budget. A resolute shift towards increased EU budgetary support for projects with more European value added and stronger future orientation than today, and a fair and transparent distribution of net financial positions will be far more determined by the outcome of multifaceted interest reconciliation among the 'major players' of the 'old' EU-15.

Keywords: European Union, new Member States, EU budget, Multiannual Financial Framework, cohesion policy, net financial positions

JEL classification: F15, F36, F38, F42, F53, H19, H39, H49, H87

CONTENTS

TABLES AND FIGURES

1 Introduction

MOJMIR MRAK, SÁNDOR RICHTER AND TAMÁS SZEMLÉR

1.1 BACKGROUND TO THE STUDY

The European integration process requires financial resources for its activities, and the EU budget is a tool through which money is collected and allocated for EU policies and objectives as well as for the tasks transferred to the EU from the national level. The EU budget is in many respects quite different from the public finances of the individual EU Member States, and although there have been dramatic changes to the EU itself and its environment during the past three decades, the EU budget has changed little since its last major transformation in 1988.

In terms of size, the EU budget continues to be very small: it represents about 1% of the EU's GDP or just over 2% of total public finances of the EU Member States. The EU budget does not represent a significant factor in almost any consolidated public finance category. Three key elements of expenditure of practically every national budget, i.e., defence, security and public order expenditures, as well as healthcare are not even included in the EU budget. The presence of several other important items in national budgets, such as education and housing, is minimal as well.

The EU budget remains very specific also in terms of its expenditure structure as well as of its financing. On the expenditure side, the EU budget has traditionally two large items – common agricultural policy and cohesion policy – which together cover over 70% of total expenditures. Both expenditure items are allocated among the Member States on the so-called 'country envelope basis' determined through multi-annual framework negotiations. On the revenue side, the budget continues to be largely financed – by almost 75% – by national contributions of EU Member States which depend on the Member State's share within the EU's GNI. As a consequence of these rather specific EU budget patterns on its expenditure and revenue sides, various kinds of correction mechanisms aimed at achieving acceptable net financial positions for individual Member States have been introduced over time.

As an instrument of solidarity among the EU Member States, cohesion policy has been aimed at promoting economic and social convergence and thus at reducing the development gap among less and more developed geographical areas of the EU. Over the decades, cohesion policy has been continuously gaining relative importance within the framework of the EU budget. While cohesion policy expenditures were practically non-existent in the EEC budget of the 1960s, their share increased to already over 20% in the period 1988-1992. During the Agenda 2000, covering the periods 2000-2006 and 2007-2013, this proportion increased further to around one third of total EU budgetary funds. By the end of the 2014-2020 medium-term financial framework, cohesion policy expenditures will become the single largest EU budget expenditure item and thus overtake common agricultural policy, which has traditionally been in this position.

The continuously growing importance of cohesion policy within the EEC/EU budget, both in nominal and relative terms, has been at least partly a result of the fact that, in each of the enlargements (with the exception of the one in 1995), new members of the Community/EU were at a level of development below the Community/EU average. The enlargement of the EU by ten East European countries plus Malta and Cyprus in 2004 and 2007 had therefore significant implications for the EU budget as these countries had to be fully phased-in for all segments of the EU budget expenditures and revenues. As far as the latter are concerned, the new EU Member States were requested to start participating fully in the EU budget financing from the year of their accession. On the other hand, quite extensive time periods were needed for the full phasing-in of new Member States into the two largest EU budget expenditure items: In the case of common agricultural policy, the transition period for new Member States' full access to funds from the first pillar lasted for ten years and expired only in 2013. The transition period for the full use of cohesion policy funds was shorter and de facto limited to the period 2004-2006.

1.2 OBJECTIVES OF THE STUDY AND ITS LIMITATIONS

The overall objective of this study is to analyse the key patterns of cohesion policy within the overall framework of the EU budget from the perspective of the new Member States of Central and Eastern Europe (CEE).

In more specific terms, the main objectives of the study are the following: first, to analyse past trends of cohesion policy and the attitude of various groups of countries towards this policy; second, to assess the position of cohesion policy within the 2014-2020 medium-term financial framework of the EU; and third, to discuss alternative options for cohesion policy within the framework of the EU budget in the post-2020 period.

The study focuses on presenting the views of the new EU Member States of the 2004 and 2007 Eastern enlargement and therefore does not specifically address the views of either Cyprus and Malta (also acceding in 2004) or of the 'old' EU Member States.

1.3 METHODOLOGY

In methodological terms, several methods and tools have been used in the process of preparing the study. The conceptual parts are based primarily on a qualitative analysis of the literature and documents while empirical inputs were provided primarily through an expert questionnaire survey and country case studies.

The questionnaire survey 'Cohesion policy as a function of the EU budget: a perspective from Central and Eastern European Member States' carried out via email was addressed to cohesion policy experts from the ten CEE Member States joining the EU in 2004 and 2007 and from Croatia, working either in the administration (ministry, managing authority, institution involved in the implementation of cohesion policy) or in academia (educational and research institutes). Out of the 248 questionnaires which reached the selected circle of experts, 78 correctly filled-in ones (31.5% response rate) were returned.

As far as cohesion policy country case studies are concerned, four countries – Estonia, Hungary, Poland and Slovenia – have been selected. From a cohesion policy point of view, they represent a balanced mix of the Central and East European Member States, i.e. a sample consisting of countries at different level of economic development (measured in terms of GDP per capita) and those from various geographical sub-regions of the former transition economies.

In addition to the questionnaire survey and the country case studies, two other sources of primary data and information were used. Those include, first, structured interviews made by the authors of the study with individuals primarily from the new Member States but also from some other EU countries and EU institutions. Second, in preparing Chapter 3 of the study, also calculations of the author and his staff at the Faculty of Economics of the University of Ljubljana were consulted (those calculations were carried out in the context of the 2007-2013 and 2014-2020 Multiannual Financial Framework).

1.4 OVERVIEW OF THE STUDY

In addition to this Introduction, the study consists of four chapters and one annex.

The second chapter discusses the concept and evolution of cohesion policy within the EU budget prior to the 2004/2007 Eastern enlargement. The text addresses the issues of the general rationale of cohesion policy as the main distributive policy instrument of the EU budget and presents the evolution of this policy in the period prior to the Eastern enlargement with a focus on the substantial reform of cohesion policy under the Delors I package.

The third chapter deals with cohesion policy within the framework of the EU budget from the point of view of the new Member States after their accession to the EU in 2004/2007. The chapter focuses on the cohesion policy side of the EU accession arrangement for the ten CEE countries, covering the period 2004-2006, as well as on the presentation and analysis of the ‘country envelope’ principle for the allocation of cohesion funds under the 2007-2013 and 2014-2020 Multiannual Financial Framework negotiations.

The fourth chapter provides a detailed assessment of EU cohesion policy from the perspective of the new CEE Member States, by presenting and discussing the responses to the questionnaire survey designed and carried out for the specific purpose of this study. The chapter also provides a comparative analysis of the four cohesion policy country case studies prepared again as an integral part of this study. In addition, the chapter discusses the issue of conditionality for the use of cohesion policy, a highly controversial novelty in the EU budget from the point of view of the new Member States.

The concluding chapter consists of two main parts. In the first one, selected features of the future cohesion policy in the context of the EU budget are examined while in the second part three scenarios on this subject are presented.

The Annex presents the questionnaire distributed, in 2013, among individuals in ten EU Member States of Central and Eastern Europe and in Croatia.

2 Concept and evolution of cohesion policy within the EU budget prior to the 2004/2007 Eastern enlargement

SÁNDOR RICHTER, TAMÁS SZEMLÉR

2.1 GENERAL RATIONALE FOR AN EU BUDGET AND COHESION POLICY AS A SEGMENT OF IT

2.1.1 Introduction

The European Union is one of the major economic integration blocks in the world economy. Nevertheless, it has been the only such economic integration block up till now where a redistribution of a part of the block's aggregate GNI takes place across the participant countries. Moreover, none of the other economic integration blocks has the declared goal or even a vision for the future to establish a redistribution of its members' GNI in one or another way, similar to that taking place in the EU. In this sense the EU has been and remains a unique institution. This makes an analysis of the intra-EU cross-Member State redistribution an extremely challenging task. One can analyse the budget and thus the redistribution of incomes exercised by a state in the context of other states, that of a city or a community in the context of comparable cities and communities. For the European Union there is no definite benchmark, there are no players in the same class for comparison.

2.1.2 The two faces of the EU budget: shared sovereignty and cross-Member State redistribution

Shared sovereignty

In trying to define the extent of the budget of the European Union, we may apply two different approaches. The first approach focuses on the issue of *sovereignty*. Each Member State renounces a part of its GNI and pays it into the Community budget. Currently this amounts to about 1% of the EU GNI. The sum collected will then be allocated to individual Member States along the various European policies. In theory this should not necessarily mean *redistribution* of resources across Member States. In the hypothetical case each Member State receives transfers from the EU budget amounting to about 1% of its GNI; the only issue to be discussed would be the following: who (the EU or the Member State) will decide about the targets and modalities of expenditures amounting to 1% of a Member State's GNI?

In real life we see a shared sovereignty. Individual Member States do not possess of this 1% in the sense that a Member State's legislation may earmark spending targets and allocate money to them. Allocation, along various European policies, will be decided upon by the European Council in the framework of the Multiannual Financial Framework (MFF).[1] But this is a body where each Member State

[1] In a second round of the decision-making process also by the European Parliament.

has the right to participate and influence the decisions on the European policies to be applied and indirectly also on the size of redistribution through the EU budget. In the case of extreme differences of opinions any Member State may veto the EU budget. But this right of the Member State to influence the size and spending philosophy and practice of the EU budget can be exerted only once in every seven years.

As regards sovereignty, the fundamental question is how much of it the Member States are ready to delegate from individual Member State competency to the EU level. In theory the EU, as the allocator of resources, could possess over a much higher share of the Member State GNI than the current 1%. The change in shared sovereignty is about competencies, not about the redistribution of resources across Member States. Smaller or bigger EU competency could leave net financial positions unchanged and principally it could occur with zero net financial positions, where each Member State receives as much transfers form the EU budget as it has contributed to the budget, 'only' the allocation of these resources across spending targets within the Member State concerned would be delegated to the EU level. A considerable extension of the EU budget in this sense would involve the delegation of complete areas of public finance from Member State to community level, which is far from the current practice and would be compatible only with a vision of a federally constructed 'United States of Europe'.

Redistribution of income

The other approach addresses the *redistribution of income* across Member States. While each Member State contributes to the community budget with about 1% of its GNI, net contributor Member States receive, in terms of transfers, less than their contributions: only 0.6% to 0.8% of their GNI (the paid-in 1% diminished by their net financial position). Net beneficiary Member State also contribute about 1% of their GNI to the EU budget, but this group of countries receives transfers from the community budget amounting to 1.06% to 4.88% of their GNI (the paid-in 1% supplemented by their net financial position).[2]

It is important to underline that redistribution of the EU GNI across Member State is not an explicit target of the EU budget, rather it is the consequence of parameters of individual European policies, predominantly that of cohesion policy. No Member State can put forward a proposal for expenditures from the EU budget to amount to a certain sum, and for the proportion of cross-Member State redistribution to be so and so high. What individual Member States can indeed do is to put forward recommendations for the European policies focusing on eligibility criteria, propose a cap on overall expenditures paid from the EU budget and hope to convince a sufficient number of other Member States to support the initiative. A fine calibration of these two items indirectly determines the overall size and the extent of cross-Member State redistribution in the EU budget.

2.1.3 The relation between EU budget and Member State budgets

In the absence of a theory of budgetary relations between the EU and its Member States, an attempt will be made here for testing this relation with the help of the toolkit elaborated by the OECD for measuring fiscal decentralisation.[3]

2 Estimations by the Austrian Ministry of Finance of the net financial positions of Member States in the next MFF 2014-2020, 'MFF 2014 bis 2020', presented by Edith Peters at the FIW seminar, Vienna, 14 February 2013.

3 OECD/Korea Institute of Public Finance (2013).

As the introductory section of the above-cited OECD paper argues, there is no consensus in the international literature on the taxonomy of intergovernmental grants.[4] In the OECD analysis the emphasis is put on the relation between the central government budget (CG) and the sub-central constituents of federal countries (states, *Länder*, provinces, regions, etc.) or the central government budget and local governments in unitary countries (without a federally structured state).

In the following exercise the European Union and its budget appear in the role of the central government and the Member States in the role of the secondary (lower) level of government. It must be noted that this is a formal issue, since there is no state in the world where 1% of the GNI is redistributed through the central government budget and 99% through regional/local governments. But we have to bear in mind that the while the EU bears some features of a state, it is definitely not a state, and its budget finances only a fragment of the tasks (except for the subsidisation of agriculture) which typically belong to the competence of central government budgets.

Taxing power

In its taxonomy the OECD distinguishes 13 grades of taxing power, based on the extent to which taxing power is shared between the central government (CG) and the sub-central government (SCG) level(s) over tax rates, tax bases and tax sharing arrangements.

In terms of taxing power the EU, in the quality of a CG, is nearly non-existent. Of the 1% GNI collected by the EU budget, only the traditional own resources[5] can be considered as own tax income of the EU. This component amounted to 13.2% of the EU budget revenues (or 0.13% of the EU GNI) in the period 2007-2011 on average. According to the OECD taxonomy, the traditional own resources component is a tax sharing arrangement, as the CG (the EU) collects the tax, but a fixed part (20% of the total from 1 January 2014) of the collected sum is left at the SCG (Member State) level to cover the costs of tax collection.

Despite the misleading name, the VAT-based own resources (20.2% of the total in 2007-2011, average) have no relation to real VAT revenues in the Member States; the latter serve only as a starting platform for complicated calculations resulting in a practically GNI-proportional item.[6] The biggest component of EU budget revenues, the GNI-based contributions by Member States, amounted to 66.6% of the total in 2007-2011 (average). This component, and practically the VAT-based contribution as well, incorporate a simple transfer from the Member State treasuries to the EU budget. It can be interpreted as a special Member State GNI-proportional tax, where the individual treasuries of the Member States figure as subjects of the tax. What can we say about the sharing of taxing power between the EU and the Member States in this case? The SCGs (individual Member States) have originally the power as part of the decision-making process to influence the tax base and the tax rate, possible tax reliefs, and details of tax sharing, but once the decision is made (at the European Council and later approved by the EP in every seventh year) individual Member States have no longer any opportunity to change any of the details up to the decision on the next MFF seven years later.

---

4 For references see Rodriguez-Pose and Ezcurra (2010); Baskaran (2010); Martinez and Timofeev (2010).

5 Agricultural duties (up to 2008), sugar levies, customs duties.

6 European Commission (2004), p. 6.

The European Union has declared its claim for genuine own resources already in an early phase of the integration process and its first element, the 'traditional own resources', was introduced in 1971.[7] Genuine own resources would be a new tax to be collected in the Member States by the EU and would reach the EU budget without the intermediation of the Member State treasuries. Over the past decades a plethora of ideas has been put forward as to what this tax should look like:[8]

› Genuine VAT
› EU corporate income tax
› Personal income tax
› Taxation of energy
› Excise duties on tobacco and alcohol
› Transfer of seigniorage revenue
› Communication taxation
› Climate charge on aviation
› Tax on stock exchange transactions
› Withholding tax on interest income
› Tax on international financial transactions (Tobin tax)

Of all these ideas, the last-mentioned tax on international financial transactions came the closest to (partial) realisation, as in the case of this tax the effects seem the least visible for European citizens and costs are apparently borne by the financial institutions.

Another solution is also worth mentioning, namely the sharing of an already existing tax revenue between the Member State budgets and the EU budget. In Germany revenue from the VAT, the personal income and the corporate income taxes and a withholding tax on interest and capital gains are all shared between federal, state and local government levels, in each case in different proportions.[9] Including a further (EU) level into one or more of these taxes would be technically (but not politically) a simple solution, at least in federally constructed states such as Germany. In unitary states the difficulties, both of a technical and political nature, would probably be bigger.

How does the SCG (Member State) contribution to the CG (EU) budget, amounting to 1% of Member State GNI, relate to the internal allocation of tax collection between central and regional/local governments? Sub-central level tax collection in the Czech Republic and Slovakia was extreme low (0.4% and 0.8%, respectively) and not very high in Estonia, Hungary and Poland (4%, 2.3% and 4.1%, respectively).[10] We see here the opposite one-sidedness as compared to the relation between EU budget and Member State budget, if it is interpreted as allocation between CG and SCG.[11]

The OECD terminology defines tax sharing as '*an agreement where tax revenue is divided vertically between central and sub-central governments as well as horizontally across sub-central governments … Often tax sharing arrangements contain an element of horizontal fiscal equalisation. Tax sharing has become a means to provide fiscal resources to sub-central governments while maintaining central*

---

7 European Commission (1998).

8 See an overview of the discussion on the topic in Cattoir (2004); Schratzenthaler and Berghuber (2007), pp. 34-50; Richter (2008).

9 Spahn (2013), p. 93.

10 2005 data. Blöchliger (2013), p. 18, Table 1.2.

11 Federally organised states have different proportions: in Germany sub-central revenues amount to 10.2%, in Canada to 15.7% of the GDP of the countries concerned. Op. cit., p. 18, Table 1.2.

control over fiscal aggregates.'[12] As discussed above, tax sharing arrangements play a subordinate role in the EU budget except for the small item left for covering tax collection costs within traditional own resources. In the European Union's budget the task of horizontal fiscal equalisation has been delegated to a category which is defined by the OECD as intergovernmental grants.

Intergovernmental grants

Intergovernmental grants (or transfers) provide SCGs with additional financial resources, thus filling the gap between own tax revenue and expenditure needs. The conditions attached to intergovernmental grants are ranging on a broad scale from transfers that allow full autonomy for the SCG concerning utilisation up to grants where the central government retains strict control.[13]

The OECD database provides data for 25 countries in 2006.[14] While figures in individual countries range widely (from 2% in Turkey to 34% in Korea) the average share of intergovernmental grants was 25.2% in per cent of total tax revenues in the group, or 8.6% of the group's aggregated GDP (unweighted average). Placing the EU budget into the role of an imaginary CG, intergovernmental grants (to Member States, or in this simulation to SCGs) can be calculated as that share of the EU budget expenditures which equals to the contributions of net contributor countries to the EU budget less the transfers they receive, or the receipts from the EU budget of the net beneficiary countries less the contributions they pay into the EU budget. Table 1 shows that in terms of share in economic performance of the EU, intergovernmental grants are negligible compared to comparable data of the individual OECD countries in the group of 25, ranging from 0.16% in 2006 to 0.27% in 2011 of the EU GNI. However, as the EU budget collects only about 1% of the EU GNI, the share of intergovernmental grants within the EU budget expenditures is high; in 2011 it amounted to one quarter of the total (in EU GNI terms 0.27% relative to 1.08%). This proportion is practically identical with the intergovernmental grants' share in total tax revenues in the 25 selected OECD countries in 2006.[15] (Nevertheless, in 2006 the respective proportion of 'intergovernmental grants' was lower, about 16%, see Table 1.)

Table 1 / Net redistribution through the EU budget in selected years

	1997	2003	2006	2011
EU GNI, EUR million	7,388,285	9,503,191	11,401,003	12,664,138
Net redistributed GNI across MS*	15,909	17,099	18,466	34,185
Net cross-MS redistribution in % of EU GNI	0.22	0.18	0.16	0.27

*Contributions of net payer countries to the EU budget less the transfers they received, or receipts of net beneficiary countries from the EU budget less the contributions they paid.
Source: GNI: Eurostat, net redistribution: EU budget 2007 Financial Report, Annex 5 and EU budget 2011 Financial Report Annex 3; own calculations.

If we put the EU budget into the imaginary role of a CG, we can analyse how intergovernmental grants affect individual SCGs' financial positions. One group of the SCGs are winners, another group of SCGs are losers of the process, certainly strictly from a fiscal point of view.[16] The net financial position of

[12] Blöchliger (2013), p. 22.

[13] Blöchliger (2013), p. 23.

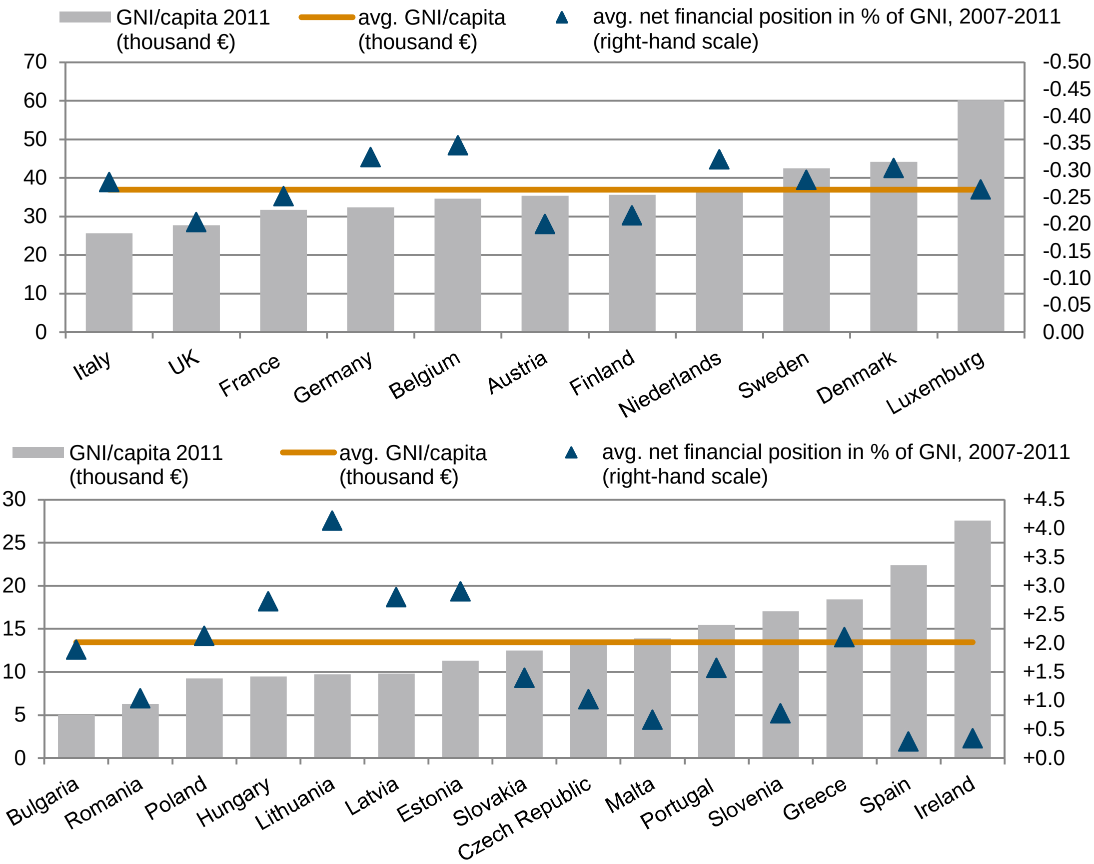
[14] Blöchliger (2013), p. 18, Table 1.2.

[15] Blöchliger (2013) p. 24. Table 1.5

[16] It would be misleading to limit the impact of cross-MS redistribution to the fiscal effects. Net contributor Member States gain in terms of expanded trade, FDI and other business opportunities.

individual Member States give a clear picture of the relative significance of these grants/transfers for the Member State concerned.

Figure 1 / Net contributor and net beneficiary Member States: per capita GNI and net financial position vis-à-vis the EU budget



Source: EU budget 2011 Financial Report, European Commission; Eurostat and own calculations.

Taxonomy of intergovernmental grants

There is a dividing line in the OECD taxonomy separating earmarked and non-earmarked grants. In the case of the EU Member States, there are only earmarked intergovernmental grants. This is significantly different from the average of 20 selected OECD countries with 49.5% non-earmarked grants at the primary level of the sub-central government (state, province, region, etc.) and 47% at the secondary (local) level.[17]

Earmarked grants can be further divided into mandatory and discretionary grants, reflecting their legal background which stipulates their allocation.[18] In case of the EU budget expenditures, part of the CAP, namely direct payments to farmers and market-related expenditures (33.8% of the total in 2011)[19] represent mandatory transfers; all other items fall into the category discretionary grants. In the group of

[17] Own calculation based on Blöchliger (2013). p. 26, Table 1.6.

[18] Blöchliger (2013), p. 25.

[19] European Commission (2012).

the selected 20 OECD countries, on average two thirds of the primary level of sub-central government transfers were mandatory, and 58% at the secondary level.[20]

A further classification of the OECD distinguishes between matching and non-matching grants. In the former case transfers are linked to supplementary SCG own expenditure, in the latter they are not. In the OECD sample, average matching and non-matching grants are roughly equal both within mandatory and discretionary grants. By contrast, in the EU budget the mandatory transfers for farmers (direct payments) are completely non-matched, while cohesion policy, rural development and competitiveness expenditures are all fully matched transfers as national contribution is required in each and every project, to various extents.

Finally, the OECD taxonomy distinguishes between grants for capital expenditure (investment) and those for current expenditures. In the OECD sample, within earmarked grants current expenditures made up 82.7% of total grants at the primary level of SCGs and 60.7% at the local level. As the philosophy of the EU policies (except for direct payments) supports development primarily through investment and contributions to initial but not to permanent operational costs, current expenditures are assumed to play a substantially smaller role in the EU Member States' fiscal relations than in the CG-SCG relations in the OECD sample countries.

Spending power – the limits of autonomy

Sub-central governments' spending power is defined as the extent of control these can exert over the general government budget. That translates into calculating the share of SCG expenditure in general government expenditure (CG+SCG). Nevertheless, disposal over the money is only part of the whole story, as upper-level government regulation must also be taken into consideration while evaluating SCG discretion over various budget items.[21]

Applying this approach to an imaginary federal EU state with the Member States as lower-level constituents, the SCG level (the aggregate Member State budgets) amounts to about 45% of the EU GNI[22] and stands out with its overwhelming dominance over the 'federal' EU budget amounting to 1% of the EU GNI. The distribution across Member States is however fairly diverging, but even in the case of the best positioned net beneficiary Member States, the relation of resources from the CG (EU) budget to the SCG (Member State) budget is about 1:10.

Still, spending power is more than simple arithmetic, and the EU's regulatory power goes way beyond the scope of transfers.

Autonomy in regulatory terms

The OECD taxonomy maps SCG autonomy in regulatory terms in five different aspects.[23]

---

[20] Own calculation based on Blöchliger (2013), p. 26, Table 1.6.

[21] Blöchliger (2013), p. 30.

[22] In 2011 general government revenue in the EU amounted to 44.6% of the EU GDP (European Commission, 2012, General Government Data, Table 29B, Spring 2012).

[23] Blöchliger (2013), p. 31.

› Policy autonomy: Are SCGs obliged to provide certain services? If we take Member States as SCGs, we may argue that the EU does not prescribe explicit service delivery, but the Member State must comply with the EU's acquis communautaire, which may necessitate that certain services must be delivered. Non-compliance with fundamental values of the EU through not delivering certain services could trigger sanctions.

› Budget autonomy: To what extent do SCGs exert control over the budget? Member States as SCGs have full control over their own budget, except for the extent of the fiscal deficit: this is regulated in the Stability and Growth Pact and, in case of non-compliance, an Excessive Deficit Procedure is initiated. In the forthcoming 2014-2020 MFF, repeated non-fulfilment of recommendations under the Excessive Deficit Procedure or the Excessive Imbalance Procedure may be sanctioned by suspension of a considerable part of cohesion policy transfers for the Member State involved.

› Input autonomy: To what extent do SCGs exert control over the civil service such as staff management and salaries and other input-side aspects of a service, e.g. the right to tender or contract out services? Concerning staff management and salaries issues, there are no limitations for the Member State budget imposed 'from above' by the EU. Nonetheless, constraints are considerable in public procurement where the provision of an equal playing ground for potential domestic and other EU providers is a fundamental criterion of EU membership.

› Output autonomy: To what extent do SCG exert control over quality and quantity standards of services delivered? Here SCG autonomy is full in the case of expenditures from the own budget but limited in the case of services delivered by CG (EU cofinanced) projects, where the EU has the right to control whether the standards agreed upon in the preparatory stage of the project have been observed; non-compliance may lead to sanctions such as re-payment of the support received.

› Monitoring and evaluation: To what extent do SCGs exert control over evaluation, benchmarking and monitoring? The SCGs have full power as concerns own expenditures, but in the case of CG (EU cofinanced) projects the CG (EU) regulations for monitoring and evaluation overrule the SCG regulations.

While CG resources are small in relation to SCG budgets, this money combined with the limitations of SCG autonomy deriving from the EU's regulatory power poses greater constraints on SCG autonomy than the 1% GNI proportional EU budget alone would suggest.

2.1.4 Complexity of the EU budget

In the section above where the OECD taxonomy was used to illustrate the characteristic features of the EU budget, the expenditure side of the EU budget was presented as one single item. However, the expenditures consist of very different components following a diverging logic/philosophy.

Unitary state logic

Of the five main expenditure areas, chapter 4 *Global Europe* and chapter 5 *Administration* (with a combined share of 12.5% of the total budget and of 0.125% of the EU GNI)[24] are comparable to

[24] Here and in the next calculations data are from the 2014-2020 MFF as approved by the European Council on 7-8 February 2012 (European Council, 2013).

expenditures of a unitary state, with no interference from lower levels of government, here the Member States.

Chapter 2 *Natural resources* consists of two very different sections, the first and second pillars. The first pillar is *Market related expenditures and direct payments* (28.9% of the total budget, 0.289% of the EU GNI), the second pillar is *Rural development.* As for the first pillar, the EU follows the logic of a highly centralised unitary state, as the agricultural subsidies provided here are not matched by lower level (Member State) contributions; moreover, any additional subsidies by Member State governments are strictly prohibited (based on competition policy considerations). Although the specific transfers have been strongly diverging by Member State after the 2004 and 2007 enlargements, in the next MFF period the income gap of subsidy recipient will be radically smaller, imitating the equal treatment of 'farmer-citizens' in a unitary state. Direct payments reach the recipient farmers without interference by Member State fiscal authorities. The second pillar, *Rural development*, follows a different logic, to be discussed further below.

'Redistribution fosters convergence' logic

MFF Chapter 1 *Smart and inclusive growth* consists of two constituents of a fairly diverging nature. We address here sub-chapter 1b *Economic, social and territorial cohesion* (33.9% of the total budget, 0.339% of the EU GNI). This is the area of the EU budget where cross-Member State redistribution deliberately happens, even if in an indirect way. No explicit target concerning the extent of redistribution is announced but the rules of the game are calibrated to reach a certain extent of redistribution which is acceptable for all Member States. For this purpose eligibility criteria are tailored to parameters of the typical recipient (Member States with less than 90% of the EU average development level, or regions in Member States with 75%, 75-90% and above 90% of the EU average development level). The specific resources made available for the recipients are tiered digressively by prosperity of the recipient regions. Cross-Member State redistribution is the consequence of the tiered eligibility criteria. Apart from the eligibility criteria, a cap (also tiered by prosperity of the region concerned) on the resources available from this chapter helps to delimit the extent of cross-Member State redistribution 'from above'. Here, matching of the EU transfers by Member State contribution is a must, and the extent of the contribution (central or local budget, the recipient organisation or enterprise) is also tiered by prosperity of the recipient Member State (and also by the type of the project to be financed).

'Best bidder takes all' logic

Sub-chapter 1a *Competitiveness for growth and jobs* accounts for the third distinct logic among the parts of the EU budget (13.1% of the EU budget, 0.131% of the EU GNI). This is the chapter where available resources, earmarked for modernisation (R&D, trans-European transport and communication networks), will be allocated to applicants that proved to be the best in an unrestricted competition. Here, unrestricted competition is the guarantee for cross-Member State redistribution, as highly developed Member States have a far better record in getting project financing than less prosperous Member States.[25]

[25] Somai (2013), pp. 15-17.

Mixed logic

Rural development, the second pillar of chapter 2 *Natural resources* (10.0% of the total budget, 0.099% of the EU GNI) is an in-between construction where matching by recipients is required but the available resources are pre-set for the individual Member States and no exact eligibility criteria such as those in the case of expenditures from the sub-chapter *Economic, social and territorial cohesion* are applied. The purpose is modernisation coupled with 'greening' of agriculture and rural areas. This is also the field for equalisation. First, cofinancing rates are tiered by relative prosperity of the regions; second, discretionary expenditures for a couple of Member States are allocated here with the obvious underlying purpose to amend the overall budgetary position of the Member States involved. While the main objective here is modernisation, these expenditures do not fit into the box of *Modernisation logic* as the Member State envelopes in this sub-chapter are pre-fixed and there is no EU-wide competition by applicants for these resources.

The resources for the Member States from chapter 3 *Security and citizenship* (1.6% of the total budget, 0.016% of the EU GNI) probably fits best into this box. Transfers from this chapter are of a supplementary nature, as the responsibility for the services to be provided in this field and the related financing of them are all in Member State competency.

2.1.5 Conclusions

The recent crisis has fundamentally changed the prospects of cross-Member State redistribution in the EU. In the wake of the crisis the long-established budget of the EU will have to face new 'competitors'. In May 2010 two new financial support instruments were called into being: the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). The developments following these decisions inspired the euro area members to make the existing support mechanism more robust and establish a permanent crisis resolution institution, the European Stability Mechanism (ESM).

The ESM will issue bonds or other debt instruments on the financial markets to provide assistance to Member States and will have a total subscribed capital of EUR 700 billion provided by euro area members. To put this figure into perspective: it amounts to 73% of the EUR 960 billion total funds to be made available within seven years (2014-2020) via the next Multiannual Financial Framework (EU budget).

The crisis also opened a new chapter in fiscal governance issues within the EU. After the measures introduced for a stricter control of Member States' national budgets, the call appeared for the establishment of a new, proper fiscal capacity for the EMU. It is expected to provide sufficient resources to support important structural reforms in economies in distress.

That means that cross-Member State redistribution in the EU will most probably become larger and substantially more complex in the future than it is today. Planning and implementing large-scale changes in this field and assessing their possible impact may become easier through a better understanding of the similarities and differences of the cross-Member State redistribution within the EU compared to the existing federal structures in EU Member States and other countries of the world.

2.2 THE BEGINNINGS OF COHESION POLICY BETWEEN THE 1960S AND THE MID-1980S

2.2.1 Introduction

Cohesion policy was of limited importance at the beginning of the European integration process. This was due to the fact that the founding Member States did not show any significant territorial differences; the only really important exception was Southern Italy, but, being alone at that time in the circle of the countries participating in the integration process, this problem was judged as a specific one to be handled on the national level.

While the specific nature of the case of Southern Italy may be true – most problems already identified in the 1950s still persist today -, territorial imbalances have become more important within the first three decades of the EC. The process became really visible at the end of the 1960s; several circumstances resulted in the increasing need for a proper community-level treatment of – both social and economic – problems of underdeveloped territories and regions facing specific problems. The most important factors were the following:

› The first project of the Economic and Monetary Union (the Werner Plan) launched at the end of the 1960s made necessary a proper treatment of development differences between regions and Member States. Despite the fact that the attempt to create an EMU at that time failed, the idea and the preparations contributed to a great extent to the development of a community-level cohesion policy (called at that time structural and regional policies).

› The end of the ‘golden era’ of post-war growth. The 1973/74 oil shock had an overall effect, but, obviously, it was especially felt in the most problematic regions. The EC had to act in order to limit the effects of the recession.

› The enlargements of the EC (1973: the UK, Ireland and Denmark, 1981: Greece, 1986: Spain and Portugal) were gradually but – by the mid-1980s – substantially modifying the picture prevailing in the 1950s. Territorial imbalances (both intra-country and inter-country) became a key issue to be handled at the European level.

All the above reasons led to the gradual development of cohesion policy. While in the early 1970s, the community financing of operations which we would call today ‘cohesion expenditure’ was negligible, by the mid-1980s it constituted one of the key issues of the EC budget. This was also reflected in the amount of resources spent from the EU budget: in 1970, these corresponded to EUR 118 million (5.3% of the EC’s general budget); in 1980, to EUR 1.8 billion (11.4%); in 1987 (the last year before the introduction of the Delors I package) to EUR 5.9 billion (16.7%).[26]

The first important step in the 1970s was the creation of the European Regional Development Fund in 1975. This added a new – territorial – dimension to that of the already existing tools (the European Social Fund existing since 1958, the European Agricultural Guidance and Guarantee Fund existing since 1962) of community financing. It is important to emphasise that the focus of the new instrument was on

[26] Vade-mécum budgétaire, Office des publications officielles des Communautés européennes, Luxembourg, 2000, pp. 29-30.

regions and not on countries (that focus came only almost two decades later, with the establishment of the Cohesion Fund, also for various reasons). Intra-country territorial imbalances have come to be treated as a Community issue.

It is also important to mention that underdevelopment (the fact that a certain region lags behind the EU average in terms of GDP per capita) has not been the only problem to be covered. Structural issues (e.g. regions characterised by the presence of sectors in decline, later also rural regions) were also part of the scope of the developing new Community policy – this is why it was called not just regional, but also structural. The second oil shock and its consequences showed clearly how important this aspect was.

2.2.2 Substantial reform of cohesion policy under the Delors I package

The 1980s brought considerable changes in the European integration process. After the second oil shock and the years of eurosclerosis in the first half of the decade, the new European Commission led by Jacques Delors gave an impetus to the integration process. This concerned, among others, the EU budget, and – with special regard to the Southern enlargement of the EC – structural policy.

From 1988, a new system of the EU budget – including a new own resource, the GNP resource (now GNI resource) – and a new set of regulations, principles and objectives of structural actions came into force. Both changes were systemic and included the possibility of mid-term planning of objectives, thus ensuring continuity as well as increased efficiency of EU actions.

Mid-term planning was paired by the principle of concentration on specific areas (determined by a standard set of criteria) and on specific objectives (determined as objectives of structural policy actions). These measures intended to ensure higher effectiveness and also increased efficiency of Community spending and of the actions (co)financed.

Beyond concentration, the new principles introduced included additionality, partnership, programming, subsidiarity and decentralisation. All these principles were aimed at providing for the effectiveness of structural operations.

The sum available for structural policies also increased considerably; by 1988, it was EUR 6.42 billion, (15.6% of the EC's general budget) and it was increasing further: in 1992, it was EUR 18.4 billion (31.4% of the EC's general budget).[27] This was a crucial step, and a logical consequence of the changes due to the accession of Greece, Portugal and Spain. With the Southern enlargement, the territorial differences between Member States and – even more so – between regions had increased substantially. The EC was no longer a group of traditionally rich Western European countries where territorial imbalances were only exceptions and could be judged as problems to be handled solely on the national level. Regional differences had become part of the characteristics of the EC, thus also the handling of these imbalances needed (at least partly) solutions from the Community level. Table 2 shows the average annual amounts and the importance of EC structural assistance (annual average in % of GDP) by Member State for the period 1989-1993.

[27] Vade-mécum budgétaire, Office des publications officielles des Communautés européennes, Luxembourg, 2000, pp. 30-31.

Table 2 / Annual average of total EC structural assistance by Member State, 1989-1993

Member State	EU assistance (annual average, total, ECU million)	EU assistance (annual average, in % of GDP)
Belgium	173	0.11
Denmark	86	0.08
France	1,387	0.14
Germany	1,680	0.13
Greece	1,834	2.65
Ireland	980	2.66
Italy	2,374	0.27
Luxembourg	15	0.17
Netherlands	163	0.07
Portugal	1,892	3.07
Spain	3,017	0.75
United Kingdom	1,066	0.13
EC-12	14,666	0.29

Source: European Commission, in: Horváth, Z. (2005), Handbook on the European Union, Hungarian National Assembly, p. 449.

Corresponding to this logic, the least developed NUTS II regions (those with a per capita GDP below 75% of the EC average) received most of the support from EC structural operations; however, as part of the set of objectives introduced from 1988, the handling of some specific problems also received important EC financial resources. The objectives set up by the Delors I package were the following:[28]

› Objective 1: Helping regions whose development is lagging behind;
› Objective 2: Supporting economic and social conversion in regions worst hit by the decline in industrial production;
› Objective 3: Supporting programmes aimed at helping the young and long-term unemployed;
› Objective 4: Supporting measures for re-training and promoting the adjustment of the workforce to changes, in order to avoid unemployment;
› Objective 5a: Supporting the modernisation and structural adjustment of certain agricultural and fisheries sectors;
› Objective 5b: Supporting the development of typically agricultural regions with high agricultural employment.

Programmes corresponding to the above – quite complex – objectives have been financed from the four Structural Funds (ERDF, EASF, the guidance section of EAGGF and FIFG). A certain part of these funds has been used to finance the so-called Community Initiatives (12 programmes dealing with specific problems not fitting into (only) one of the above objectives).

With these changes, structural policies clearly became – from the point of view of their weight in the EC budget – the second biggest heading of EC expenditure. Obviously, this also meant that since that time, they have come to be a central element of the debates on the EU budget. Due to the already mentioned changes of the regulations concerning the budget as well as structural policies, these debates have become less frequent (owing to the mid-term financial perspectives and programming periods), but – for the same reason – their importance has increased.

[28] Horváth, Z. (2005), Handbook on the European Union, Hungarian National Assembly, pp. 444-445.

2.2.3 Developments of the cohesion policy under the Delors II package

The first years of the 'new era' introduced by the Delors I package proved that the system was functioning. However, due to further developments of the integration process, it needed some adjustments that were to take place from 1993 onwards.

The reasons for the changes can be found in the lessons learnt from the experiences of the first years of the functioning of the new system as well as in some decisive steps in the deepening of the European integration process.

One of the most important results of the signature and of the coming into force of the Maastricht Treaty was the Member States' approval of the plan of preparing for and launching the Economic and Monetary Union (EMU). As already mentioned when discussing the developments in the early 1970s, such a step requires a higher degree of cohesion.

In line with that need as well as with the experiences of the first mid-term financial perspective (and the first programming period), structural policy actions were reinforced. The amount available for structural operations increased further.

Table 3 / Annual average of total EC structural and cohesion assistance by Member State, 1994-1999

Member State	EU assistance (annual average, total, ECU million)	EU assistance (annual average, in % of GDP)
Belgium	349	0.18
Denmark	140	0.11
France	2,491	0.22
Germany	3,622	0.21
Greece	2,956	3.67
Ireland	1,234	2.82
Italy	3,608	0.42
Luxembourg	17	0.15
Netherlands	436	0.15
Portugal	2,940	3.98
Spain	7,066	1.74
United Kingdom	2,164	0.25
EU 12	27,024	0.45
Austria	316	0.19
Finland	331	0.40
Sweden	261	0.37
EU 15	27,932	0.41

Source: European Commission, in: Horváth, Z. (2005), Handbook on the European Union, Hungarian National Assembly, p. 449.

A specific fund – the Cohesion Fund – was created for those countries that had the lowest GDP per capita levels (originally, for those four countries that had a GDP per capita level of less than 90% of the EU average: Greece, Ireland, Portugal and Spain). The logic behind that step was that in this way these countries could continue their preparation for the introduction of the euro (necessitating increased financial discipline, and even restrictive economic policies), but – due to the Cohesion Fund transfers – they did not have to renounce pursuing their economic development, necessary for the continuation of their catching-up process. How this logic worked in the long run is a different question, but the important point here is that the toolkit of structural policies was widened by an instrument which – contrary to the traditional instruments – targeted not the regional but the national level.

Some other adjustments were made as well: the Financial Instrument for Fisheries Guidance (FIFG) was created in 1993; for the new entrants in 1995 (Austria, Finland and Sweden) a specific objective – Objective 6 of the Structural Funds, supporting the adjustment of scarcely populated regions (areas with a population density of less than 8 persons/km^2) – was designed in order to guarantee a certain 'reward' for them in the first years of their membership, taking into account their net contributor positions.

The amount available for as well as the share of structural operations in the EU budget increased further. While in 1993 EUR 20.5 billion (31.6% of the EC's general budget) was available for these actions, in 1999 the sum was some 50% higher (EUR 30.4 billion) and the share increased to 36.4% of the EC's general budget.[29] The annual average amounts of total EC structural and cohesion assistance by Member State for the period 1994-1999 are shown in Table 3.

2.2.4 Developments of cohesion policy under the Agenda 2000

Towards the end of the 1990s, the prospects of the EU's Eastern enlargement became a tangible reality; while there were still some doubts about which countries would join, and when, enlargement itself was treated as a certainty to happen in the medium run.

It was in this context that the European Commission prepared its proposal entitled 'Agenda 2000 – for a stronger and wider Union' in 1997. Doubts about the details of the enlargement had remained by the end of the negotiations on the 2000-2006 financial perspective (outlined in the Agenda 2000), thus the Berlin summit of the European Council had to decide on a flexible solution. According to the result, the EU was ready to receive six new Member States (the Czech Republic, Estonia, Hungary, Poland and Slovenia from the Central and East European region, Malta from Southern Europe) as soon as from 2002. For the case the enlargement would take place in a different way (concerning the timing, and how many and which countries would accede), the functioning of the EU budget was guaranteed by the ring-fencing of the amounts for the EU-15 and for the enlargement; the latter amounts were supposed to be subject to negotiations as part of the negotiations determining the time and the scope of the enlargement. We know that enlargement did happen differently, so the built-in flexibility was very useful for the smooth (financial) management of the process.

Disregarding the exact circumstances of the enlargement, one thing was clear well before it happened: this step would lead to a much stronger diversity, including territorial imbalances, within the EU than it had ever experienced. This necessitated a reconsideration of the functioning and financing of the existing structural policy instruments.

The reaction to this change was the further increase in the amount available for structural operations as well as increased concentration of the resources. This latter was reflected in the reduction of the number of objectives to three:[30]

[29] Vade-mécum budgétaire, Office des publications officielles des Communautés européennes, Luxembourg, 2000, p. 31.

[30] http://ec.europa.eu/culture/portal/funding/regio_en.htm. Parallel to this change, the number of Community Initiatives was also reduced from 12 to 4.

› Objective 1: helping regions whose development is lagging behind to catch up;
› Objective 2: supporting economic and social conversion in areas facing structural difficulties;
› Objective 3: modernising systems of training and promoting employment.

Due to the specific situation (the fact that the time and the scope of enlargement was uncertain when the financial perspective was prepared), the allocation of resources had to be prepared for the whole period for the EU-15 (see Table 4). A hypothetical allocation for the new entrants was also prepared; when the circumstances of the enlargement became clear, the finances available were finally determined for the ten new Member States for the period 2004-2006 (see Table 5).

Table 4 / Structural and Cohesion Funds: preliminary allocation for the EU-15 for the period 2000-2006 (EUR million, 1999 prices)

Member State	Obj. 1	Obj. 1 trans. support	Obj. 2	Obj. 2 trans. support	Obj. 3	FIFG (outside Obj. 1)	Comm. Initiatives	Coh. Fund	Total
AT	261	0	578	102	528	4	358	-	1,831
BE	0	625	368	65	737	34	209	-	2,038
DK	0	0	156	27	365	197	83	-	828
FI	913	0	459	30	403	31	254	-	2,090
FR	3,254	551	5,437	613	4,540	225	1,046	-	15,666
GE	19,229	729	2,984	526	4,581	107	1,608	-	29,764
GR	20,961	0	0	0	0	0	862	3,060	24,883
IE	1,315	1,773	0	0	0	0	166	720	3,974
IT	21,935	187	2,145	377	3,744	96	1,172	-	29,656
LU	0	0	34	6	38	0	13	-	91
NL	0	123	676	119	1,686	31	651	-	3,286
PT	16,124	2,905	0	0	0	0	671	3,060	22,760
SP	37,744	352	2,553	98	2,140	200	1,958	11,160	56,205
SW	722	0	354	52	720	60	278	-	2,186
UK	5,085	1,166	3,989	706	4,568	121	961	-	16,596
EU-15	127,543	8,411	19,733	2,721	24,050	1,106	10,290	18,000	211,854

Source: European Commission, in: Horváth, Z. (2005), Handbook on the European Union, Hungarian National Assembly, p. 455.

Table 5 / Structural and cohesion funding allocated for the 10 NMS for the period 2004-2006 (EUR million, 1999 prices)

	Obj. 1	Obj. 2	Obj. 3	Fisheries	INTERREG	EQUAL	Cohesion Fund	Total
CY	0	25	20	3	4	2	48	101
CZ	1,286	63	52	0	61	28	836	2,328
EE	329	0	0	0	9	4	276	618
HU	1,765	0	0	0	61	27	994	2,847
LT	792	0	0	0	20	11	544	1,366
LV	554	0	0	0	14	7	461	1,036
MT	56	0	0	0	2	1	20	79
PL	7,321	0	0	0	196	119	3,733	11,369
SK	921	33	40	0	37	20	510	1,560
SI	210	0	0	0	21	6	169	405
Total (%)	61.0	0.6	0.5	0.0	2.0	1.0	35.0	**21,708**

Source: European Commission, in: Horváth, Z. (2005), Handbook on the European Union, Hungarian National Assembly, p. 457.

With this arrangement, the new Member States could also join the EU structural and cohesion policy. However, the 2004-2006 figures provided only for a gradual approach (prepared by the experiences with the pre-accession funds since 2000). For these countries, full-fledged membership in this respect arrived by 1 January 2007, with the start of the 2007-2013 MFF.

REFERENCES

Baskaran, T. (2010) On the Link between Fiscal Decentralization and Public Debt in OECD Countries. Public Choice, 145.

Blöchliger, H. (2013) Measuring decentralization: the OECD fiscal decentralization database. In: OECD (2013) p. 18. Table 1.2

Cattoir, Philippe (2004) Tax based EU own resources: An assessment. European Commission TAXATION PAPERS Working paper No. 1/2004, Directorate-General Taxation & Customs Union, DOC TAXAUD/2004/2007-EN;

Estimations by the Austrian Ministry of Finance of the net financial positions of Member States in the next MFF 2014-2020: 'MFF 2014 bis 2020', presented by Edith Peters at the FIW seminar, Vienna, 14 February.

European Commission (1998), 'Financing of the European Union', Commission Report on the Operation of the Own Resources System, DG XIX, Appendix 1, Brussels, 7 October.

European Commission (2004) 'Financing the European Union', Commission report on the operation of the own resources system, TECHNICAL ANNEX COM (2004) 505 final, Brussels, 14 July p. 6.

European Commission (2012) General Government Data Table 29B Spring 2012.

European Commission (2012): EU Budget 2011 Financial Report

European Council (2013) Conclusions (Multiannual Framework) EUCO 37/13, February 8, 2013 Brussels.

Horváth, Z.: Handbook on the European Union, Hungarian National Assembly, 2005.

http://ec.europa.eu/culture/portal/funding/regio_en.htm

Martinez J.-V. and Timofeev A. (2010) Decentralization Measures Revisited. Public Finance and Management, 10.

OECD/Korea Institute of Public Finance (2013), Measuring Fiscal Decentralization: Concepts and Policies, OECD Fiscal Federalism Studies, OECD Publishing. http://dx.doi.org/10.1787/9789264174849-en

Richter, S.: Seeking New Ways of Financing the EU Budget: on the Proposal of a European Tax on Foreign Exchange Transactions. wiiw Research Report No. 345, January 2008, Vienna.

Rodriguez-Pose, A. and Ezcurra, R. (2010) Is Fiscal Decentralization Harmful for Economic Growth? Evidence from the OECD Countries, Journal of Economic Geography.

Schratzenthaler, Margit and Berghuber, Bernd (2007), Alternative Financing Sources for the EU Budget. Austrian Economic Quarterly 1/2007 pp. 34-50.

Somai, M. (2013) EU-budget: less money less Europe? The new MFF seen from the new Member States' perspective. Unia Europejska.pl Nr. 1 (218) p. 15-17.

Spahn, P. B.: Measuring decentralization of public sector activities: conceptual issues and the case of Germany. In: OECD/Korea Institute of Public Finance (2013) p. 93.

Vade-mécum budgétaire, Office des publications officielles des Communautés européennes, Luxembourg, 2000, pp. 29-30.

3 Cohesion policy within the framework of the EU budget from the point of view of CEE Member States after their accession to the EU

MOJMIR MRAK

3.1 INTRODUCTION

The enlargement of the EU by ten Central and East European (CEE) countries plus Malta and Cyprus in 2004 and 2007 has had significant implications for the EU budget as these countries had to be fully phased-in for in all segments of the EU budget expenditures and revenues. Concerning the latter, the new EU Member States were requested to start participating fully in the EU budget financing from the year of their accession. By contrast, quite extensive time periods were needed for full phasing-in of new Member States into the two largest EU budget expenditure items. As for the Common Agricultural Policy (CAP), the transition period for new Member States' full access to funds from the first pillar lasted for ten years and expired only in 2013. Concerning the full use of cohesion policy funds, transition periods were shorter and de facto differentiated among the individual new Member States depending on the level of their socioeconomic development.

The main objective of this chapter is to present and analyse the characteristics of the cohesion policy expenditures within the framework of the EU budget especially from the point of view of the Member States that acceded in the 2004/2007 eastern enlargement. The chapter focuses on the issue of the allocation of cohesion funds among the Member States as determined during the MFF negotiations on the basis of so-called 'country envelopes' and does not address the issue of absorption capacity for the use of these funds. Also when discussing net financial positions, the chapter discusses exclusively ex-ante or planned net budgetary positions of individual countries, i.e. positions based on payment appropriations (for those, 100% absorption of the funds is calculated), and not ex-post or actual net budgetary positions, i.e. positions based on actual payments (for those, actual payments from the EU budget and thus actual absorption of the funds is calculated). Finally, in the text below the terms cohesion policy funds and structural actions funds are used as synonyms.

For early multiannual financial frameworks (MFFs) including the Agenda 2000, the data used in the chapter are largely based on various Commission documents and on the academic literature while the data for the MFF 2007-2013 and the MFF 2014-2020 are largely the author's calculations based on the FELU model developed for the two rounds of the MFF negotiations.

In addition to this introductory section and the final conclusions, the chapter consists of four sub-chapters. The second sub-chapter presents the basic characteristics and weaknesses of the EU budget and the role of cohesion policy within this context. The following three sub-chapters discuss in detail the main features of cohesion policy in the last three MFFs, i.e., in those MFFs that have been of relevance for the Member States that joined the EU in the 2004/2007 eastern enlargement.[31] In methodological terms the sub-chapters follow by and large a similar logic. In the third sub-chapter cohesion policy features of the Agenda 2000 period are analysed. From the point of view of the new Member States, this was an MFF characterised by two sub-periods: one when these countries had still the status of candidate countries and were thus eligible for pre-accession aid, and one (from May 2004) when the new Member States became eligible for structural actions funds. The subject of the fourth sub-chapter is the MFF 2007-2013 when the new Member States were for the first time fully phased-in for the use of cohesion funds. The chapter addresses in some more detail the dynamics of the negotiation process with the net budgetary position as its dominant driving force. Finally, the fifth sub-chapter starts with a discussion of the failed EU budget review exercise and continues with the presentation and analysis of status quo oriented features of the MFF 2014-2020 agreement.

3.2 BASIC CHARACTERISTICS/WEAKNESSES OF THE EU BUDGET AND THE ROLE OF COHESION POLICY

3.2.1 Main characteristics of the EU budget

The size of the EU budget is rather small if compared to the public finances of the individual EU Member States. While national public finances typically amount to between 35% and 50% of an EU Member State's GNI, the maximum ceiling of the EU budget financing is set at 1.24% of the EU GNI (or 1.27% of EU GNP) according to the Own Resources Decision. In practice, however, the EU budget has always remained well below that ceiling. During the MFF 2007-2013 it was equivalent to about 1.0% of EU GNP and it will remain at more or less the same level during the MFF 2014-2020.

The EU budget is so small because it does not finance some of the most important expenditure categories in national public finances, such as defence, security or healthcare; presence of certain other expenditure items, such as education, housing and social transfers, is very limited. The EU budget has, thus, always had a very specific expenditure structure profile. In the first decade of the EEC, its budget was absolutely dominated by the Common Agricultural Policy. Later on, due to CAP reforms which sometimes included a capping of this expenditure item, on the one hand, and to growing cohesion policy expenditures caused by the enlargements with less developed Member States, on the other hand, the structure of EU budget expenditures changed significantly. In the MFF 2007-2013 period, approximately 80% of total EU budgetary funds was earmarked for these two policies only, and this proportion will be just slightly lower in the MFF 2014-2020 period. The rest is being allocated for strengthening EU international competitiveness, for its external and internal policies, and for administration.

Table 6 shows how the relative importance of cohesion policy expenditures has been growing over the decades. While cohesion policy expenditures were practically not present in the EEC budget of the 1960s, their share increased already to over 20% in the first MFF (the so-called Delors 1 period, 1988-1992). During the Agenda 2000 period (2000-2006) and the MFF 2007-2013 period, this proportion increased further to about one third of total EU budgetary funds. In the 2014-2020 period, the share of cohesion policy expenditures in the EU budget will remain at a more or less unchanged level. By the end of this MFF, cohesion policy expenditures are expected to become the single largest EU budget expenditure item, thus overtaking CAP that has traditionally been in this position.

31 The MFF 2014-2020 takes into account also Croatia, which joined the EU in 2013.

Table 6 / Evolution of cohesion policy as an expenditure heading of the EU budget (% of total commitment appropriations)

1988-1992	1993-1999	2000-2006	2007-2013	2014-2020
21.7	33.2	34.7	35.6	33.9

Source: EU public finances, fourth edition, 2008 and sections 3.3 to 3.5 of this chapter.

There are basically two main principles applied for allocation of EU budgetary funds among the EU Member States:

› *'Excellence principle*': some categories of the EU budget expenditures are being allocated among eligible recipients on the basis of the so-called 'excellence principle'. For tapping funds under these expenditure items economic agents from all Member States are eligible. Funds are being allocated to the best-performing agents selected through EU-wide biddings. Under the 'excellence principle' more or less all EU funds for competitiveness purposes are being allocated.

› *'Country envelope principle':* in contrast to the above, some other EU budget expenditure items are being allocated to individual Member States based on the criteria agreed upon as part of the MFF negotiations and codified in EU legal acts. Typical examples of EU budget expenditures where the 'country envelope principle' is being applied are CAP and cohesion policy. For cohesion policy funds, for example, eligibility is determined largely by the level of development of the individual Member State/region expressed as a percentage of the average EU GDP per capita. A large majority of these funds are, thus, allocated to less developed regions of the EU with a GDP per capita below 75% of the EU average (for structural funds) and to less developed Member States with a GDP per capita below 90% of the EU average (for the Cohesion fund). For the CAP, on the other hand, some other criteria are being applied for allocation of the funds among Member States.

The evolution of the revenue side of the EU budget has been driven by the continuous attempt to strike a compromise between the financial autonomy of the EU budget and sufficiency of resources for its financing. As a consequence, the EU budget has a very specific structure as concerns its revenue sources. Since its last major reform in 1988, the EU budget has four main sources:

› Traditional own resources: include customs duties and agricultural levies. In recent year, it has contributed less than 15% to total EU budget needs.

› *VAT-based own resources:* funds levied on the basis of value-added tax defined on the basis of a statistically adjusted VAT base of the Member States. In recent years, it has contributed about 10% to the EU budget needs.

› *GNI-based own resources:* funds levied on the basis of Member States' GNI, earmarked for balancing the EU budget measured in proportion with the GNI of each Member State. In recent years, this funding source has participated with about 75% in total funding needs of the EU budget.

› *The UK correction:* formally the fourth own resource but in substance terms a zero-sum mechanism.

An integral part of the own resources system is formally also the ‘UK correction’ as well as a set of ‘corrections on this correction’. The ‘UK correction’ or rebate is a mechanism introduced in 1984 based on the economic logic that the country’s position vis-à-vis the EU budget was excessively negative in relation to its level of development, and that the country is eligible for a rebate on its contribution to the EU budget. Even though the UK position in terms of its economic development has improved substantially since then, the ‘UK correction’ has remained in place with only minor changes.

The correction mechanism system in place in the MFF 2007-2013 and largely repeated in the MFF 2014-2020 contains, in addition to the ‘UK correction’, several ‘corrections on corrections’.

3.2.2 Key weaknesses of the EU budget

The EU budget is one of the most problematic areas of economic management within the EU. At the same time, it is also an area which is extremely resistant to any serious change. Although there have been dramatic changes to the EU itself and its environment in the past 25 years, the EU budget has changed little since its last major transformation in 1988.

From 1988 until now the EU budget has remained practically unchanged in terms of size and is still at a level of approximately 1% of EU GDP/GNI. Within the budget’s structure, CAP and cohesion policy expenditures are still prevalent with a combined share of around 75% of the total. The EU budget is thus strongly dominated by a small number of highly redistributive policies while policies that are broadly recognised as EU-wide public goods are poorly represented. Not much has changed on the revenue side of the budget as well as transfers from national budgets still represent by far the most important funding source of the EU budget.

The dominance of national contributions on the revenue side of the EU budget associated with the highly distributive character of its two main spending categories – allocation of funds for both CAP and cohesion policy based on the ‘country envelope principle’ – have resulted in a system where at least the recent three MFF negotiations (for the 2000-2006, 2007-2013 and 2014-2020 periods) were overburdened with very straightforward attempts of individual Member States to bring back home as much money from the EU budget as possible. This ‘juste retour’ logic or obsession with net national financial positions has in fact poisoned the overall EU budgetary debate. The experiences of these negotiations have confirmed a mentality according to which achieving an acceptable net financial position has de facto become a more important negotiations objective than agreeing on the size and structure of those spendings with a high European value added.

In addition to its strong pro ‘status quo’ bias, over the recent decades the EU budget has also become less and less transparent due to the dominance of the net financial position logic in the MFF negotiations. There have been several attempts to address the net financial problem and the highly complex and non-transparent system of EU budget corrections, but with no success until now. The most serious one was the Commission’s 2004 proposal for a generalised correction mechanism that would be open to all Member States and would replace the ‘UK correction’. Another idea was to modify the calculation of net balances so as to take into account a broader concept of costs and benefits apart from the pure budget. There were also proposals from academic circles (see, for example, De la Fuente and Domenech, 2001; Heinemann, 2007; Rant and Mrak, 2010) suggesting that EU budget negotiations should be divided into two stages: first, net budgetary positions should be fixed; second, the content of the EU budget should be negotiated.

3.3 AGENDA 2000 PERIOD: EU-8 FROM PRE-ACCESSION ASSISTANCE TO PHASING-IN COHESION POLICY PERIOD

3.3.1 Pre-accession assistance as a cohesion instrument

The CEE countries started their EU accession path in the early years after the fall of the Berlin Wall and the beginning of their transition from centrally planned to market economies. The first important institutional arrangements within this framework were the so-called Europe Agreements. As association agreements between the EU and the CEE countries that joined the EU in 2004/2007, they served as a legal framework for these countries' accession process. In substance terms, the Europe Agreements were sets of formally structured trade agreements signed between the EU and individual CEE countries accompanied by some political and other economic provisions. The agreements were intended to create a free trade area, to implement the four freedoms of the single European market over a certain period of time, and to provide a legal basis for political and economic cooperation, including approximation of legislation. The policy agenda set by Europe Agreements was therefore asymmetric liberalisation of trade with EU markets.

Another important instrument supporting the transformation of CEE was the Phare aid programme. Initially it was primarily an instrument providing development assistance in grant form to finance technical assistance in a very broad range of areas. Following the decision of the EU to start accession negotiations with CEE countries, Phare funds focused, from 1997, on the pre-accession priorities (as established by the Accession Partnership Agreements) the individual countries had to address on their EU accession path.

Pre-accession assistance of the EU to CEE countries had two main objectives: first, to support the public administration and institutions in candidate countries in the process of harmonising national legislation with the *acquis* and in its effective implementation, and second, to promote economic and social cohesion of CEE countries and thus to reduce the development gap between these candidate countries and the EU.

Between 1997 and 1999, pre-accession assistance was implemented through a single Phare instrument while during the Agenda 2000 period it was channelled into candidate countries through a combination of three pre-accession instruments – Phare, ISPA and Sapard. As an important objective of the pre-accession assistance has always been to prepare candidate countries for efficient use of structural actions funds upon their accession to the EU, each of the three instruments had an important task within this framework. Phare had the objective to prepare candidate countries for the use of ERDF and ESF funds, ISPA was aimed at simulating rules of the Cohesion Fund, and Sapard was used as a training ground for the use of agricultural funds.

3.3.2 Adjustments of the Agenda 2000 framework due to the 2004 Eastern enlargement

The MFF 2000-2006 – the Agenda 2000 – agreed in Berlin in 1999 was based on the assumption that enlargement with the first group of six candidate countries, called the 'Luxembourg group', would take place in 2002 while the second group of another six candidate countries, called the 'Helsinki group', was not expected to join before 2007. Under this assumption, annual amounts for six new Member States were actually integrated into the original Berlin financial framework (see Table 7).

In 1999, the distinction between the two groups of accession countries was abolished which opened the possibility of more than six countries acceding during the Agenda 2000 period. Thus, ten instead of six new Member States joined the EU and that enlargement took place in 2004 instead of in 2002.

The two-year delay in the Eastern enlargement created some funding room in the initially agreed Agenda 2000 financial framework because of the phasing-in of expenditures related to structural actions. The annual amounts reserved for structural actions in 2004-2006 – they were initially intended to cover financial needs related to the third, fourth and fifth year of accession of six new Member States – were now available for the first three years of accession of ten new Member States. On the other hand, the original Berlin framework did not include any amounts for direct payments to farmers in the new Member States and did not provide any transitional budgetary arrangement either. As this has proved politically unacceptable, adjustments were needed in this area as well (see Table 7). Furthermore, the financial framework for enlargement included also new specific issues that appeared during the accession process, such as amounts intended for decommission of certain nuclear power plants and amounts aimed at encouraging the parties involved to resolve the Northern Cyprus problem.

Table 7 / Financial framework for the 2004 enlargement: original Agenda 2000 vs. Commission proposal of January 2002 (billion EUR; 1999 prices)

	Commission framework of January 2002 (10 countries)					Agenda 2000 framework (6 countries)					Difference
	2004	2005	2006	Total	% of total	2004	2005	2006	Total	% of total	
Agriculture	2,048	3,596	3,933	9,577	22.5	2,450	2,930	3,400	8,700	20.6	-9.1
Structural actions	7,067	8,150	10,350	25,567	60.0	7,920	10,000	12,080	30,000	70.4	-14.7
Internal policies	1,176	1,096	1,071	3,343	7.8	790	820	850	2,460	5,8	36.0
Administration	503	558	612	1,673	3.9	450	450	450	1,350	3.2	36.0
Margin available for lump sums	816	800	814	2,430	5.7	-	-	-	-	-	-
TOTAL	11,610	14,200	16,780	42,590	100.0	11,610	14,200	16,780	42,590	100.0	0.0

Source: European Commission (2008), EU public finances, fourth edition; European Commission (2002).

Table 7 provides a comparison of amounts allocated for enlargement in the years 2004-2006 in the original Berlin framework and in the Commission's document of January 2002 outlining the financial framework 2004-2006 for the new Member States envisaged to join the EU in 2004. As can be seen from the table, the Commission's proposal remained fully within the ceiling of EUR 42.6 billion (in 1999 prices) allocated for the enlargement already in Berlin. The comparison further shows a significant reallocation of funds among the major expenditure items. While the volume of funds increased for agriculture (due to the newly planned introduction of the phasing-in period for direct payments), for internal policies (due to nuclear safety and Cyprus issues) and for administration, less funds than initially planned were earmarked for structural actions (European Commission, January 2002).

As far as the revenue side of the budget is concerned, the Commission outlined in its January 2002 document that the Own Resources Decision would be fully applied by the new Member States from the first year of accession. This, of course, meant that transitional arrangement[32] should involve refunds through lump sums, digressive and temporary payments on the expenditure side of the EU budget. The Commission did not prejudge the volume of the lump sums – those should be determined in the negotiations – but just indicated their available volume within the ceiling for enlargement expenditures as foreseen in the original Berlin financial framework.

3.3.3 Allocation of structural actions funds for the EU-10 and their forecasted net budgetary position in the 2004-2006 period

With a general shift of resources earmarked under the Berlin framework for enlargement, from funds for structural actions to CAP expenditures, the Commission de facto proposed a reallocation of funds towards those new Member States with large agricultural sectors.

A significant reallocation of funds happened also within the total volume of funds earmarked for structural actions. As the volume of funds for this purpose was fixed – at a level of EUR 25.6 billion (1999 prices) for the entire 2004-2006 period – it was not possible to apply the same criteria for allocation of these funds among individual new Member States as those used for allocation of structural actions funds among old Member States. Instead, allocation was made largely following the apportionment of pre-accession assistance among individual candidate countries. As a consequence, the individual new Member States were treated very differently with respect to their access to structural actions funds in the 2004-2006 period.

For less developed new Member States, especially for the Baltic states, the volume of funds available for structural actions was at a level of, or close to, 4% of their respective GDP; at that time, this was the ceiling under the existing *acquis*. Thus, this group of countries was in fact fully phased-in for the use of funds for structural actions, at least in terms of commitment appropriations, immediately after their accession to the EU. The group had de facto no transition period for commitment appropriations on these funds and was in a position to start drawing EU structural actions funds in full amount from the date of its accession.

On the other hand, the volume of funds available for structural actions to the more developed among the new EU-10 countries was much more limited not only vis-à-vis their less developed fellow entrants but also vis-à-vis the old Member States at a similar level of development. Slovenia, for example, was at practically the same level of development (measured in per capita GDP terms) as Portugal or Greece.[33] Still, in the period 2004-2006, its commitment appropriations for structural actions funds (measured in per capita intensity terms) were equivalent to about one third of those for either of the two old Member States. This clearly indicates that in contrast to the less developed new Member States, Slovenia and some other more developed EU-10 countries – especially Cyprus, Malta and, to a smaller extent, also

[32] In all previous enlargements, new Member States benefited from transitional arrangements. These arrangements are basically aimed at offsetting any deterioration of the net financial position of a new Member State vis-à-vis the EU budget in comparison with its position in the year before accession (when the new Member State was still a candidate country and thus a beneficiary of pre-accession funds).

[33] In 1997-1999, Slovenia's GDP per capita was 67% of the EU average in that period. The corresponding levels for Greece and Portugal in the same period were 67% and 74% respectively (Eurostat, January 2002).

the Czech Republic – were de facto exposed to a more unfavourable transition period with respect to the commitment appropriations for structural actions funds in the first three years of their EU membership.

Because of the political commitment that a new Member State's net budgetary position should not deteriorate in comparison with the year before accession, and taking into account the features of the January 2002 enlargement financial framework of the Commission – especially its provisions concerning direct payments (reimbursements from the EU budget for direct payments are made only one year after their payment to farmers; thus no direct payments were foreseen for the year 2004) and structural actions funds (meaning de facto a transition period with respect to commitment allocations for more developed EU-10 countries), it was realistic to expect that significant lump sums would have to be arranged for. Table 8 provides data on the forecasted positive net financial position of individual EU-10 countries – expressed as a per cent of GNI – in the last year before accession.

Table 8 / EU-10 in 2003: Forecasted positive net financial position (in 1999 prices)

	CY	CZ	EE	HU	PL	SI	LT	LV	SK	MT	Total
% of GNI	0.13	0.21	0.77	0.29	0.40	0.18	0.75	0.90	0.44	0.26	0.36

Source: European Council, December 2002.

Table 9 confirms that following the decision of the December 2002 European Council – where accession negotiations for the EU-10 were finalised – none of the new Member States experienced a deterioration in its positive net financial position in the early years of membership vis-à-vis the year 2003 (the final pre-accession year). Nevertheless, there were huge differences among sub-groups of EU-10 countries.

Table 9 / EU-10 in 2004-2006: Forecasted positive net financial position (in 1999 prices)

	CY	CZ	EE	HU	PL	SI	LT	LV	SK	MT	Total
Net budgetary position (% of GNI)											
- 2004	0.21	0.20	1.61	0.37	0.60	0.29	1.82	1.93	0.56	0.56	0.82
- 2005	0.24	0.31	2.23	0.64	1.08	0.29	2.83	2.81	0.92	1.08	1.24
- 2006	0.21	0.32	2.39	0.78	1.18	0.28	3.21	3.12	1.08	1.03	1.36
Average	0.22	0.28	2.08	0.60	0.95	0.29	2.62	2.62	0.85	0.89	1.14

Source: Calculated on the basis of European Council, December 2002 decision.

Less developed new Member States, in particular the Baltic states and Poland, substantially improved their net financial position expressed as a per cent of GNI. They all at least doubled their positive net financial position in 2004 as compared to 2003 and improved it further in the following two years. For Latvia and Lithuania, for example, the net financial position improved from below 1% of GNI in 2003 to over 3% in 2006.

On the other hand, additional lump sum refunds were needed in order to increase the positive net financial position of the more developed EU-10 new Member States to levels just above those achieved in 2003. In contrast to the Baltic states and some other less developed EU-10 countries, the positive net financial position of Cyprus, Slovenia and the Czech Republic improved only slightly between 2003 and 2006; for Cyprus from 0.13% to 0.21% of GNI, for Slovenia from 0.18% to 0.28%, and for the Czech Republic from 0.13% to 0.32%. It should be stressed that these are forecasted positive net financial positions which could, under circumstances of non-optimal absorption of structural actions funds, easily turn the country into an actual net payer into the EU budget. The buffer the more developed EU-10 countries had in this respect was extremely thin in the 2004-2006 period, not only vis-à-vis other new Member States but also against 'old' Member States at a similar level of their economic development.

Taking into account the phasing-in process of the EU-10 for the use of structural actions funds as well as the fact that membership of these new countries covered less than half of the entire Agenda 2000 period, it is understandable that new Member States participated with rather small amounts and proportions in the total funds allocated for this purpose under the Agenda 2000. As Table 10 shows, out of EUR 235 billion allocated for structural actions under the Agenda 2000 adjusted for enlargement, only EUR 26 billion or 11% was allocated for the EU-10 for the period as whole. In the first three years of EU-10 membership, this proportion was higher and had an upward trend, from 20% in 2004 to 27% in 2006.

Table 10 / Funds for structural actions in the Agenda 2000 adjusted for enlargement (in million EUR; 1999 prices)

	2000	2001	2002	2003	2004	2005	2006	Total
Total; of this	32,045	31,455	30,865	30,285	35,665	36,502	37,940	234,755
EU-10	-	-	-	-	7,067	8,150	10,350	25,567
% of total	0.0	0.0	0.0	0.0	19.8	22.3	27.2	10.9

Source: European Commission (2008) and Table 2.

3.4 COHESION POLICY FROM THE EU-10 PERSPECTIVE IN THE 2007-2013 PERIOD

3.4.1 Main issues in the run-up to the Commission's proposal for the MFF 2007-2013

Several issues influenced the substance of the initial Commission proposal for the MFF 2007-2013 presented in February 2004 (European Commission, 2004). The first and financially most substantial issue was to pay the price for the 2004 enlargement. Because of the reluctance of old Member States to fully finance the enlargement from the start, the compromise over the 2004-2006 enlargement financial framework was to make new Member States pay their full share of contributions to the EU budget starting with their accession, but phase them in gradually for the most sensitive items on the expenditure side, i.e. direct payments under the common agricultural policy and cohesion policy (Rollo, 2003). Since these two items represented close to 80% of all EU budget expenditures under the 2007-2013 MFF (see Table 11), old Member States in effect postponed the full budgetary impact of the 2004 enlargement to the period beyond 2006. The issue thus reappeared in the NFP negotiations.

Another important contextual factor was the increasing importance being assigned to the EU's growth and jobs agenda. The Lisbon Strategy, launched in March 2000 and initially aimed at developing the EU into 'the most dynamic and competitive economy in the world' by 2010 (European Council, 2000), showed a disappointing performance in the first half of the decade. Based on the 2004 Kok report's conclusion that Lisbon Strategy objectives were too broad, a recommendation was made for the 'revised' Lisbon Strategy to focus on the 'growth and jobs objective'. The EU budget was seen as a potentially important catalyst towards meeting this objective, but its existing expenditure structure was not in line with this new policy priority and was de facto fixed until 2006. The EU budget and the Lisbon

Agenda were at that time perceived as two parallel, but disconnected projects, in spite of the potentially high contribution that the EU budget could make to growth.

An independent report led by André Sapir and commissioned by the Commission's president added controversy to the debate by calling for a major refocusing of EU expenditure to better reflect EU priorities for growth and jobs. Among other recommendations, the report proposed, first, a significant reform of the CAP which would partially renationalise CAP subsidies and substantially reduce CAP spending from the EU budget; second, a significant increase in growth-oriented expenditure, particularly R&D, from the EU budget; and third, a refocusing of cohesion policy on bridging the development gap between the old and the new Member States (Sapir et al., 2003). On similar lines, some of the Member States, especially the UK and the Netherlands, made proposals for a more focused orientation of cohesion policy funds towards less developed members, in particular to new Member States.

The next important factor influencing the preparation of the Commission's proposal for the MFF 2007-2013 was the October 2002 European Council's decision, with the EU-15 agreeing to actually 'freezing' agricultural subsidies under the first pillar of the CAP, i.e. direct payments and market measures, until 2013 (European Council, 2002). Since these expenditures accounted for almost 40% of total EU budget spending in the MFF 2000-2006, the October 2002 CAP agreement significantly limited prospects for any serious restructuring of the EU budget in the MFF 2007-2013 period, unless new priorities would either crowd out the remaining expenditure items, particularly cohesion policy, or come on top of the existing level of expenditures.

Finally, in December 2003, the six largest net contributors to the EU budget expressed their concerns about the overall level of expenditure in the MFF 2007-2013 in a letter to the President of the European Commission. This letter stated, first, that the EU budget expenditure in the MFF 2007-2013 should not exceed 1.00% of EU GNI, and second, that the conclusions of the October 2002 European Council with respect to agriculture subsidies until 2013 should be respected.

3.4.2 From the Commission's proposal to the final MFF 2007-2013 agreement

After a long process of reflection and debate, the Commission submitted its proposal for the MFF 2007-2013 in February 2004 (European Commission, 2004). The proposal responded to a number of criticisms and, in some respect, took on board many of the suggestions of the Sapir report. In contrast to previous MFFs, this proposal of the Commission suggested an altogether new structure of the EU budget based around the three overriding EU priorities: (i) to support sustainable growth with more and better jobs; (ii) to develop European citizenship; and (iii) to improve the European external dimension. The proposal of the Commission, however, exceeded the budget restrictions advocated by the six largest net contributors which triggered more than two years of protracted negotiations.

Table 11 provides a comparison of the Commission's proposal with the final outcome of the MFF 2007-2013 negotiations reached at the December 2005 European Council and confirmed half a year later by an inter-institutional agreement. Two main conclusions can be drawn on the basis of this comparison. First, the total volume of expenditures was reduced to EUR 864 billion in commitments and EUR 821 billion in payments; this is, expressed as a percentage of GNI, exactly the ceiling demanded by the six net contributors to the EU budget. Second, in contrast to the proposal of the Commission, the final agreement earmarked relatively more funds for CAP and for cohesion policy objectives and less for

Lisbon Strategy objectives; this meant that the outcome of the negotiations in terms of the EU budget expenditure structure was more or less a continuation of the existing structure (Mrak and Rant, 2007).

As the Lisbon Strategy was very high on the political agenda of practically all Member States, the question arises why funds for this very objective were cut significantly more (by 39%) than funds for cohesion (by 9%) and CAP (by 7%) during the MFF 2007-2013 negotiations and were de facto treated as a kind of budgetary reserve.

As documented and analysed in the academic literature (see, for example, Mrak and Rant, 2010), it was the absolute dominance of national interests over the broader community interests that prevented any serious reform of the expenditure side of the budget and was at the same time the main incentive behind coalition formation in the MFF 2007-2013 negotiations.

Table 11 / EU budget expenditure profile of the MFF 2007-2013

Appropriations for commitments 2004 prices by headings	Commission proposal 2007-2013		Inter-institutional agreement 2007-2013		% change
	billion EUR	% of total	billion EUR	% of total	
	1	2	3	4	5 (3:1)
1 Sustainable growth	462	45%	382	44%	-17%
1 A Competitiveness	122	12%	74	9%	-39%
1 B Cohesion	340	33%	308	36%	-9%
2 Natural resources	400	39%	371	43%	-7%
CAP (1st pillar)	301	29%	293	34%	-3%
CAP (2nd pillar)	99	10%	78	9%	-21%
3 FSJ (3 A) and Citizenship (3 B)	21	2%	11	1%	-49%
4 EU as a Global Partner	85	8%	49	6%	-42%
5 Administration	58	6%	50	6%	-14%
6 Compensation	0	0%	0.8	0%	n.a.
Total	1,025	100%	864	100%	-16%

Source: Mrak and Rant (2007).

The MFF 2007-2013 negotiations were in fact concentrated on discussions between two groups of countries. On the one hand, there was a formal coalition of the six largest net contributors to the EU budget which had one strategic objective in the negotiations: to reduce EU budget expenditure to 1% at most of EU GNI. With the European Council agreement of December 2005, the group by and large achieved its strategic objective. On the other hand, there was a wide coalition of net recipient countries named 'Friends of cohesion policy', including all new Member States plus Greece, Portugal and Spain, with the key objective in the negotiations to defend the cohesion policy envelope proposed by the Commission. Also this group was rather successful in the negotiations as it succeeded in limiting the reduction of funds for cohesion policy. While resources for this policy were reduced by 9% compared to the Commission's proposal, the overall EU budget expenditure was much higher – 16% (see Table 11).

There were no explicit or implicit coalitions for other EU budget issues[34] including for the Lisbon Strategy objective. Because of the lack of explicit support for this policy objective, it was to a large extent

[34] It should be underlined that EU expenditures for the first pillar of the CAP were fixed for the entire 2007-2013 period already by the October 2002 European Council decision and therefore no coalition was needed for the defence of this important budgetary item.

sacrificed to reach an agreement between net contributors to the EU budget and the cohesion countries as net recipients. The Lisbon Strategy was the main victim of the MFF 2007-2013 negotiation as all Member States following the net financial position as their strategic objective in the negotiations had at least one issue in the negotiations that was more important than the Lisbon Strategy. For the six net payers this was to reduce the overall level of the EU budget, and for the 'Friends of cohesion policy' this was to keep the level of cohesion policy funds as high as possible.

The 'Friends of cohesion policy' coalition group was rather large in terms of the number of Member States, and that explains why their position with respect to individual issues of the cohesion policy framework was not always entirely consistent. For example, the less developed Member States within the group advocated a national ceiling for cohesion funds as high as possible while the more developed members of the group were much more silent on that issue. The discrepancy became obvious in the final stage of the MFF 2007-2013 negotiations when the British presidency proposed a reduction of the national ceiling from 4.0% to 3.6% of GDP. The proposal, aimed at further reducing the overall size of the EU budget, and therefore at pleasing the net contributors to the EU budget, had very different effects on the two sub-groups of the cohesion coalition group. While the proposal reduced the country envelopes for less developed cohesion countries, it had no effect on the cohesion envelopes of the more developed members of the 'Friends of cohesion policy' group.

3.4.3 Cohesion policy envelopes under the MFF 2007-2013

The MFF 2007-2013 negotiations were the first financial framework negotiations with the full participation of new Member States that joined the EU in 2004/2007. As already mentioned, one of the most important political, economic and financial considerations of these negotiations was the integration of ten new members, all with a level of development (measured in per capita GDP terms) significantly lower than the EU average. With the 2004-2007 eastern enlargement, average per capita GDP in the EU was reduced by more than 10% while income disparities increased and were further aggravated by the 2007 accession of Romania and Bulgaria. One inevitable but politically extremely sensitive consequence was a budgetary shift of cohesion policy funds from old Member States, particularly from Portugal, Greece and Spain as traditionally the largest net cohesion funds recipients, towards the new Member States. The key objective of the three old cohesion countries throughout the MFF 2007-2013 negotiations was thus how to minimise the reduction of their cohesion envelopes within the framework of the EU-25 vis-à-vis those of the time before the eastern enlargement.

Another important contextual feature of cohesion policy under the MFF 2007-2013 negotiations was the push of the Commission for the Lisbon goals to be integrated into the national and regional strategic planning documents, with the resources to be concentrated on investment and with the objective to improve the stock of physical and human capital, and thus to improve the potential for economic growth and to strengthen in international competitiveness.

Under the 2007-2013 architecture of the EU cohesion policy, three objectives – convergence, regional competitiveness and employment, and territorial cooperation – were set. As presented in Table 12, the large majority of all cohesion policy funds, more precisely 82%, was targeted at the convergence objective, i.e. on less developed NUTS-2 regions with a per capita GDP lower than 75% of the EU average. In practical terms this means that more than 60% of all convergence objective funds were allocated to the new Member States. In contrast, funds for the regional competitiveness and employment objective available to regions outside the convergence objective (with a share of 16% of total cohesion funds) were de facto largely channelled to the old, more developed members: about 94% of all funds under this objective were allocated to this group of countries. Altogether, out of a total of EUR 347 billion of cohesion funds under the MFF 2007-2013, EUR 177 billion or 51% was allocated to the new Member States. This means that the new Member States more than doubled their participation in the overall cohesion policy envelope as against the 2004-2006 period (see Table 12).

Table 12 / Cohesion policy country envelopes under the MFF 2007-2013 (commitment appropriations; million EUR; current prices)

	Convergence			Regional competitiveness and employment		European territorial Cooperation	Total
	Cohesion Fund	Convergence	Phasing-out	Phasing-in	Regional competitiveness and employment		
Belgium			638		1,425	194	2,258
Bulgaria	2,283	4,391				179	6,853
Czech Republic	8,819	17,064			419	389	26,692
Denmark					510	103	613
Germany		11,864	4,215		9,409	851	26,340
Estonia	1,152	2,252				52	4,356
Greece	3,697	9,420	6,458	635		210	20,420
Spain	3,543	21,054	1,583	4,955	3,522	559	35,217
France		3,191			10,257	872	14,319
Ireland				458	293	151	901
Italy		21,211	430	972	5,353	846	28,812
Cyprus	213			399		28	640
Latvia	1,540	2,991				90	4,620
Lithuania	2,305	4,470				109	6,885
Luxembourg					50	15	65
Hungary	8,642	14,248		2,031		386	25,307
Malta	284	556				15	855
Netherlands					1,660	247	1,907
Austria			177		1,027	257	1,461
Poland	22,176	44,377				731	67,284
Portugal	3,060	17,133	280	448	490	99	21,511
Romania	6,552	12,661				455	19,668
Slovenia	1,412	2,689				104	4,205
Slovakia	3,899	7,013			449	227	11,588
Finland				545	1,051	120	1,716
Sweden					1,626	265	1,891
United Kingdom		2,738	174	965	6,014	722	10,613
Interregional/ Network cooperation						445	445
Technical Assistance							868
Total	**69,578**	**199,322**	**13,955**	**11,409**	**43,556**	**8,723**	**347,410**

NB: The figures having been rounded off, the totals might not correspond.
Source: Cohesion policy 2007-2013: Commentaries and official texts, European Commission, 2007.

In contrast to the MFF 2000-2006 which for new Member States, especially for the more developed ones among them, represented a phasing-in period for access to cohesion policy funds, under the MFF 2007-2013 financial framework they were already fully phased-in for the use of these funds.[35] Table 13

[35] Exceptions are, of course, Romania and Bulgaria, which joined the EU in 2007 and had therefore a phasing-in period for the use of cohesion funds in the early years of the MFF 2007-2013.

shows the relative importance of cohesion funds allocations expressed as a per cent of GNI for each individual new Member State as well as for each of the three old cohesion countries.

Table 13 / Relative importance of cohesion funds allocations for new Member States and the three old cohesion countries under the MFF 2007-2013 (% of GNI)

BG	CZ	EE	HU	PL	SI	LT	LV	SK	MT	RO	CY	*GR*	*PT*	*ES*
2.7	2.8	3.3	3.8	2.8	1.7	3.2	3.3	2.6	2.1	2.1	0.5	*1.3*	*1.9*	*0.5*

Source: Own calculation based on FELU model.

3.4.4 Net budgetary positions of new Member States in the MFF 2007-2013

In the MFF 2007-2013 period the new Member States joining the EU in 2004/2007 were fully phased-in into the EU budget in terms of expenditure side budget allocations. As a consequence, the new Member States were eligible for much higher allocations not only with respect to cohesion policy allocations but also concerning allocations for funds from the first pillar of the CAP. As agreed during the accession negotiations, the new Member States accepted a ten-year transition period ending in 2013 for receiving funds from this EU budget source. The financial allocations to new Member States from this budget line were progressively increasing. In 2004, farmers from new Member States were eligible for 25% of the financial allocations they would have received if they had been farmers of an old Member State. In the following years this proportion was gradually increasing and reached 100% in 2013. This means that only ten years after accession to the EU, farmers from new Member States were placed in an entirely equal position with their counterparts in the old Member States with respect to agricultural subsidies paid from the EU budget.

Table 14 / Net financial positions of new Member States in 2007-2013 and 2004-2006 (in % of GNI)

	BG	CY	CZ	EE	HU	LT	LV	MT	PL	RO	SI	SK
2007-2013	3.88	-0.38	1.85	2.67	3.59	2.78	3.44	0.73	2.46	2.43	0.86	1.74
% improvement over 2004-2006		worse	560	28	498	6	31	worse	158		196	104

Source: Own calculation based on FELU model for 2007-2013; improvements over 2004-2006 based on data in Table 9.

As a consequence of the significantly increased country envelopes of the new Member States for cohesion and agricultural subsidies in the MFF 2007-2013 as compared to those in the MFF 2004-2006 and taking into account that the new Member States had been fully phased-in for their contributions to the EU budget from the year of accession, their positive net financial position improved substantially in the 2007-2013 period over the one in 2004-2006. Table 14 provides data on the net financial positions of the new Member States in 2007-2013, expressed as a per cent of GNI, and compares them with the corresponding figures for 2004-2006. The data clearly confirm the improvement in the positive net positions for all CEE countries. In relative terms, the improvement was much stronger for the more developed new Member States than for the less developed Baltic states due to the former countries' lower phasing-in in terms of cohesion funds allocation in the period 2004-2006 vis-à-vis the group of less developed Baltic states.

When analysing the sources of positive net financial positions (or overall net budgetary positions) for new Member States, the concept of partial net balances can be applied. A country's partial net balance with respect to cohesion policy can be calculated as the difference between the volume of cohesion funds allocated to the country and the Member State's contribution to the EU budget for this budgetary line. Positive partial net balances for cohesion were by far the most important contributory factor to the improved overall net budgetary position of new Member States in 2007-2013. In case of some countries, such as the Czech Republic, Poland, Slovenia, Hungary and Slovakia, the positive partial net balance in this area contributed more than 70% to the overall net budgetary position of these countries. For the Baltic states, this proportion was lower, but still higher than 60% (calculated from Mrak and Rant, 2010). All these figures confirm the strategic importance of cohesion policy objectives for the new Member States in the MFF 2007-2013 negotiations and thus their active participation in the 'Friends of cohesion policy' negotiating group.

3.5 COHESION POLICY FROM THE EU-10 PERSPECTIVE IN THE 2014-2020 PERIOD

3.5.1 Failure of the EU budget review in the run-up to the MFF 2013+ negotiations

The agreement reached for the MFF 2007-2013 was a poor compromise in many respects. The volume of the budget remained at the same level as over the previous decades and the structure of budget expenditures remained heavily biased towards redistribution. No positive developments were achieved on the revenue side; the Member States' contributions based on their respective shares in the EU's GNI remained dominant. As a consequence, the EU budget arrangement has continued with the application of various rebates aimed at achieving acceptable net budgetary positions for the net contributors.

Being aware that the final deal for the MFF 2007-2013 was not the appropriate response to the substantial needs of the EU at that time and was in addition extremely non-transparent, the Member States agreed at the December 2005 European Council closure of the negotiations to initiate the so-called budget review. The Commission was invited 'to undertake a full, wide ranging review covering all aspects of EU spending, including CAP, and of resources, including the UK rebate, to report in 2008/9' (European Council, 2005) . The review was aimed at providing a long-term, strategic view of the EU budget over the next decades and was expected to be completed within a time frame that would allow the deliberations to be fully taken on board by the MFF 2013+.

Due to a number of political issues including complications in the Lisbon Treaty ratification process and the 2009 European Parliament elections followed by the appointment of the new Commission, the review was published only in late 2010 (European Commission, 2010). This delay in fact prevented the review from meeting its original purpose. Instead of serving as a basis for a thorough discussion on the possible reform of the EU budget, the review – published less than a year before the start of the MFF 2013+ negotiations – turned into nothing more than a good issue paper for the forthcoming negotiations. Thus, a good opportunity for a thorough reform of the EU budget was missed and it was realistic to expect that the MFF negotiations would again be dominated by the 'juste retour' issue, with the net financial positions determining the logic of the negotiations.[36]

[36] For a detailed discussion of the EU budget review see, for example, Mrak et al. (2007).

Because of the failure of the EU budget review, the Member States de facto entered the negotiations for the MFF 2013+ with none of the budget's systemic problems resolved.[37] In addition, the Commission was faced with several challenges of a substantive and institutional nature when it started preparations for the 2013+ EU budget financial framework.

The most important substantive challenge was how to support economic growth and jobs in the EU that had both been drastically affected by the deep and protracted economic and financial crisis. In an environment putting Member States under strong pressure to consolidate their national public finances, it was not realistic to assume that they would be advocating an increase of the EU budget size.[38] Being fully aware of the disappointing outcome concerning financial allocations for the Lisbon Strategy objective under the MFF 2007-2013 negotiations, the Commission had put much effort in designing innovative instruments for an effective implementation of a new EU-wide growth and jobs strategy, Europe 2020. The main objectives of this strategy – smart, sustainable and inclusive growth – became the conceptual basis for the Commission's proposal. In addition, the Commission tried to address in its proposal some other, more traditional challenges faced by the EU, such as differences in the level of development among the Member States that had widened after the 2004/2007 enlargement, the intensification of globalisation, energy issues and climate change, as well as global ambitions and new responsibilities under the Lisbon Treaty.

As for the institutional challenges for the MFF 2013+ negotiations, they were associated with the MFF provisions contained in the Lisbon Treaty and the MFF 2013+ negotiations were the first ones within its legal framework. The Lisbon Treaty includes two provisions that were expected to represent a challenge in these negotiations. First, in the period before the Lisbon Treaty entered into force, the MFF was a voluntary instrument. The Lisbon Treaty has, however, made this instrument obligatory. Despite the intention of the Lisbon Treaty to make the process of MFF negotiations more efficient, it has in fact built into the process a status quo bias: Article 312 of the Lisbon Treaty states that in case that the Council's decision determining a new financial framework is not adopted by the end of the existing financial framework, the financial provisions from the last year of the existing financial framework will be extended until the new financial framework is adopted. This provision is in fact an incentive for those Member States that are not satisfied with the proposed compromise for the next MFF to block the whole process by exercising their veto power. Though a status quo bias of the EU budget existed already before the Lisbon Treaty, it is now integrated into EU legislation (Zuleeg, 2011). Second, the Lisbon Treaty has substantially increased the role of the European Parliament with respect to the MFF adoption. Now, it has to give consent to the proposed arrangement by a simple majority.

---

[37] The EU budget continues to be very small in size – around 1% of EU GNI – and its expenditure structure continues to be dominated by redistributive CAP and cohesion policy spending. No major changes were made on the revenue side either, which continues to be financed primarily by national contributions. In maintaining, by and large, the status quo of the expenditure and revenue sides of the EU budget, also the issue of the correction mechanism and net financial balances remained unaddressed.

[38] In a December 2010 letter signed by the prime ministers/presidents of five important net contributor Member States – Finland, France, Germany, the Netherlands and the UK – they positioned themselves with respect to the size of the EU budget in the forthcoming MFF: first, annual growth in payment appropriations should be reduced in the final years of the MFF 2007-2013, and second, commitment appropriations for the next MFF should not exceed the 2013 level with a growth rate below the rate of inflation. The intention of this letter was obvious: to give a clear signal to the Commission to respect this position in the process of drafting its formal proposal for the MFF 2013+.

3.5.2 Main features of the Commission's proposal for the MFF 2014-2000

In June 2011, the Commission launched its proposal for the next MFF covering the seven-year period 2014 to 2020 (Commission, 2011).

In deciding on the overall size of the EU budget, the Commission was faced with the following dilemma. To present a financially ambitious proposal that would respond to today's concerns and tomorrow's needs of the EU. This was a position strongly supported by the European Parliament as well. Or, to present a proposal that would reflect the Council's orientation, with the forthcoming MFF reflecting the consolidation efforts being made by the Member States. In operation terms this meant an EU budget at a level close to 1% of the EU's GNI as requested by the group of the five important net contributors to the EU budget (see footnote 38 in section 3.5.1.). Faced with these two opposing views, the Commission came out with a compromise proposal, including the EU budget plus extra-budgetary expenditures and amounting to EUR 1,083 billion, which is equivalent to 1.11% of EU GNI in commitment appropriations and translates into about EUR 1,030 billion or 1.05% of EU GNI in payments appropriations.

As the central conceptual feature of the Commission's proposal was to support the implementation of the Europe 2020 strategy, aimed at pursuing smart, sustainable and inclusive growth, it argued for a significant increase of funds allocated to research and innovation, education and SME development. In the context of strengthening the EU's international competeiveness, the Commission for the first time allocated substantial funds for pan-European infrastructure under the Connecting Europe Facility. Altogether, the Commission called for an increase of as much as 82% in funds for competitiveness objectives as compared to the corresponding amounts agreed upon for the MFF 2007-2013 period (see Table 15).

The proposal for the drastic increase of funds for competitiveness purposes in the circumstances of a broadly unchanged overall size of the budget required a downward adjustment in the two traditionally largest EU budget expenditure items. Thus, CAP should be made more resource efficient, not only delivering high-quality food but also helping to manage the environment and fight climate change. In financial terms, the Commission proposed to reduce the volume of funds available for CAP by 8% vis-à-vis the corresponding figures in the MFF 2010-2013 (see Table 15).

The theme of solidarity among the Member States also runs through the Commission's proposal. Being aware that persistent and large inequalities in terms of economic development cannot be part of a sustainable EU development model, the Commission again pointed to the need for major efforts to reduce and eventually close these gaps. Within this context the Commission proposed a reduction of the volume of funds for cohesion policy objectives in the MFF 2014-2020 by much less – 4% – compared to the agreed volume in the MFF 2007-2013 (see Table 15). Cohesion expenditures should exceed CAP expenditures by the end of the MFF 2014-2020 period, thus becoming for the first time the largest expenditure item in the EU budget.

Another important conceptual feature of the Commission's proposal addressed the revenue side of the EU budget. In view of the net balances problem and in line with the European Parliament's request, the Commission proposed to start moving away from a budget financed primarily through contributions of Member States determined by their GNI and moving towards a higher share of genuinely 'own resources'. This is also in line with the Lisbon Treaty provisions which state that the EU budget shall be financed wholly from own resources. In practical terms, this has been translated into a new genuine EU tax.

In short, the Commission's responses to the challenges faced by the EU (see section 3.5.1.) could be summarised as follows: *First,* the EU budget should primarily support the implementation of the Europe 2020 objectives. *Second*, it should be limited in size, but strongly oriented towards output and EU value added. This means that its expenditures should be redesigned (savings in some areas, such as CAP; increased spending in important areas such as competitiveness). *Third,* the EU budget should strictly respect budgetary rigour and should be financed to a larger extent from genuinely 'own resources'. *Fourth*, correction mechanisms should be simplified, eliminating the UK correction and replacing it with a system of fixed annual lump sum amounts.

3.5.3 From the Commission's proposal to the final MFF 2014-2020 agreement

After a year and a half of negotiations, the MFF 2014-2020 framework was finally agreed at the European Council's level in February 2013, and the European Parliament gave its consent before summer of that year.

As predicted, and similarly as in the previous round of negotiations, the MFF 2014-2020 negotiations were again largely discussions between the net contributors to the EU budget (mostly old Member States) and net recipients (mostly new Member States).

The main objective of the 'net contributors' group, established already prior to the launching of the Commission's proposal, was again to keep the overall level of the EU budget at 1.0% of GNI as specified in their December 2010 letter. While the Commission had proposed a budget equivalent to 1.0% of EU GNI in payment appropriations (close to the level requested by the 'net payers' group), it had also proposed a set of extra-budgetary expenditure items equivalent to 0.05% of GNI. Not surprisingly, the 'net contributors' had criticised the Commission's proposal in this respect and demanded that the total volume of EU-level funding, i.e. the EU budget plus extra-budgetary expenditures, should be reduced to 1.0% of EU GNI. The group had further requested that all or at least a majority of extra-budgetary expenditures should be integrated into the EU budget. On the other hand, the members of the group had different opinions concerning the intensity of cuts of individual EU budget expenditure items.

The other group, the 'Friends of cohesion policy', consisted of all new Member States plus Greece, Portugal and Spain. The main objective of this powerful group, accounting for more than half of all EU Member States, was – similarly as during the MFF 2007-2013 negotiations – to safeguard their strategic interests in the area of cohesion policy and funds available for this purpose. In contrast to the 'net contributors' group, which acted quite coherently throughout the negotiations, the interests of the individual 'Friends of cohesion policy' members were more differentiated on some specific issue. One of those has to be mentioned specifically in this context. Even though the Commission left the volume of cohesion funds relatively close to the level in the MFF 2007-2013, it proposed a significant adjustment in one key element of this policy. It put the ceiling for cohesion funds at 2.5% of a Member State's GDP (as compared to 3.6% in the MFF 2007-2013 and 4.0% in the MFF 2000-2006). With this proposal the Commission de facto divided the cohesion countries into two sub-groups: one consisting of less developed cohesion countries, arguing strongly against the lowering of the ceiling, and another one consisting of more developed cohesion countries for which the lower ceiling does not represent a limiting factor for their access to EU funds.

Table 15 presents the size and expenditure structure of the MFF 2014-2020 as agreed at the February 2013 European Council. As can be seen from the table, the overall size of the EU budget for the MFF 2014-2020 is smaller than that of the MFF 2007-2013 – and thus for the first time that size of an MFF is lower than the previous one.

Concerning the expenditure structure of the EU budget, no significant changes can be observed. Although almost 50% more funds are allocated for competitiveness purposes than in the MFF 2007-2013, the allocated amounts are significantly lower than the Commission's proposal. As for the two main expenditure items – CAP and cohesion policy – both were reduced vis-à-vis the MFF 2007-2013 figures as well as the Commission's proposal for the MFF 2014-2020. As a consequence, the expenditure structure has greatly changed as against the previous MFF. CAP and cohesion policy will continue to participate with more than three quarters in total EU budget expenditures.

Table 15 / EU budget expenditure profile of the MFF 2014-2020 (in million EUR, 2011 prices)

Commitment appropriations	MFF 2014-2020			MFF 2007-2013
	February 2013 European Council		Commission's proposal	
SMART AND INCLUSIVE GROWTH	**450,763**	**47.0**	**494,762**	**439,111**
COMPETITIVENESS FOR GROWTH AND JOBS	125,614	13.1	155,768	85,161
ECONOMIC, SOCIAL AND TERRITORIAL COHESION	325,149	33.9	338,994	353,950
Structural funds	255,783		268,254	
Less developed regions	163,504		163,561	
More developed regions	50,342		55,419	
Transition regions	31,602		36,471	
Outermost and sparsely populated regions	1,387		925	
European territorial cooperation	8,948		11,878	
Cohesion fund	66,362		70,740	
SUSTAINABLE GROWTH: NATURAL RESOURCES	**373,179**	**38.9**	**386,472**	**417,902**
SECURITY AND CITIZENSHIP	**15,686**	**1.6**	**18,809**	
GLOBAL EUROPE	**58,704**	**6.1**	**70,000**	
ADMINISTRATION	**61,629**	**6.4**	**63,165**	
COMPENSATION	**27**	**0.0**	**27**	
TOTAL WITHOUT EXTRA BUDGETARY ITEMS	**959,988**	**100.0**	**1,033,234**	**983,731**

Source: FELU calculations based on EU documents.

The revenue side has also remained more or less unchanged, with the new EU taxes postponed for later. Nor has the highly complex and non-transparent structure of correction mechanisms been eliminated, so the EU budget continues to be burdened with the UK rebate and numerous corrections on this correction. All this is not surprising as the negotiations were again, as in the previous two rounds of MFF negotiations, dominated by the national interests articulated in the fight among Member States to reach acceptable net budgetary positions. The pro status quo bias of the EU budget is clearly confirmed by the fact that the net financial positions of individual Member States reached under the MFF 2014-2020 negotiations have remained very close to the levels for the MFF 2007-2013 period. Table 16 shows the net financial positions of the new Member States in the 2014-2020 period. For practically all of those countries the net financial position has slightly improved, an important factor contributing to this improvement being the forecasted cohesion funds inflows in the years 2014-2016 emerging still from commitments made under the MFF 2007-2013 arrangements. For example, Slovenia's net financial position in the MFF 2014-2020 would be almost halved disregarding the forecasted cohesion funds inflows committed before the end of 2013.

Table 16 / Net financial positions of new Member States in 2007-2013 and 2014-2020 (in % of GNI)

	BG	CY	CZ	EE	HU	LT	LV	MT	PL	RO	SI	SK
2007-2013	3.88	-0.38	1.85	2.67	3.59	2.78	3.44	0.73	2.46	2.43	0.86	1.74
2014-2020	3.95	-0.10	1.69	3.20	3.89	3.27	4.16	1.39	2.50	2.78	1.02	2.28

Source: Data from the FELU model.

3.5.4 Cohesion policy envelopes under the MFF 2014-2020 agreement

The general framework of the EU budget for the MFF 2014-2020, and its reduced size in particular, did not bode well for the size of its overall cohesion envelope. The latter has been reduced from EUR 354 billion in the period 2007-2013 to EUR 325 billion in 2014-2020.

In general terms, the eligibility for EU cohesion policy funds has remained unchanged. The largest proportion of funds, EUR 163 billion or 50%, are available under the two structural funds – European Regional Development Fund and the European Social Fund – for less developed regions (with per capita GDP below 75% of the EU average) and a rather small proportion of funds, EUR 50 billion or 15%, for more developed regions (GDP per capita over 90% of the EU average). To replace the phasing-out and phasing-in system under the MFF 2007-2013, a new category of regions called 'transition regions' was established, including regions with a GDP per capita between 75% and 90% of the EU average. For this category, EUR 31 billion or 10% of the overall cohesion envelope was allocated. As before, Member States with a GNI per capita below 90% of the EU average are eligible for the Cohesion Fund. Altogether some EUR 66 billion or 20% of the cohesion envelope was allocated for projects to be financed from this Fund.

From the total of EUR 325 billion of cohesion funds under the MFF 2014-2020, EUR 181 billion or 56% was allocated for new Member States (includes Croatia, which joined in 2013). This means that new Member States have achieved a small further increase of their share in the overall cohesion policy envelope as against the MFF 2007-2013 period (when it was 51%; in the 2004-2006 period it was only between 20% and 27%).

Table 17 / Intensity of cohesion funds allocations to EU-10 and to the three 'old' cohesion countries under the MFF 2007-2003 and MFF 2014-2020 (% of GNI)

	BG	CZ	EE	HU	PL	SI	LT	LV	SK	MT	RO	CY
2007-2013	2.7	2.8	3.3	3.8	2.8	1.7	3.2	3.3	2.6	2.1	2.1	0.5
2014-2020	2.4	1.9	2.7	3.0	2.5	1.1	2.7	1.8	2.4	1.4	2.0	0.4
	GR	***PT***	***ES***									
2007-2013	*1.3*	*1.9*	*0.5*									
2014-2020	*1.0*	*1.7*	*0.4*									

Source: Own calculations based on FELU model.

Taking into account the fact that the overall cohesion envelope within the EU budget was slightly reduced for the 2014-2020 period (vis-à-vis the 2007-2013 period) and in view of the GNI growth in a large majority of new Member States during the last decade, it is not surprising that the intensity of cohesion funds inflows expressed as a percentage of GNI decreased – even more so, as the 2014-2020 MFF agreement fixed the national capping rate for cohesion allocations at 2.5% of GNI. Table 17 shows that cohesion envelopes expressed as a per cent of GNI are expected to be reduced vis-à-vis the corresponding figures for 2007-2013 period for all new Member States and a similar trend is observed for the three old cohesion Member States as well.

REFERENCES

De la Fuente, A. and R. Domenech (2001), The redistributive effects of the EU budget: an analysis and proposal for reform, Journal of Common Market Studies, Vol. 39, No. 2, pp. 307-330.

European Commission (2002), Information Note on the Common Financial Framework 2004-2006 for the Accession Negotiations, 30 January.

European Commission (2004), Building our common future: policy challenges and budgetary means for the enlarged Union, February.

European Commission (2007), Cohesion policy 2007-2013: Commentaries and official texts.

European Commission (2008), EU public finances, fourth edition.

European Commission (2010), The EU budget review.

European Commission (2011a), A Budget for the Europe 2020 – part I, June.

European Commission (2011b), A Budget for the Europe 2020 – part II: policy fiches, June.

European Council Conclusions, March 2000 (Lisbon strategy).

European Council Conclusions, October 2002 (Decision about capping expenses for the first pillar of CAP till 2013).

European Council Conclusions, December 2002 (completion of the EU accession negotiations for 10 EEC).

European Council Conclusions, December 2005 (completion of the MFF 2007-2013 negotiations).

European Council Conclusions, February 2013 (completion of the MFF 2014-2020 negotiations).

Heinemann, F. (2007), Solving the common pool problem in the EU fiscal constitution, presentation at the conference ‘Challenges to the EU Budgetary Reform’, Ljubljana, 7 May.

Mrak, M. et al. (2007), EU budget review: An opportunity for a thorough reform or minor adjustments (in Slovenian, with summary in English), October.

Mrak, M. and V. Rant (2007), Financial perspective 2007-2013: domination of national interests, EU-consent EU budget Working Paper No. 1, July.

Rant, V. and M. Mrak (2010), The 2007-2013 financial perspective: domination of national interests, Journal of Common Market Studies, Vol. 48, No. 3, pp. 347-372, March.

Rollo, J. (2003), Agriculture, the structural funds and the budget after the enlargement, SEI Working Paper No. 68.

Sapir, A., P. Aghion, G. Bertola, M. Hellwig, J. Pisani-Ferry, D. Rosati, J. Viñals and H. Wallace (2003), An agenda for a growing Europe: Making the EU economic system deliver, Report of an Independent High-Level Study Group established on the Initiative of the President of the European Commission (Rapporteurs: M. Buti, M. Nava and P. M. Smith).

Zuleeg, F. (2011), In danger of breakdown: is the EU approaching budget stalemate?, EPC Issue Paper No. 63, European Policy Centre, January.

4 Past, current and future cohesion policy in the context of the EU budget

MOJMIR MRAK, SÁNDOR RICHTER AND TAMÁS SZEMLÉR[39]

4.1 A SURVEY ON CEE EXPERT OPINIONS

4.1.1 Antecedents - *earlier surveys on the EU budget and cohesion policy*

In this section, we describe the main results (from the point of view of our present study) of two earlier questionnaire-based surveys on EU budget issues: Szemlér and Eriksson (2008), and Begg, Enderlein, Le Cacheux and Mrak (2008). Both surveys were done in the context of the EU budget review; their results were published in 2008.

Szemlér and Eriksson (2008) conducted a study mapping the position of EU Member States regarding the future of the EU budget. The study included country papers as well as a questionnaire survey on the future of the EU budget; here, we focus on the latter. The questionnaire was sent to different categories of respondents, including researchers, national and EU-level policy-makers and other respondents (such as civil servants, former national and EU officials, financial experts and financial journalists). The questionnaire was sent to potential respondents in all EU Member States; in the end, 167 responses from 23 Member States arrived. Because of the limited number and the uneven distribution of respondents, the results of the survey could not be regarded as statistically representative; but, due to the composition of the respondents, it could be interpreted as an expert survey containing valuable information.

From the results of the questionnaire survey (and the country papers), the authors drew the following main conclusions:

1. Despite the expressed official (and expert) wish to leave the juste retour behind, the traditional sources of the (EU-)budgetary conflict have remained important. This was reflected in the different replies to some specific questions (e.g. the representatives some Member States considered the reduction of net payments very important, while others emphasised the importance of maximising their transfers from the Structural and Cohesion Funds). The net financial position is still at the heart of the debate.

2. Based on the opinions expressed – e.g. with regard to the chances of the introduction of (a) genuine EU tax(es) – fundamental changes to the own resources system were regarded as unlikely. Concerning some specific issues, however, the medium-term perspective looked different:

[39] The questionnaire was the result of joint work by Mojmir Mrak, Sándor Richter and Tamás Szemlér. The evaluation of the questionnaire was written by Sándor Richter and Tamás Szemlér.

the opinions expressed showed the possibility of changes in the UK rebate, expected by almost every respondent.

3. As a result of the analysis, more considerable shifts on the expenditure side were regarded as likely by the authors. On the basis of the survey, the main expected elements in this respect were the following:

   a. the reform of Common Agricultural Policy, taken for granted by most respondents (even if the details of the expected reforms were unclear);

   b. the pressure on Cohesion Policy. Most respondents considered changes in this field more than likely; again, the nature of the changes were unclear;

   c. the competitiveness objective was regarded as a priority by practically everyone. Debates concerned mainly the reinforcement (or not) of the position of this item in the EU budget;

   d. ideas on new expenditure items were present, a good part of them even converging; however, considerations based on the status quo (including the size of the EU budget) made the authors conclude that no short-term radical change could be expected in this respect.

4. Regarding general principles, it is important to emphasise that most respondents did not see a direct link between obligations stemming from the Treaties and the presence of expenditure items directly related to these obligations in the EU budget. Additionality, subsidiarity and proportionality were considered by most respondents as important values.

5. The perhaps most important conclusion of the survey was that there were no general dividing lines between ‘old’ and ‘new’ Member States. Of course, there were some differences in interests – especially with regard to cohesion policy – but it is important to note that:

   a. beyond their short- and medium-term specific interests (catching-up of their economies) the (respondents from the) new Member States recognised the importance of being part of a strong EU in the long run: they were aware of the potential consequences of further enlargements (of course, also regarding their own interests) and showed openness for reforms in the long run. Quite interestingly, earlier main beneficiaries of the EU budget (especially of cohesion policy) were more concerned about their position – for them the big change was no longer an issue of the future at the time the survey was done;

   b. the groups of ‘old’ and ‘new’ Member States are far from being homogeneous, so no stable, general coalitions should be expected in EU budget issues. Some countries from the ‘newcomers’ (Slovenia was cited as the probably best example) had already interests coinciding more with those of the ‘old’ Member States than with those of the ‘new’ ones.

6. In general, there were important differences between the ideas of researchers and policy-makers. This is not surprising: considerations of those concerned with everyday practice can differ from those reflecting on long-run issues. One of the conclusions of the analysis was that long-term

considerations, however, should get more attention in the debates if we are to expect a more forward-looking, reformed EU budget.

The study mentioned above, Begg, Enderlein, Le Cacheux and Mrak (2008), was published under the title 'Financing of the European Union Budget'. It was prepared for the DG Budget of the European Commission. The authors organised a questionnaire survey, focusing on the functioning of the own resources system. The questionnaire was sent to all 27 Member States; answers arrived from 24 of them (one reply per country). In this case, we can clearly speak of an expert survey, as the questionnaires were answered by (groups of) persons actively involved in EU budget issues.

Despite the fact that the questionnaire focused on the revenue side of the EU budget, some of its results may be interesting from the point of view of our present study as well. Among the results obtained, it is important to mention the division of respondents on the issue of the necessity and/or appropriateness of the (then) current mechanisms to correct imbalances in national contributions to the EU budget. About 70% of all respondents expressed their doubts regarding the present system of corrections; while new Member States and net recipients were generally of this opinion, old Member States and net contributors in particular generally considered the mechanisms necessary and appropriate. It is also interesting that about half of the respondents (with a much higher proportion in the net contributor countries) saw the correction mechanisms as a necessity because of the shortcomings on the expenditure side of the EU budget. Regarding the expenditure side directly, about one quarter of the respondents considered CAP as an equalisation mechanism; in the case of cohesion policy, the share of respondents of such an opinion was much higher (two thirds). The shares were quite similar in all country groups.

Many respondents (a clear majority of old Member States and about half of the new ones) considered the creation of a generalised correction mechanism in case no satisfactory solution without corrections could be found. Most respondents rejected the idea of a two-stage approach (first step: agreement on the net balances; second step: allocation of spending under the different headings) during the negotiations on the financial perspective to deal with excessive imbalances. The large majority (over 90%) of respondents were of the opinion that, if any new equalisation mechanism was necessary, this should be created on the expenditure side of the EU budget.

4.1.2 The survey 'Cohesion policy as a function of the EU budget: a perspective from Central and Eastern European Member States'

The objective of our survey 'Cohesion policy as a function of the EU budget: a perspective from Central and Eastern European Member States' was to provide an assessment of the 2007-2013 cohesion policy of the EU and of its position within the EU budget, and to identify prospects for cohesion policy as one of the key components of the EU budget in the future. An online questionnaire had been prepared and sent to individuals in ten Member States from Central and Eastern Europe and in Croatia who had been identified as persons with substantial knowledge about the EU's cohesion policy and the EU budget. Respondents to the questionnaire were asked to provide their informal and personal views based on their experience. In analysing the replies the research team took the responsibility for guaranteeing the respondents' anonymity.

The questionnaires were sent out between 15 and 19 April 2013. The deadline for responses was 26 April 2013. The Vienna Institute for International Economic Studies (wiiw), a partner in the GRINCOH project, was responsible for the management of the questionnaire.

4.1.3 The respondents

Our goal was to select a group of experts from the ten Central and East European Member States and Croatia working either in the *administration*: ministry, managing authority, institution (intermediate body or similar) involved in the implementation of cohesion policy at national or regional level, or in *academia* (educational and research institutes). An important requirement was experiences on the job concerning the EU budget and/or cohesion policy. The pool of the potential respondents was collected from various resources. The largest segment was constituted from participants of a 2008 Brussels conference organised by the European Commission. The conference had the mission to launch the consultation on the Budget Review 2008/9.[40] This list was expanded by conference participants from other, smaller conferences on the subject and experts recommended by other experts identified already earlier as outstanding experts in the field. Finally, a selection of persons enlisted at the official INTERREG national contact point websites of the ten CEE Member States were added to the list.

Altogether 303 persons were contacted by email and invited to participate in the survey. In 45 cases the mail was returned as the email address was found inactive. Out of the 248 questionnaires which reached the selected circle of experts, 78 correctly filled-in ones (31.5% of the total) were returned.

Concerning the composition of the respondents, altogether 33 persons (42% of respondents) were working in government bodies, while 29 persons (37%) in academia. This proportion shows that a balanced participation from the two main occupation groups (and mentalities) was achieved (see Table 18). A share of 16 persons or 21% of respondents ticked the option ‘other’ or left this question unanswered.

Table 18 / Type of institution the respondent is affiliated with

	No. of respondents	Percentage
Ministry	18	23.1
Managing authority, paying or audit authority	11	14.1
Institution involved in the implementation of cohesion policy (interm. body or similar) at national level	3	3.8
Institution involved in the implementation of cohesion policy (interm. b. or similar) at reg. or local level	1	1.3
Academia (educational and research institutions)	29	37.2
Other	12	15.4
No answer	4	5.1
Total	78	100

More than two thirds of the respondents had over six years of working experience with the EU budget and/or cohesion policy, and over 80% of the respondents over three years (see Table 19).

[40] European Commission (2008), Reforming the Budget, Changing Europe. Launch of the consultations on the Budget Review 2008/9.

Table 19 / Respondent's work experience with cohesion policy/EU budget (in years)

	No. of respondents	Percentage
Less than 1	1	1.3
Between 1 and 3	5	6.4
Between 3 and 6	11	14.1
More than 6	53	67.9
No answer	8	10.3
Total	78	100

Table 20 / Information provided by the respondent refers to the experience of the following EU Member State from Central and Eastern Europe

	No. of respondents	Percentage
Bulgaria	10	11.0
Croatia	4	4.4
Czech Republic	11	12.1
Estonia	1	1.1
Hungary	19	20.9
Latvia	2	2.2
Lithuania	4	4.4
Poland	13	14.3
Romania	3	3.3
Slovakia	9	9.9
Slovenia	15	16.5
Total	91	100

We received responses from all 11 countries concerned. Nevertheless, the distribution by respondents' home country or the country where they had gained experience with cohesion policy was uneven (multiple ticking was allowed here). 10 to 19 responses referred to Hungary (19), Slovenia (15), Poland (13), the Czech Republic (11) and Bulgaria (10), closely followed by Slovakia (9). Substantially less than 10 responses referred to the other five countries: Croatia (4), Estonia (1), Latvia (2), Lithuania (4), and Romania (3). The underrepresentation of the Baltic region in the sample is remarkable (see Table 20)

4.1.4 The structure of the questionnaire

The questionnaire consisted of altogether 28 questions; of these, 3 ones required basic information on the respondent, the remaining 25 questions referred to the subject. These 25 questions were raised in four thematic blocks:

A. Position of the 2007-2013 cohesion policy within the EU budget
B. Assessment of the past and recent (2007-2013) cohesion policy
C. Assessment of cohesion policy arrangements for 2014-2020 and the desired policy features for post 2020
D. Net financial positions and possible mechanisms to correct budgetary imbalances

The text of the questionnaire is displayed in the Annex.

4.1.5 The results

A. Position of the 2007-2013 cohesion policy within the EU budget

Question A/1: How would you rank the importance of the main expenditure headings of the EU budget for your country?

In this question, the respondents were asked to provide their opinion about the three biggest expenditure headings (referred to as Common Agricultural Policy, Cohesion and Competitiveness). Respondents could rank these headings as ‘top priority’, ‘bottom priority’ or ‘in between’.

For Common Agricultural Policy and Cohesion, 93.6% of our sample (73 respondents) gave a reply; in the case of Competitiveness, the share of respondents was even higher, 94.9% (74 respondents).

The results presented in Tables 21a-c provide a clear ranking: on the basis of the number of ‘top priority’ votes, Cohesion is the most ‘popular’ item, followed by Competitiveness and Common Agricultural Policy. This is true for the overall picture as well as for the ‘academia’ and ‘administration’ subgroups; the shares of the items, however, differ. If one takes into account the sum of ‘top priority’ and ‘in between’ votes, it modifies the ranking in one case (in the case of ‘administration’ respondents, Common Agricultural Policy overtakes Competitiveness), but does not change the overall picture to a great extent.

Table 21a / Ranking of the importance of the main expenditure headings of the EU budget for the respondent’s country – replies from the whole sample

	Top priority		In between		Bottom priority	
	No. of responses*	Percentage of responses	No. of responses	Percentage of responses*	No. of responses	Percentage of responses
Common Agricultural Policy	16	21.9	31	42.5	26	35.6
Cohesion	59.5	81.5	11.5	15.8	2	2.7
Competitiveness	24.5	33.1	28.5	38.5	21	28.4

* Note: The ‘.5’ values in the tables mean that one respondent did not make a difference between the ranking of Cohesion and Competitiveness.

Table 21b / Ranking of the importance of the main expenditure headings of the EU budget for the respondent’s country – replies from ‘academia’ respondents

	Top priority		In between		Bottom priority	
	No. of responses*	Percentage of responses	No. of responses*	Percentage of responses	No. of responses	Percentage of responses
Common Agricultural Policy	4	14.3	9	32.1	15	53.6
Cohesion	19.5	69.6	7.5	26.8	1	3.6
Competitiveness	8.5	30.4	13.5	48.2	6	21.4

* Note: The ‘.5’ values in the tables mean that one respondent did not make a difference between the ranking of Cohesion and Competitiveness.

Table 21c / Ranking of the importance of the main expenditure headings of the EU budget for the respondent's country – replies from 'administration' respondents

	Top priority		In between		Bottom priority	
	No. of responses	Percentage of responses	No. of responses	Percentage of responses	No. of responses	Percentage of responses
Common Agricultural Policy	8	25.0	17	53.1	7	21.9
Cohesion	29	90.6	2	6.3	1	3.1
Competitiveness	11	33.3	11	33.3	11	33.3

It is clear that CEE experts find Cohesion very important – it is a logical point if one takes into account the development level and the EU budget-related direct financial interests of most CEE countries. However, it is also important to note that many CEE experts are convinced of the importance of competitiveness-related expenditures; this support cannot be rooted – at least not on the short run – in a *juste retour* approach.

Question A/2: If cohesion policy is important for your country, this is because it is considered (more than one answer is possible):

- to be a good instrument to promote growth and jobs in your country;
- to contribute decisively towards an improved 'net budgetary position' of your country;
- to be an efficient instrument for reducing economic and social disparities within the country;
- other

This question focuses on the importance of cohesion policy for the respondent's country, and it intends to identify the most important reason(s) of the importance of this policy. The results are presented in Table 22.

Three quarters of the respondents have said that cohesion policy is important because it is a good instrument to promote growth and jobs in their countries. In this respect, there was practically no difference between 'academia' and 'administration' respondents.

Table 22 / If cohesion policy is important for your country, this is because it is considered...

	Replies (No.)	Replies as % of all respondents
... to be a good instrument to promote growth and jobs in your country	58	74.4
...to contribute decisively towards an improved 'net budgetary position' of your country;	23	29.5
...to be an efficient instrument for reducing economic and social disparities within the country	48	61.5
Other	4	5.1

The contribution of cohesion policy to the reduction of economic and social disparities has been considered important by more than 60% of the respondents; two thirds of 'administration' respondents have clicked this option, while among 'academia' respondents the share was below 60%; this is already a difference that gives some ground for further thinking (how the effects on reducing disparities are evaluated by an independent analyst and by a member of the administration responsible for this policy), but there is no doubt that this motivation was regarded as an important one.

Net budgetary position was the third most popular reply, with almost 30%. The share was much higher (36.4%) among 'administration' respondents than among 'academia' ones (27.6%). This difference can also be regarded as a consequence of the difference in the characteristic points of view of the two groups of respondents.

'Other' was mentioned by 5.1% of the respondents (4 persons); the share was lower among 'academia' respondents (1 response: 'large amounts of money in absolute (rather than relative – net budgetary position) terms') and higher among 'administration' ones (2 replies: 'to encourage the exchange of experiences between the regions at transnational level' and 'to contribute towards using local potential'); from the respondents not belonging to any of the above groups, one such reply arrived ('compensate other public income').

Question A/3: To what extent is the policy of your country towards cohesion policy geared by the 'net financial position' logic?

Asking this question, we intended to get information about the opinion of the experts on the importance of the content of cohesion policy for their countries: is this policy important because it may have a certain added value (e.g. to the development of regions lagging behind, to the fulfilment of the objective of catching-up to the richer countries) or is it just (or more) the effect on the net visible financial balance vis-à-vis the EU[41]. Of course, we were aware of the fact that replies may be biased (but this may be true for all questions of all questionnaires when respondents provide their opinion on questions they are directly or indirectly involved in).

The results presented in Table 23 show that 9.0% of all respondents said that the 'net financial position' logic has no influence at all on their countries' attitude towards cohesion policy. Among respondents from administration, the share of this reply was much lower (6.06%) than among respondents from academia (13.8%). This is an important difference between the opinions of those who do and who do not participate actively in the realisation of this policy.

34.6% of respondents judged the influence being present 'to a small extent'. Again, the difference between the administration (39.4%) and academia (34.5%) is important, but differently from the first option, we got the higher share in the case of administration respondents.

According to the highest number of replies (37.2%), the influence was 'strong'. However, the judgement was again different in the two groups. Among the administration respondents, the share of this reply was 45.5%, while among 'academia' respondents, its share was 27.6%.

11.5% of our sample found the importance of the 'net financial position' logic 'very strong' for the approach of their countries towards cohesion policy. The difference between our two sub-groups is the

[41] The financial consequences of EU membership are much more than the amounts that a Member State pays into or receives from the EU budget; however, the amounts belonging to the EU budget are the most 'visible', most tangible and thus the most discussed part of the financial balance.

biggest here: among ‘academia’ respondents, the share was 20.7%, while among ‘administration’ respondents it was only 3.0% (only one reply).

Out of the total sample, 6 persons gave no reply to this question.

Table 23 / To what extent is the policy of your country towards cohesion policy geared by the 'net financial position' logic?

	Replies (No., whole sample)	Percentage of replies (whole sample)	Replies (No., academia)	Percentage of replies (academia)	Replies (No., administration)	Percentage of replies (administration)
Not at all	7	9.0	4	13.8	2	6.1
To a small extent	27	34.6	10	34.5	13	39.4
Strongly	29	37.2	8	27.6	15	45.5
Very strongly	9	11.5	6	20.7	1	3.0
No answer	6	7.7	1	3.5	2	6.1

Question A/4: Do you think that the current mechanisms (e.g. UK rebate, rebate on rebate, 'presents') to address perceived budgetary imbalances in national contributions to the EU budget are necessary?

The results are presented in Table 24. From the total sample, the ‘No’ reply was in a clear majority with 61.5%. The ‘Yes’ had only a share of 21.8%, while there was no reply 16.7% of our sample. This proves that the presently used solutions for the problem of excessive imbalances vis-à-vis the EU budget are far from being widely supported.

The difference between our two sub-groups is considerable: while 27.3% of the ‘administration’ respondents are positive with regard to the current mechanisms, the same can be said only about 17.2% of the ‘academia’ respondents. In the ‘No’ replies, the shares are 51.5% and 72.4%, respectively – this confirms the difference between the two subgroups.

Apparently, experience in practice has an important different effect on accepting compromises that can seem unacceptable from a mostly theoretical point of view.

Table 24 / Do you think that the current mechanisms (e.g. UK rebate, rebate on rebate, 'presents') to address perceived budgetary imbalances in national contributions to the EU budget are necessary?

	No. of replies (whole sample)	Percentage of replies (whole sample)	No. of replies (academia)	Percentage of replies (academia)	No. of replies (administration)	Percentage of replies (administration)
No	48	61.5	21	72.4	17	51.5
Yes	17	21.8	5	17.2	9	27.3
No answer	13	16.7	3	10.3	7	21.2

B. Assessment of the past and recent (2007-2013) cohesion policy

Question B/1: Cohesion policy has been of high importance for new Member States from Central and Eastern Europe. Evaluate from the point of view of your country the success of the cohesion policy in each of the following three periods:

› Period of the Pre-accession Aid (2000 to April 2004; for Bulgaria and Romania 2000 to 2007; for Croatia 2007 to 2013)

› Cohesion policy of the 'phasing-in' period (May 2004 to 2006; for Bulgaria and Romania 2007 to 2009)

› Cohesion policy in the post-'phasing-in' period (2007 to 2013; for Bulgaria and Romania 2010 to 2013).

Cohesion policy in the pre-accession period has received a very positive overall evaluation from our respondents. More than ¾ of them have evaluated cohesion policy from the point of view of their country successful (57.6%) or very successful (18%). The share of the reply ‘Not successful’ was 9.0%, while ‘Not successful at all’ was marked by only 1 respondent (an ‘academia’ respondent; 1.3% of the whole sample). 14.1% of the sample gave no reply to this question.

Regarding the ‘phasing-in’ period, the results have been very similar: the total share of replies ‘Successful’ and ‘Very successful’ was over 75%, while the negative answers were around 10% (no ‘Not successful at all’ reply). Again, 14.1% of the sample gave no reply.

With regard to the post-‘phasing-in’ period, the distribution of replies has been somewhat different from the previous ones. The total share of ‘Successful’ (53.9%) and ‘Very successful’ (10.3%) was considerably lower (64.1%), while the total share of ‘not successful’ (16.7%) and ‘Not successful at all’ (3.9%) was considerably higher (20.6%) than with regard to the preceding periods (1 ‘academia’ reply and two ‘other’ reply, no reply from ‘administration’). The abstention rate has also been a bit higher (15.4%).There may be different reasons for these figures: it is possible that – after the first years spent in the EU – some doubts occurred, or, just on the contrary, direct experience has modified the evaluation (and it is also visible that some respondents (more than for the earlier periods) simply did not want to express their opinion). Regarding the differences between the sub-groups ‘academia’ and ‘administration’, the more positive overall opinion of respondents belonging to the second one is clear. It is interesting to look at the development of the opinions regarding the different periods. In the case of ‘administration’ respondents, the number of ‘successful’ replies gradually diminishes (the number of ‘very successful’ replies does not show any significant change), while the tendency is just the opposite in the case of ‘academia’ respondents (in their case, however, the decrease in ‘very successful’ replies is also clear), when one goes from the pre-accession period via the phasing-in to the post-phasing-in one. It is also interesting that respondents not providing their membership of any of our sub-groups (‘others’) show sometimes quite different opinions than ‘administration’ and ‘academia’ respondents. More details can be found in Tables 25a-c.

Table 25a / The evaluation of cohesion policy in the pre-accession period in the respondent's country

	Replies (No., whole sample)	Percentage of replies (whole sample)	Replies (No., academia)	Percentage of replies (academia)	Replies (No., administration)	Percentage of replies (administration)
Not successful at all	1	1.3	1	3.5	0	0.0
Not successful	7	9.0	4	13.8	2	6.1
Successful	45	57.7	13	44.8	23	69.7
Very successful	14	18.0	5	17.2	6	18.2
No answer	11	14.1	6	20.7	2	6.1

Table 25b / The evaluation of cohesion policy in the 'phasing-in' period in the respondent's country

	Replies (No., whole sample)	Percentage of replies (whole sample)	Replies (No., academia)	Percentage of replies (academia)	Replies (No., administration)	Percentage of replies (administration)
Not successful at all	0	0.0	0	0.0	0	0.0
Not successful	8	10.3	6	20.7	1	3.0
Successful	47	60.3	18	62.1	21	63.6
Very successful	12	15.4	2	6.9	8	24.2
No answer	11	14.1	3	10.3	3	9.1

Table 25c / The evaluation of cohesion policy in the post-'phasing-in' period in the respondent's country

	Replies (No., whole sample)	Percentage of replies (whole sample)	Replies (No., academia)	Percentage of replies (academia)	Replies (No., administration)	Percentage of replies (administration)
Not successful at all	3	3.9	1	3.5	0	0.0
Not successful	13	16.7	4	13.8	4	12.1
Successful	42	53.9	21	72.4	17	51.5
Very successful	8	10.3	1	3.5	7	21.2
No answer	12	15.4	2	6.9	5	15.2

Question B/2: Cohesion policy in the 2007-2013 period has numerous objectives. Indicate on a scale of 1 to 6 your assessment of the importance (1 = lowest; 6 = highest) of individual cohesion policy objectives for your country.

- **Economic growth (economic convergence)**
- **Competitiveness**
- **Job creation**
- **Development of urban areas**
- **Development of rural areas**
- **Environmentally sustainable development**
- **Socially sustainable development**
- **Support to territories with specific problems, such as depopulation, etc.**

Supplement the above list by additional objectives if you deem appropriate.

'Economic growth (economic convergence)' was judged as the most important objective by the respondents, while 'Competitiveness' came second and 'Job creation' third. This is true for the whole sample and also for our subgroups. Regarding the further ranking, however, the opinions of 'academia' and 'administration' respondents differ in some points (especially in the case of sustainable (both environmentally and socially) development and support to territories with specific problems (see Table 26).

It is very clear from the averages that 'academia' respondents are much more critical than 'administration' ones: for all objectives, the averages of the marks given by 'academia' respondents are clearly lower than those of the 'administration' ones. This difference in the approach of the two subgroups can be due to numerous factors, including the nature of their work or the non-involvement vs. involvement in the process of designing and managing cohesion policy.

Table 26 / Averages of the values of replies to Question B/2

	Average (whole sample)	Average (academia)	Average (administration)
Economic growth (economic convergence)	4.95	4.75	5.12
Competitiveness	4.46	4.32	4.65
Job creation	4.45	4.25	4.64
Development of urban areas	3.60	3.30	3.88
Development of rural areas	3.96	3.93	4.03
Environmentally sustainable development	4.03	3.70	4.30
Socially sustainable development	3.80	3.44	4.13
Support to territories with specific problems	3.20	2.86	3.72

Some of the respondents have also added their own suggestions for objectives. The list of their proposals and remarks can be found in Table 27. The list is quite heterogeneous (we cite all the suggestions as they have been formulated). All the items have been mentioned once.

Table 27 / Additional objectives deemed important by the respondents

Improving administrative capacity and the quality of public services
The most important in recent years was economic growth but in the public discussion the most hot topic was development of transport infrastructure
Increase the level of accessibility (importance: 5)
Maintenance of European culture
Cross border cooperation (importance: 5)
Research, technological development and innovation; SMEs' competitiveness; low-carbon economy in all sectors
Social inclusion

Question B/3: Please indicate on a scale of 1 to 6 your assessment of how successful (1 = lowest; 6 = highest) each of these principles has been in practice for effective implementation of cohesion policy in your country.

› **Programming**

› **Management of funds (implementing structures)**

› **Project facilitation and selection procedures**

› **Decentralisation of decision-making**

› **Financial management (cofinancing requirements, N+2/N+3 rule, eligibility rules, control requirements)**

› **Monitoring and evaluation**

› **Partnership principle**

› **Long-term approach and predictability of development support**

This question has asked about the degree of *success* of the practical implementation of some key principles. It is not surprising that the marks in general are lower than those seen in the case of the previous question that asked about the *importance* of different expenditure items.

The results are presented in Table 28. Regarding the 'top three', the two sub-groups had again similar opinions: according to their opinions (and, as a result, to the opinion of the whole sample), 'Programming', 'Financial management' and 'Management of funds' have become the three best-marked items (in the case of 'administration' respondents, also 'Monitoring and evaluation' has reached third place). There are some differences in the further ranking, but the worst ranked item is clearly

'Decentralisation of decision-making' – it seems that our respondents are not very satisfied by the implementation of this principle.

Table 28 / Averages of the values of replies to Question B/3

	Average (whole sample)	Average (academia)	Average (administration)
Programming	4.19	3.92	4.41
Management of funds (implementing structures)	3.80	3.48	4.22
Project facilitation and selection procedures	3.51	3.37	3.78
Decentralisation of decision-making	3.17	2.88	3.53
Financial management (cofinancing, N+2/N+3, eligibility, control)	4.01	3.76	4.30
Monitoring and evaluation	3.72	3.40	4.22
Partnership principle	3.49	3.22	3.75
Long-term approach and predictability of development support	3.30	3.08	3.75

Again, 'academia' respondents were far much more critical than 'administration' ones: for all objectives, the averages of the marks given by 'academia' respondents were clearly lower than those of the 'administration' ones. The reasons of this difference can be similar as in the case of the previous question, with special regard to the non-involvement vs. involvement in the process of managing cohesion policy.

It is also interesting that the share of 'no reply' has been considerably higher among 'academia' respondents than among 'administration' ones: this may be – perhaps, among other reasons – due to a higher discipline of the latter group (however, we have to be cautious with this idea: such a difference could not be observed in the case of the previous question regarding *importance* while the present question focused on *success*).

C. Assessment of cohesion policy arrangement for 2014-2020 and the desired policy features for post 2020

Question C1

In your view, what would be the optimal size of the EU budget in terms of percentage share of EU GNI?

51 respondents, 65% of the total had a quantifiable answer to this question.[42] Though most of the answers were in numerical terms, some were provided in text which necessitated interpretation and a translation into numerical terms. In Table 29 all proposed sizes for an optimal EU budget are enlisted. They range from 1% to 50% of the GNI of the EU. Without doubt, respondents who opted for a 1% EU budget had something completely different notion in their mind about the requirements an imaginary future EU budget should correspond to than those who proposed 50% (both in terms of EU GNI). Based on the wide range of the proposed size of the EU budget five distinct categories were set up in order to distinguish between the implicitly proposed types of redistribution. 'Implicitly' here means that the respondents were asked only about the size of the budget and not about the type of redistribution, but

[42] Some left the question unanswered, others provided unquantifiable answers, e.g. 'much more than today'.

obviously the figures indicated in the answers have a more or less clear message about the envisioned type of redistribution.

What concerns the results, 14% of the respondents are satisfied with the size of the EU budget as approved at the February 7/8 2013 European Council for 2014-2020, namely 1% of the EU GNI. Close to one third of the respondents would like to have an EU budget which is larger than the 1% but would not surpass the current officially allowed upper limit (1.24% of the EU GNI) for the EU's own resources. One fifth of the respondents would support an EU budget between 1.25 and 1.5% of the EU GNI, which is a relatively small jump from the current levels, which would however enable the financing of nearly all goals the Commission envisioned about a modernized, interconnected, socially inclusive and environment friendly Europe in the last decade. This stepped up redistribution would most probably not break into pieces the current framework of the EU budget yet, although the treatment of the net financial position of individual MS would become a highly critical issue. Thus altogether 65% of the respondents imagine an optimal EU budget in the currently existing framework and fulfilling practically the same functions as it fulfils today.

One quarter of the respondents opted for an EU budget size between 2 and 10% of the EU GNI, which indicates already a departure from the current practice and an adoption of new functions. These may range from a fiscal capacity as proposed by the President of the European Council Mr. Van Rompuy to establish the opportunity to address business cycles in individual Member States from Community resources, to adaption of selected (and limited) fiscal competencies, delegating them from the national budgets to EU level.[43] Finally, 10% of the respondents must have had a European federal state in mind, either with relatively limited tasks (from 10% to 20% of the EU GNI) to a highly centralised state from 33% to 50% European redistribution. Altogether more than a third of the respondents have been favouring a resolute departure from the current state of affairs and moving towards a stronger fiscal competency of the European Union over the individual Member States.

As data in Tables 29a and 29b display, respondents working in the administration were somewhat less in favour for a stronger fiscal centralisation than the one currently prevailing in the European Union, only 33% opted for that. Of the respondents working in academia remarkably more, 41% chose a budget size which implicates a resolute movement to a federally constructed EU.

Question C2

What would be your proposal for the proportions among main EU budget expenditure headings under your preferred size of the EU budget?

Although this question clearly refers to the previous one about the respondents' preference concerning the size of the EU budget, there were respondents who answered this question but not the former one and vice versa. There were altogether 63 complete responses (81% of the total) to this question. In order to present the consensus opinion of CEE experts on the wishful future structure of the EU budget an unweighted average was calculated from individual answers. As displayed in Table 30, respondents focused on three major blocks of expenditures: cohesion, competitiveness and agriculture, all other expenditures remained nearly the same as in the expenditure structure approved by the European

[43] Van Rompuy, H. (2012), Towards a genuine economic and monetary union; http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134069.pdf (downloaded on 18.12.2013).

Council on 7-8 February 2013 (see Table 30). The really important rearrangement took place among the three major expenditure blocks. CEE experts would like to see a position for agricultural expenditures a third leaner than it is in the EC proposal. Competitiveness should gain in importance, its share should practically be doubled from that in the EC proposal. Cohesion expenditures also should gain on importance, but the difference between the CEE expert consensus and the EC proposal is surprisingly small, only 2.9 percentage points. For comparison, the difference between EC proposed and CEE expert consensus share of 'Competitiveness for growth and jobs' in total EU budget expenditures is 12.1 percentage points. This shows a clear preference of the CEE experts for increasing relevance of modernisation and European value added among the potential spending targets of the EU budget. This result is important, as competitiveness is not the expenditure position where CEE Member States gain the most from the EU budget; that segment is cohesion policy expenditures. This latter was also seen by respondents as too lean, but the proposed increase was far less than that recommended for competitiveness expenditures.

Table 29 / The proposed optimal size of the EU budget

Proposed optimal size of the EU budget in % of EU GNI	Number of responses	Responses as % of total	Implicitly proposed types of redistribution, in % of total
1	7	14	14
1.04	1	2	
1.05	1	2	
1.1	5	10	
1.0-1.1	1	2	
1.15	1	2	
1.0-1.2	1	2	
1.2	5	10	
1.24	1	2	31
1.25	1	2	
1.3	1	2	
1.2-1.5	1	2	
1.3-1.5	1	2	
1.5	6	12	20
1.0-2.0	2	4	
2.0	3	6	
3	1	2	
1.0-4.0	1	2	
3.0-4.0	1	2	
5	3	6	
5.0-8.0	1	2	
10	1	2	25
20	1	2	
33	1	2	
35	1	2	
50	2	4	10
Total	51	100	100

Table 29a / The proposed optimal size of the budget by respondents from 'Administration'

Administration			
Proposed optimal size of the EU budget in % of EU GNI	Number of responses	Responses as % of total	Implicitly proposed types of redistribution, in % of total
1	2	11	11
1.04	1	6	
1.05	0	0	
1.1	1	6	
1.0-1.1	0	0	
1.15	0	0	
1.0-1.2	1	6	
1.2	4	22	
1.24	0	0	39
1.25	1	6	
1.3	1	6	
1.2-1.5	1	6	
1.3-1.5	0	0	
1.5	0	0	17
1.0-2.0	0	0	
2.0	2	11	
3	0	0	
1.0-4.0	0	0	
3-4	1	6	
5	0	0	
5.0-8.0	1	6	
10	0	0	22
20	0	0	
33	0	0	
35	1	6	
50	1	6	11
Total	18	100	100

Table 29b / The proposed optimal size of the budget by respondents from 'Academia'

Academia			
Proposed optimal size of the EU budget in % of EU GNI	Number of responses	Responses as % of total	Implicitly proposed types of redistribution, in % of total
1	4	18	18
1.04	0	0	
1.05	0	0	
1.1	2	9	
1.0-1.1	0	0	
1.15	1	5	
1.0-1.2	0	0	
1.2	1	5	
1.24	1	5	23
1.25	0	0	
1.3	0	0	
1.2-1.5	0	0	
1.3-1.5	0	0	
1.5	4	18	18
1.0-2.0	0	0	
2.0	0	0	
3	1	5	
1.0-4.0	1	5	
3-4	0	0	
5	3	14	
5.0-8.0	1	5	
10	1	5	32
20	1	5	
33	0	0	
35	0	0	
50	1	5	9
Total	22	100	100

Table 30 / Preferred allocation of EU budget expenditures, unweighted average of responses

Selected expenditure chapters in the EU budget	Total (63 respondents)	Respondents proposing an EU budget with a size up to 1.5% of EU GNI (32 respondents)	of which: Administration sub-sample (9 respondents)	Academia sub-sample (14 respondents)	As agreed at the European Council in February 2013
Economic, social & territorial cohesion	36.8	38.3	40.3	38.1	33.9
Competitiveness for growth and jobs	25.2	23.2	19.6	26.8	13.1
Natural resources	25.3	26.4	28.2	22.8	38.9
Other	12.7	12.1	11.9	12.3	14.1
Total	100.0	100.0	100.0	100.0	100.0

As discussed under question C/2 above, the scope of answers for the preferred size of the future EU budget was quite wide. As mentioned there, those respondents who proposed a budget with a size in the range of 1 to 1.5% of the EU GNI might have an imaginary future EU budget in mind which, concerning the tasks it is expected to fulfil, is basically not too much different from those set out in the current EU budget. We were curious to know the preferences of this segment of respondents ('moderate reformers') concerning the wishful proportions among the main expenditure items. Therefore we filtered out respondents with a fundamentally other vision (preferring an EU budget ranging between 1.5 to 50% of the EU GNI). The figures in Table 30 display that moderate reformers' notions about the future proportions of main expenditure items are indeed more conservative than the pool of all respondents, where the impact of 'radical reformers' of the EU budget is seen. The former group would like to see more cohesion policy and agricultural and less competitiveness related expenditures than the total group. There are interesting differences according to affiliation of the respondents in the moderate reformer group. Those working in the administration are much less enthusiastic for the competitiveness chapter in the EU budget than the moderate reformer respondents with an academic background. The latter group in turn would allocate less funding to both cohesion and agriculture compared to those with an administrative background. Nevertheless even moderate reformer respondents with an administrative background wish to spend more on competitiveness than the EU budget that was proposed by the European Council.

Question C/3:

Do you believe that the changes in the design of cohesion policy as approved by the European Council on 7-8 February of this year for the 2014-2020 period are: not appropriate at all, not appropriate, appropriate, very appropriate?

Nearly half of the respondents were satisfied with the cohesion policy design of the 7-8 February 2013 European Council for the MFF 2014-2020 (see Table 31). Somewhat more than one third found the proposed design inappropriate. It is remarkable that only one respondent found the cohesion policy design either very appropriate or very inappropriate, each. 13% provided no answer. Summarising, the answers the reception of the cohesion policy design by the CEE experts was significantly positive.

Table 31 / Evaluation of cohesion policy design for 2014-2020 as approved by the February 2013 EC

Possible answers	No. of respondents	Percentage
Not appropriate at all	1	1.3
Not appropriate	28	35.9
Appropriate	38	48.7
Very appropriate	1	1.3
No answer	10	12.8
Total	78	100.0

Question C/4:

What is your attitude towards the introduction of various forms of macroeconomic conditionality for the eligibility of cohesion policy funding?

More than half of the respondents agree with the introduction of various forms of macroeconomic conditionality, nearly 10% strongly agrees (see Table 32). This seems to indicate a remarkable strong support by the CEE experts for the initiative. This is somewhat surprising because as it is discussed later in chapter 4.3 of this paper, conditionality may have serious implications for the CEE countries in the case of non-compliance. Most probably the recent crisis-related economic problems in Greece, Portugal, Spain and Italy gave the respondents concerned the motivation for their decision. Simultaneously more than one third of the respondents do not agree with the introduction of various forms of macroeconomic conditionality, while 4% is opposing it strongly. As displayed in Table 32a, respondents from administration were more supportive of the introduction of macroeconomic conditionality than academic respondents, nevertheless, in the former group the share of respondents who did not answer the question was significantly higher.

Table 32 / Attitude towards the introduction of various forms of macroeconomic conditionality for the eligibility of cohesion policy funding

Possible answers	No. of respondents	Percentage
I strongly agree	7	9.0
I agree	34	43.6
I disagree	26	33.3
I strongly disagree	3	3.9
No answer	8	10.3
Total	78	100.0

Table 32a / Attitude towards the introduction of various forms of macroeconomic conditionality for the eligibility of cohesion policy funding

	Academia		Administration	
Possible answers	No. of respondents	Percentage	No. of respondents	Percentage
I strongly agree	2	6.9	2	6.1
I agree	13	44.8	16	48.5
I disagree	11	37.9	10	30.3
I strongly disagree	2	6.9	1	3
No answer	1	3.4	4	12.1
Total	29	100	33	100

Question C/5:

At present, the volume of funding available to a Member State under the cohesion policy is capped at the level of 3.8% of GDP while for the 2014 – 2020 period it is planned to be reduced. What is your view on cohesion policy capping?

Close to three quarters of the respondents think that a cap on cohesion policy funding is in general appropriate – concrete/specific solutions are, of course, debated. Only 15% is on the opinion that the cap should be abolished (see Table 33). Nevertheless, nearly half of the respondents would insist on preserving the 2007-2013 size of the cap (3.8% of the recipient Member State's GDP) and only a quarter of them supports the new, more restrictive ceiling on cohesion policy spending in recipient countries as agreed at the 7-8 February European Council (2.35% and 2.29%, respectively, of the recipient Member State's GDP).

Question C/6:

GDP/GNI per capita is the main criterion for allocation of cohesion policy funding to eligible geographical areas. Do you agree with this approach?

More than 60% of respondents agreed with the prevailing practice that a Member State's economic performance, in terms of GDP/GNI per capita, remain the basic criterion for the allocation of cohesion policy expenditures across Member States (see Table 34). Only 19% had diverging opinion, and the share of 'no answer' was unusually high, 18% in this question.

Table 33 / Attitude toward a cap on cohesion policy funding for a Member State

Possible answers	No. of respondents	Percentage
There should be no capping on cohesion policy funding	12	15.4
Capping should remain at the present level (3.8% GDP)	36	46.2
I support the capping at the level proposed for the 2014 – 2020 period (2.35% or 2.59% of GDP)	19	24.4
Capping should drop to an even lower level than proposed by the European Council for the 2014-2020 period.	2	2.6
No answer	9	11.5
Total	78	100.0

Table 34 / Attitude on relying on GDP/GNI per capita as main criterion of allocation for cohesion policy funding

Possible answers	No. of respondents	Percentage
No	15	19.2
Yes	49	62.8
No answer	14	18.0
Total	78	100

Question C/6i:

In the case your answer in 'No' to Question C6, please specify what other criteria should be taken into account for allocation of cohesion policy funds (more than one answer is possible):

In this section multiple ticking of the boxes were allowed. Nearly three quarters of those 15 respondents who considered GDP/GNI per capita as the main criterion for the allocation of cohesion policy expenditures across member States unsuitable, would replace the current criterion by employment/unemployment level or territorial cohesion criteria (see Table 35). Education criteria were proposed by more than half of the respondents, and research and development criteria were mentioned by close to half of the respondents. Other, non-specified criteria had only a minor role.

Table 35 / Alternative criteria proposed for the allocation of cohesion policy funding

Possible answers	No. of respondents	Percentage
Employment / unemployment level criteria	11	73.3
Education criteria	8	53.3
R&D and innovation criteria	7	46.7
Territorial cohesion criteria	11	73.3
Other	2	13.3

Question C/7:

At present, a large majority of cohesion policy funding is being allocated to NUTS II regions. In your view, is this appropriate?

About 70% of the respondents found that the current allocation scheme with the NUTS II regions in focus is appropriate. Opponents to the prevailing scheme are represented by about 15% of the answers (see Table 36).

Table 36 / Attitude towards the allocation of large majority of cohesion policy funding to NUTS II regions

Possible answers	No. of respondents	Percentage
Not appropriate at all	2	2.6
Not appropriate	10	12.8
Appropriate	50	64.1
Very appropriate	4	5.1
Other	2	2.6
No answer	10	12.8

Question C/7i:

In case your answer to QC/7 was 'Not appropriate at all' or 'Not appropriate', please specify what other geographical eligibility criteria should be used for allocation of cohesion policy funds (more than one answer is possible)

There were 12 persons whose answer was ‘not appropriate’ or ‘not appropriate at all’ to question C/7. There were altogether 12 proposals for alternative solutions. There were 8 indications for NUTS III regions, 3 indications for country level, and one indication for macroregions such as the Baltic or the Danube region (see Table 37).

Table 37 / In case your answer in 'Not appropriate at all' or 'Not appropriate', please specify what other geographical eligibility criteria should be used

Possible answers	No. of respondents	Percentage
Country level	3	25.0
Macro-regions, such as Baltic region, Danube region, etc.	1	8.3
NUTS III	8	66.7
Other	0	0.0
No answer	0	0.0
	12	100.0

Question C/8:

From time to time a proposal is made that cohesion policy should be increasingly implemented with debt-financing and financial engineering instruments, such as loans of the EIB, project bonds, etc. Consequently, these instruments should start replacing classical grant-based instruments financed from the EU budget. What is your position on this approach?

Exactly one half of the respondents agreed that classic grant-based financing will have to be slowly replaced by debt financing and financial engineering instruments (see Table 38). More than one third is opposing this idea, within this group 10% of the respondents are strongly against it. The share of strong supporters (within the group of all supporters) of the proposition is smaller, only about 6%. This is an important reference to the far-sightedness of the majority of the CEE experts, as net beneficiaries are supposed to enjoy ‘easy money’ in the form of grants contrary to more risky credits and other non-grant based financial instruments.

Table 38 / Attitude towards an increasing role of debt-financing and financial engineering instruments in the cohesion policy

Possible answers	No. of respondents	Percentage
I strongly disagree	8	10.3
I disagree	22	28.2
I agree	34	43.6
I strongly agree	5	6.4
No answer	9	11.5
total	78	100.0

Table 38a / Attitude towards an increasing role of debt-financing and financial engineering instruments in the cohesion policy

	Administration		Academia	
Answer	**No. of responses**	**Percentage**	**No. of responses**	**Percentage**
I strongly disagree	4	12.1	2	6.9
I disagree	10	30.3	11	37.9
I agree	15	45.5	10	34.5
I strongly agree	1	3.0	4	13.8
No answer	3	9.1	2	6.9
Total	33	100.0	29	100.0

D. Net financial positions and possible mechanisms to correct budgetary imbalances

Question D/1:

Should an important objective of a future overall budgetary reform of the EU be the elimination of all mechanisms for correction of budgetary imbalances?

The respondents' attitude was unambiguous to this question. Close to half of them think that a correction of budgetary imbalances has no room in a thoroughly reformed EU budget. Nevertheless more than a third of the respondents think that even after a fundamental reform of the EU budget such an instrument to rebalance the advantages and disadvantages across Member States will remain necessary. This latter case implicitly means that these respondents think that EU budgetary reforms should not address the problem of 'fair return'. Nevertheless the share of no answers amounts to nearly one fifth of the total, hinting at the uncertainties related to this issue (see Table 39).

Table 39 / Should an important objective of a future overall budgetary reform of the EU be the elimination of all mechanisms for correction of budgetary imbalances?

Possible answers	No. of respondents	Percentage
No	27	34.6
Yes	36	46.2
No answer	15	19.2
Total	78	100.0

Question D/2:

If there is no alternative to the continuation of some form of mechanism to correct budgetary imbalances, should it be generalised (should it apply to all Member States if they meet criteria)?

This question operates with the assumption that one or another form of a correction mechanism to rebalance budgetary imbalances will prevail. In this case there are basically two options: the status quo with the UK rebate and the discretional bargains with individual Member States in the last hours of the negotiations on the forthcoming MFF, or a new future system where each Member State is involved in a fair correction mechanism tailored to the needs of all Member States. Perhaps it is not a surprise that only 14% of the respondents chose the maintenance of the status quo while two thirds would like to see a new generalised correction mechanism. The share of 'no answer' is notwithstanding relatively high, with close to 20%.

Table 40 / If there is no alternative to the continuation of some form of mechanism to correct budgetary imbalances, should it be generalised (should it apply to all Member States) if they meet criteria)?

Possible answers	No. of respondents	Percentage
No	11	14.1
Yes	52	66.7
No answer	15	19.2
Total	78	100.0

Question D/3:

If there is no alternative to the continuation of some form of mechanism to correct budgetary imbalances, would you favour a mechanism that ensures that a Member State's net balance is always directly linked to its per capita GDP or GNI?

The next question remains in the terrain of correction mechanisms of budgetary imbalances. The respondents had to choose between a correction mechanism which clearly reflects the differences between the economic level of development of the individual Member States and other benchmarks. As no specific alternative benchmarks are mentioned in the question, it remains open for the respondents to create one which corresponds to characteristics of his or her home country. Especially representatives of non-CEE highly developed Member States may have the temptation to depart from using Member States' economic development level as starting point for corrections. These could be positive anomalies like progress in the fulfilment of the country specific 2020 targets, or CO2 emission or other environmental achievements. Negative anomalies could be recession or longer term weak economic growth performance. A linkage, but an indirect one, of the correction mechanism to the economic level of development is also one of the options.

As Table 41 testifies, there is a massive majority of respondents supporting a correction mechanism based on per capita GDP or GNI. Alternative solutions were substantially less popular, however, the share of 'no answer' responses made up nearly a quarter of the total.

Table 41 / If there is no alternative to the continuation of some form of mechanism to correct budgetary imbalances, would you favour a mechanism that ensures that a Member State's net balance is always directly linked to its per capita GDP or GNI?

Possible answers	No. of respondents	Percentage
No	14	18.0
Yes	46	59.0
No answer	18	23.1
Total	78	100.0

Question D/4:

One possibility to eliminate all mechanisms for correction of budgetary imbalances would be two-phase multi-annual financial perspective negotiations. In the first phase, Member States would reach an agreement about net balances, and only then (i.e. in a second phase of negotiations) an agreement about the expenditure side of the budget. This would in theory have the advantage of eliminating the discussion about net balances from the choice of expenditures and budget priorities. Would you support this approach?

As the infamous 'juste retour' mentality has had serious consequences on progress of MFF negotiations for three decades, there have been several attempts to get rid of this problem that seriously hinders progress in transforming the EU budgetary system. One – no doubt – radical solution would be an agreement about net balances ex ante, in a first stage of the negotiations, and only in the second stage of negotiations, already being free from 'juste retour' considerations, would come negotiations and an agreement about the forthcoming financial framework. With raising this question we had the intention to test the respondents' attitude toward this option. The relative majority, 44% of the respondents, found this proposal worth of support, one quarter of the respondents was resolutely against it. The relatively very high proportion of 'no answer' responses refers to the unusual approach to the 'juste retour' problem and the difficulty of the respondents to decide between the two options offered in the question (see Table 42). As data in Table 42a show, respondents from academia were somewhat less supportive for the proposition raised in the question than respondents of an administrative background.

Table 42 / Would you support two-phase MFF negotiations where Member States would reach an agreement in the first phase about net balances, and only in a second phase of negotiations an agreement about the expenditure side of the budget?

Possible answers	No. of respondents	Percentage
No	20	25.6
Yes	34	43.6
No answer	24	30.8
Total	78	100.0

Table 42a / Would you support two-phase MFF negotiations where Member States would reach an agreement in the first phase about net balances, and only in a second phase of negotiations an agreement about the expenditure side of the budget?

	Administration		Academia	
Possible answers	No. of respondents	Percentage	No. of respondents	Percentage
No	9	27.3	9	51.7
Yes	12	36.4	15	31.0
No answer	12	36.4	5	17.2
Total	33	100.0	29	100.0

Question D/5:

In 2011 the EU budget accounted for 1.08% of the EU GNI. One quarter of it represented redistribution from 'net contributors' to 'net beneficiaries'. (The rest represented Member States' payments to the EU budget which were fully compensated by transfers from the EU budget.) In your opinion what would be the appropriate share of redistribution from 'net contributors' to 'net beneficiaries' within the EU budget?

This special 'net' redistribution from net contributor to net beneficiary Member States through the EU budget is not in the centre of attention of either the broad public or the expert community, unlike the Member State's net financial positions, probably in order to avoid unfavourable political implications.[44] This fact may have discouraged part of the respondents to provide an answer, as not more than 48 respondents, 62% of the total undertook to provide an answer to this unusual question.

9 of the responses were not quantifiable. 39 respondents provided figures or quantifiable texts (see Table 43). More than a third of the respondents (36%) were satisfied with the current extent of net redistribution, as they indicated 25% as the optimal share, corresponding to the 2011 actual figure. About 10% of the respondents would support a much smaller net redistribution than the currently prevailing one. 10% would prefer a substantially larger (50% or even more) net redistribution than the current practice. Nevertheless 62% of the respondents indicated a wishful extent of net redistribution in the range of 20% to 33% of the EU GNI.

Table 43 / The appropriate size of redistribution from 'net contributors' to 'net beneficiaries'

Proposed size of redistribution in % of EU GNI	No. of responses	percentage
1%	2	5.1
3%	1	2.6
5%	1	2.6
20%	1	2.6
25%	14	35.9
30%	4	10.3
33%	5	12.8
37%	1	2.6
40%	4	10.3
46%	2	5.1
50%	2	5.1
74%	1	2.6
100%	1	2.6
Total	39	100.0

Analysing the responses by affiliation of the respondents it is remarkable that over 40% of researcher-respondents were satisfied with the current 25% cross-Member State redistribution, the respective share in administration affiliated respondents was lower (one third). Among researchers there were a few

44 'Net' redistribution was discussed in Richter, S. (2008), 'Facing the Monster 'Juste Retour': On the Net Financial Position of Member States vis-à-vis the EU Budget and a Proposal for Reform', wiiw Research Reports, No. 348, Vienna, p. 17-18.

respondents proposing a much higher degree of for cross-Member State redistribution from 'rich' to 'poor' than the 2011 proportion, while among the administration-affiliated respondents there was no respondent who recommended a higher than 37% degree of redistribution (see Tables 43 and 43a).

Table 43a / The appropriate size of redistribution from 'net contributors' to 'net beneficiaries'

Proposed size of redistribution in % of EU GNI	Administration		Academia	
	No. of responses	percentage	No. of responses	percentage
1%	1	11.1	1	4.2
3%	1	11.1	0	0
5%	0	0.0	1	4.2
20%	0	0.0	1	4.2
25%	3	33.3	10	41.7
30%	2	22.2	1	4.2
33%	1	11.1	2	8.3
37%	1	11.1	0	0
40%	0	0.0	3	12.5
46%	0	0.0	1	4.2
50%	0	0.0	2	8.3
74%	0	0.0	1	4.2
100%	0	0.0	1	4.2
Total	9	100.0	24	100.0

Question D/6:

In your opinion should there be a cap on the degree of redistribution from 'net contributors' to 'net beneficiaries' within the EU budget?

Respondents were deeply divided over this question, and nearly in equal proportions opted for and against a ceiling on the extent of redistribution from 'net contributor' Member States to 'net beneficiary' Member States (see Table 44).

Table 44 / Should there be a cap on the degree of redistribution from 'net contributors' to 'net beneficiaries' within the EU budget?

Possible answers	No. of respondents	Percentage
No	31	39.7
Yes	30	38.5
No answer	17	21.8
Total	78	100.0

4.1.6 Conclusions

On the basis of the responses given to the questions, we can draw some general conclusions. Part of these conclusions refers to the status quo (how our respondents evaluate the present state of affairs – of course, always with a specific issue or aspect in focus in the case of each question), while another part of the replies gives us information on the opinions regarding future options. In the following, we summarise the most important conclusions drawn.

4.1.6.1 Status quo – in general: fine, details: not that fine

Judging from the replies regarding the past and the present (in 2013) state of different issues related to the EU budget, the general assessment of our respondents is positive. It is important to keep in mind that all replies came from experts from countries that had joined the EU (relatively or absolutely) recently. Therefore the experiences related to the past of the EU budget coincide with the story of their countries' approach towards EU membership. These countries – and their experts – had lived this period as one of permanent change, therefore factors other than those closely related to the developments in EU budget and cohesion-related issues can also influence their opinion.

It is also important to note that, approaching the present, opinions get more and more diversified. The fact that the countries had become increasingly involved in EU budget and cohesion-related issues (pre-accession, phasing-in, post-phasing-in) also meant that they were faced with more and more details – unknown (or only theoretically known) to them earlier – including problems regarding the everyday practice with the use of EU budget transfers.

This latter aspect became very clear from the differences between the replies to the questions regarding the *importance* or the *success* of different expenditure items. Our respondents raised little doubt about the importance of the most important expenditure items (although there was a clear ordering provided by them), but their replies were much more divided concerning the success of these items. As already mentioned, for the different time periods different overall pictures (snapshots) were provided.

4.1.6.2 Putting the fragments together

The pictures were presented in detail in the evaluation of each question. In order to synthesise our conclusions, we concentrate on the following aspects:

1. How important are primary financial interests in the opinion of the CEE experts?

2. On the basis of the replies, what degree of 'readiness for reform' can be detected?

3. How satisfied are the respondents with the experiences of the 2007-2013 financial perspective and with the arrangements for the 2014-2020 financial perspective?

4. On the basis of the replies, what can be said about the opinions concerning the future of the EU budget beyond 2020?

In the following, we will proceed along these four lines.

4.1.6.3 Opinions reflecting juste retour or something more?

One of the important conclusions drawn from the replies is that the CEE experts answered our questions having in mind various interests. Needless to say, one of these interests could be the net financial position of their countries. This is natural, and it is no surprise that Cohesion proved to be the top-priority EU expenditure item for our respondents. (However, Cohesion can be important because of other considerations as well.) The fact that Competitiveness was clearly more popular among our respondents than Common Agricultural Policy shows that their replies were based on better-founded and more forward-looking considerations than simply '*juste retour'* arguments.

This is very important from the point of view of the further development of the EU budget. For those who feared resistance of CEE countries against reforms concerning the structure of the EU budget, those results could be reassuring. Of course, survey results are not negotiation positions and, in addition, 'administration' replies may differ from 'academia' ones, but the picture is in general very positive.

The replies to the questions related to corrections of excessive net contributions also strengthen the above statement. Beyond their direct interests (not intending to contribute to corrections for richer countries) there is a more general (more or less hidden) aspect: what is the EU budget and what are the general rules for it, if corrections are necessary? The replies reveal that most respondents would like to see a simpler EU budget.

4.1.6.4 Ready for reform?

The replies show a high degree of openness towards reform. This is reflected not only in the positive signals (e.g. the popularity of the Competitiveness expenditure item), but also in the criticism expressed in the case of some items.

Of course, when thinking about reforms in general (and reflecting on reforms of the EU budget in particular), it is important to be able to distinguish between dreams and reality. Sometimes, academia people are qualified by practitioners as dreamers, while practitioners consider themselves as realists. In our survey, the difference is far less pronounced: although in some questions, details are evaluated differently by 'academia' and 'administration' respondents, there is no general and unbridgeable gap between the opinions expressed by the two groups.

This is important also from the point of view of the chance for elaborating new approaches, country strategies or European-level proposals by these countries. Too big a gap would signal the lack of sufficient contacts between the two groups. A relatively small gap, while not excluding potential differences of interests, still allows a reasonable dialogue, which is a fundamental element of any well-founded strategic approach.

Dreams and reality are often mentioned when the size of the EU budget is discussed. The opinions expressed show important differences in our case, too. This is a tough issue, not only for economic, but also political considerations. While new expenditure ideas are numerous (as they have always been, as can be checked by looking at the past rounds of negotiations on EU financial perspectives), the willingness to finance them from the EU budget remains limited.

The solution (or an important part of the solution) to this evergreen problem may be an increasing role of financial instruments instead of non-refundable transfers. This would certainly mean an important change, debated in the whole EU (as it was revealed at the negotiations on the 2014-2020 financial perspective). A development in this direction is likely to be gradual. It is very positive that the majority of the responding CEE experts considered an increasing role of debt-financing and financial engineering instruments as a prospect with which they 'agreed' or 'strongly agreed'. It is also interesting to note that support was quite similar from the sides of 'academia' and 'administration' respondents.

4.1.6.5 2007-2013 and 2014-2020: fait accompli, basically supported

Regarding the opinions on the 2007-2013 financial perspective (not yet finished if we look at the implementation) and on the 2014-2020 financial perspectives, the expert opinions are divided, with a generally relatively positive overall evaluation. This may be partly a result of the *fait accompli* – in both cases, the rules of the game were/are established, there is not much to change.

There are certainly many details in which the two periods differ from each other; some of these details are also reflected in the respondents' replies. Perhaps the most visible difference is that in the capping on cohesion policy expenditure: concerning this item, the changes introduced from January 2014 were clearly unpopular in the circle of our CEE experts. By contrast, the introduction of various forms of macroeconomic conditionality for support was clearly approved by our respondents; this was also true for the design of cohesion policy.

In general, it can be seen that the respondents had a largely positive overall view of the functioning of cohesion policy and of the relevant aspects of the EU budget. This, of course, does not mean that they do not have ideas that are different from the past and present practice; these ideas, however, can be expected to come up in the form of well-formulated proposals (if ever) only at the beginning of the reflection on the post-2020 EU budget and cohesion policy regulations.

4.1.6.6 Beyond 2020: too far for being realistic?

2020 seems to be an important deadline for the EU: the Europe 2020 strategy and the end of the present EU financial perspective render an almost mythical importance to this year. However, we know from past experience that such mythical importance may disappear rapidly – the end of the Lisbon Strategy was not an event remarked by many observers – and life usually went on without problems after the completion of any of the previous EU financial perspectives.

Of course, it may be different this time – if the EU successfully resolves all its tasks scheduled until 2020 or, in the opposite case, if it fails to do so in most fields. In the case of the most probable scenario – mixed results – (EU budget) life can be expected to go on following the already well-known path: new negotiations, reform attempts, debates, moderate changes. Our survey can provide orientation at this point in one aspect: the fact that the CEE countries are members of the EU will not necessarily make the task arising around 2018 more difficult than it was before. While this is a very cautious formulation, it still presents a much better situation than had been expected by many (mostly Western European) observers.

4.2 ASSESSMENT BASED ON COUNTRY CASE STUDIES OF FOUR NEW MEMBER STATES (ESTONIA, HUNGARY, POLAND AND SLOVENIA)[45]

4.2.1 Introduction

The countries (Estonia, Hungary, Poland and Slovenia) selected for the case studies prepared in the framework of this project study (Richter, 2014a, 2014b; Wisniewski and Szemler, 2014; Wostner, 2014) represent not only geographically different corners of the ten new CEE Member States and different sizes in terms of territory, population and economic weight but also different attitudes towards the EU's cohesion policy. Poland and Hungary, both massive beneficiaries of this policy, had changed positions in the preceding ten years of membership. Originally more sceptical, Poland turned out to be a major protector of the present integration model based on solidarity and free markets, while the initially EU-enthusiastic Hungary became an open and sharp critic of EU integration. Slovenia had enjoyed, from the very beginning, smaller specific support from the EU cohesion policy than its NMS peers due to its relatively high level of development. At least for a short time, Slovenia had already to cope with a dilemma other NMS countries are still far from facing: what attitude should a Member State take on the verge of becoming a net contributor country instead of a net beneficiary? Estonia enriches the overall picture with its balancing between an extremely liberal economic policy credo and its role as a beneficiary of the cross-Member State redistribution in the EU, i.e. a major user of grants for the development of its economy.

This chapter draws on the findings of the above-mentioned four case studies, unless otherwise indicated.[46] It is not intended to review all the findings of those case studies. The goal was to display selected results from the authors' work which address issues closely related to the fundamental issues of this paper.

4.2.2 Early experiences with cohesion policy

Although formally 1 May 2004 is the milestone in the case of the selected NMS in their relations with the EU, in the area of cohesion policy related transfers the accession process had been continuous rather than tied to the date of accession. Pre-accession aid served as a very important training ground for the administration of the then candidate countries to find the appropriate arrangements at national and regional level, and at various levels of hierarchy in the various segments of the administration.

Not less important for the individual national administrations was to obtain the skills how to negotiate with the various institutions of the EU. The modalities of pre-accession aid were completely determined by considerations of the EU, and the candidate countries did not have the right to take part in the decisions on the 2000-2006 MFF, which set the financial framework for EU budgetary transfers for the NMS. Nevertheless, the candidate countries were able to exert pressure in some important questions. Poland was lobbying strongly for a positive net financial position of the acceding NMS from the first year of their membership, which necessitated a re-design of the planned allocation on the side of the EU. This change was to the advantage of all NMS.

---

[45] The authors of the individual country studies were: Sándor Richter for Estonia and Hungary, Tamás Szemlér and Anna Wisniewski for Poland, Peter Wostner for Slovenia.

[46] The case studies are available from wiiw upon request.

While both major sources of EU transfers, cohesion and agriculture, were of great importance for the selected NMS, in the case of agricultural transfers they could not achieve as much as in the case of cohesion policy transfers. The phasing-in for access to cohesion policy transfers lasted for three years, for direct payments ten years, and even at the end of these ten years specific support for farmers was lagging behind the standards in the old Member States. In this respect the NMS were much more successful in the field of cohesion policy. For the two countries with a strong agricultural tradition, Hungary and Poland, this was a painful experience as for them cohesion policy related and agricultural support were of equal significance. Specific agricultural support was extremely low in Estonia's case and led to the shrinkage of this sector in the country's economy but, simultaneously, it made Estonia a fierce fighter for a more equal distribution of agricultural support across the EU.

From 2004, cohesion policy transfers were increasing from year to year, and now the suddenly increasing number of beneficiaries, the larger than earlier volume of financial flows and the more complex process of control posed a challenge for the state administration involved. The learning process related to pre-accession aid proved useful, but the nature of the challenge was different now.

The question to be answered was primarily the following: How can a country best utilise the opportunities opening up by nearly free-of-charge external financing? Poland and Hungary chose the mainstream path with its emphasis on infrastructure and the environment as major development targets. Estonia and Slovenia had chosen somewhat different approaches. In Estonia the strong economic growth and decreasing unemployment revealed important vulnerabilities: lack of qualified labour has become a growing constraint on further expansion of the economy. Consequently, training and retraining plus integration of the inactive population in the labour market became the focus of the forthcoming EU cofinanced programmes. The European Social Fund supported activities were intended to concentrate more strongly on the knowledge-based economy. Better cooperation between educational institutions, vocational education and practical training opportunities were envisaged. A related new preference appeared in the form of stepped-up EU cofinanced assistance for increasing the innovation capacity of enterprises and R&D institutions.

In terms of what funding was used for, the scope of the cohesion fund was more or less determined at the EU level, i.e. equal shares going to transport and environmental infrastructures, while the scope of the structural funds was to a much greater extent left to the discretion of the countries themselves.

In the Slovenian case, over 50% of transfers from the structural funds was aimed at innovation, tourism, entrepreneurship promotion and the development of business zones, 30% at human resources development, while restructuring of agriculture, forestry and fisheries received 15%. Slovenia's utilisation of structural funds was comparatively much more oriented towards the productive sector without basic infrastructure (approximately 35% compared to an average of 20.1% and 17.6% respectively in the old Member States and the other NMS) and human resources (30.6% as against the average of 23.1% and 20.5% respectively) and below average for basic infrastructure (approximately 19% compared to 41.3% and 19.4% respectively). Such a structure of expenditures could certainly be considered as modern and appropriate and fully in line with the priorities set both on the EU as well as the national level, i.e. using EU funds to develop a competitive, knowledge-based economy.[47]

47 Wostner, P. (2004), 'EU Cohesion Related Funds in Slovenia', *The Journal for Money and Banking*, Vol. 53, No. 5.

The first three years of EU membership were sufficient to formulate lessons concerning the management of cohesion policy related transfers. Some important excerpts from the lessons learnt by the Hungarian and the Slovenian authorities:

Hungary:

› legislative modifications proved to be necessary in order to accelerate the processes and for the protection of public funds;

› closer cooperation between planning experts and those in charge of implementation is a must;

› during implementation, accountable and well-defined objectives are pivotal;

› the performance of participants must also be measured;

› overregulation should be resolved, while performance measurement processes should be introduced;

› former interventions need to be evaluated;

› more attention will have to be paid on impact analysis of individual measures.

Slovenia:

› the introduction of cohesion policy rules in the national framework was characterised by great uncertainties and often also unnecessary complexities (e.g. in terms of the institutional structure). Slovenia was able to amend some of them rather quickly (e.g. abolition of first-level intermediate bodies), some of them persisted;

› the introduction of a single managing authority for cohesion policy opened the doors for real coordination of development policies within the government; this opportunity however was put into practice to only a limited extent;

› transition to a real programming, i.e. long-term, approach to policy-making, albeit with a restricted scope of interventions due to limited funding;

› requirements for the beneficiaries were very high, especially at the beginning of the period, as the system was simply not aware of what exactly the necessary standards of appropriate assurance were;

› in spite of the administrative burden, both for the beneficiaries but also for the administration, EU funds received great attention, especially as some of the most advanced, competitiveness-oriented measures were financed through structural funds. Furthermore, even though cohesion policy funding was fully integrated into the national budget, it was not uncommon that well-performing programmes/ministries were able to get a ‘top-up’ to their expected budgets. This was most often true with regard to expectations within a given year, however, there were also ‘real’ top-ups due to changed allocations among particular policy instruments decided on the national level and, especially, due to over-commitment of funds in 2006, which was not linear but awarded to the best-performing instruments.

4.2.3 Cohesion policy in 2007-2013

Diverging types of specialisation

As can be seen from Table 45, cohesion policy allocations to individual NMS varied considerably. Available transfers in absolute figures are not really relevant at this juncture, as they reflect primarily the overall size of the economy of individual countries and, to a lesser extent, the level of development as well. Romania and Bulgaria are special cases as latecomers among the NMS whose phasing-in period took the first three years of the altogether seven-year period.

Table 45 / Structural assistance for CEE Member States from the EU budget and absorption rates in 2007-2012

	BG	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CEE total or average
Available budget 2007-2013 (EUR billion)	6.7	26.3	3.4	24.9	4.5	6.8	67.2	23.5	11.5	4.1	179
Available budget 2007-2013 per capita (EUR)	911	2,504	2,541	2,503	2,227	2,253	1,743	1,102	2,128	1,995	1,991
Contracted grants 2007-2012 (EUR billion)	6.7	25.6	3.1	19.5	4.3	6.1	55.9	16.4	8.4	3	149
Contracting ratio (in %)	100	90	91	78	94	91	83	70	73	72	83
Paid grants 2007-2012 (EUR billion)	2.3	16.2	2	10	2.6	4	32.7	2.8	4.8	2	79.4
Payment ratio (in %)	34	57	59	40	56	59	49	12	41	50	44

Source: KPMG (2013) p. 9 and own calculations.

Table 46 / Available budget by intervention type, 2007-2013, billion EUR

	BG	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CEE total
Infrastructure	5.1	24	2	20.6	3.2	4.3	40	12.8	8.4	1.5	121.9
Human capital	1.1	4.3	0.8	2.3	0.6	0.9	10.2	3.4	0.9	0.7	25.2
R&D and ITC	0.2	1.8	0.6	0.8	0.6	1.4	13.3	1.4	2.1	1.7	23.9
Technical assistance	0.3	1.1	0.1	1.1	0.1	0.2	2.1	0.2	0.1	0.1	5.4
Total	6.7	31.2	3.5	24.8	4.5	6.8	65.6	17.8	11.5	4	176.4

Source: KPMG (2013), p. 12 and own calculations.

Table 47 / Available budget by intervention type 2007-2013, distribution in %

	BG	CZ	EE	HU	LV	LT	PL	RO	SK	SI	CEE average
Infrastructure	76.1	76.9	57.1	83.1	71.1	63.2	61.0	71.9	73.0	37.5	69.1
Human capital	16.4	13.8	22.9	9.3	13.3	13.2	15.5	19.1	7.8	17.5	14.3
R&D and ITC	3.0	5.8	17.1	3.2	13.3	20.6	20.3	7.9	18.3	42.5	13.5
Technical assistance	4.5	3.5	2.9	4.4	2.2	2.9	3.2	1.1	0.9	2.5	3.1
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Own calculations based on Table 46.

Per capita transfers show that Estonia and Hungary were frontrunners, while allocations for Slovenia and especially for Poland were significantly lower. This is understandable in the case of Slovenia with its substantially higher level of development compared to all other NMS, but it is not obvious in the case of Poland.

Tables 46 and 47 display the differences across the countries concerned according to types of intervention. The data show that there are two clear types of specialisation. On the one extreme we find Hungary, where in the 2007-2013 period 83% of interventions were made in Infrastructure, while only 9% in Human capital and 3% in R&D and ITC. The former is substantially higher, the two latter substantially lower than either the CEE NMS average or in Estonia, Poland or Slovenia. The other extreme is Slovenia, where the share of Infrastructure is hardly more than half of the CEE NMS average. The share of interventions in Human capital is well above the average; among the CEE NMS only Estonia had higher share of interventions in this segment. The really big discrepancy between Slovenia and all other CEE NMS appears in the segment R&D and ITC, where Slovenia's 43% share of intervention in the total is three times as high as the CEE NMS average.

These patterns reflect the quite distinct modernisation strategies of the four countries selected for the case studies. While Hungary's strategy is characteristically focused on the modernisation and expansion of infrastructure which serves principally the creation of better conditions for industrial development and for attracting additional private (if possible foreign) investors. By contrast, both Estonia and Slovenia focused on post-industrial modernisation, Estonia with a stronger emphasis on Human capital, Slovenia on R&D and ITC. Poland was positioned between the two extremes, but not in the middle. Concerning the relatively low share of Infrastructure and the high share of Human capital and R&D and ITC, respectively, as compared to the CEE NMS, Poland is closer to the post-industrial modernisation model than to the one represented by Hungary.

Searching for the proper institutional system

Though the first three years of membership gave sufficient time for experiments concerning the set-up of an institutional system as efficient as possible to ensure an efficient absorption of EU transfers, changes in this context were going on in the period 2007-2013 as well, and the optimal structure is probably still in the pipeline.

Estonia had only one Operational Programme in 2004-2006; this highly centralised system was modestly expanded in 2007-2013. In the second MFF in which Estonia was involved the number of OPs increased to three, still much less than in the other CEE NMS. The Ministry of Finance organises the allocation of structural assistance across operational programmes, is responsible for the creation and update of the necessary legal framework, disburses support payments and conducts audits according to the legislation of the European Union. The Managing, Certifying and Auditing Authorities of structural assistance are located in the Ministry of Finance.

Interviewed government officials and independent researchers evaluated the experiences of the seven-year programming period as generally positive. Business, transport and ITC were mentioned as particularly successful areas, whereas the over-dimensioned development of transport junctures (the plans had reckoned with an unrealistic increase in related traffic) was quoted as an example of problematic areas. A mismatch in the area of education was mentioned as well. The number of schoolchildren has dropped, for demographic reasons, and EU cofinanced development projects were implemented in schools which in the near future will have to be closed. Another problem in this area is that projects are focused on investment while the question of maintenance has been neglected. In the area of education, programmes were often found to be too fragmented, target setting was not optimal, and generally the seven-year duration of an MFF is seen as too long a period for proper planning. Corruption was not indicated as a real problem in Estonia. However, in this context it was criticised that in certain cases political decisions from above are forced and may influence allocation decisions. Competition for funds, however, was seen as being always strong and open.

In Slovenia the implementation structure for 2007-2013, based on a centralised approach, was taken over from the previous period. In principle this would have enabled strong central coordination, but this was realised only to a rather limited extent. The external reason for this was a strong and continued pressure on the managing authority, forced primarily to focus on absorption and regularity of expenditures. Less attention was paid to the expected and the actual impact of funds. Internally, the role of the central coordinating institution, the managing authority, was downgraded due to political cycles resulting in a high fluctuation of staff, on the one hand, and in a weak political positioning of the managing authority within the government, which often prevented effective intervention, on the other hand.

The period 2007-2013 revealed the differing institutional and administrative absorption capacity of ministries and their implementing bodies. Some of these institutions had been operating fully in line with the set system, while in the case of other institutions a number of difficulties persisted. In theory this should have consequences in terms of either direct institutional support and/or redirection of funding to better-performing policy areas. This, however, occurred only in exceptional cases, due to political reasons. Policy areas which require a very clear top-down policy framework and where actual implementation is dependent on multiple institutions proved to be particularly problematic.

In Poland, the experience of funds management in the first three years of membership was mixed; complicated procedures, over-bureaucratisation and institutional barriers were to be tackled later.

In Hungary, problems related to the management of cohesion policy transfers became a highly controversial political topic. Right after the accession (from 2004 to 2006) the organisational structure of the management of structural assistance was a decentralised scheme. Decisions were allocated to individual ministries in charge of the areas concerned. In 2006 the system was changed, the National Development Agency (NDA) was called into being. Though the ministries preserved their role as decision-preparing organisations and hosts of specific area policies, the whole development policy (except for agriculture) was delegated to the NDA. Despite initial difficulties, by the end of 2007 the new organisational structure was operating successfully, as indicated by good absorption rates compared to other CEE NMS.

In the period 2007-2013 the organisational structure underwent several, in some cases dramatic changes. The fluctuation of experts had always been problem at NDA but it became really serious following the change of government in 2010. Twelve of the altogether 28 NDA management positions were not filled in August 2013 (as displayed at that time on the NDA's website about the organisation's management structure). Between April and August 2013 the position of the NDA president had not been filled either.

On 1 August 2013 János Lázár, the Minister of State in charge of the Prime Minister's Office, took over the management of the NDA as government commissioner. Two weeks later he announced that the whole organisational system for the allocation of EU support would have to undergo a thorough decentralisation. Decisions were to be re-allocated to ministries as was the case up to 2006. The activities of the ministries should be coordinated only by a commission. The main purpose of the envisaged changes was to accelerate decisions on the allocation of resources.

In fact, the decision-making process had decelerated after the change of government in 2010. The old decision-making system was practically suspended but not replaced by a new one. For half a year starting from the summer of 2010 only those payments took place upon which the decision had already been made by the previous government. The latter's programme for 2007-2013, under the title 'New Hungary Development Plan', was replaced by the new government's 'New Széchenyi Plan'. Representatives of NGOs and professional bodies were left out of the juries responsible for the decision about applications. All in all, external control over the allocation of resources became weaker than it had been earlier. Despite all the changes, the decision-making process did not accelerate.

The very same day he took over the leadership at the NDA, Mr Lázár informed the public that practically all cohesion policy related EU transfers had been suspended by Brussels due to irregularities identified by the Commission. Suspension was based on the 2013 spring audit. A quarter of the EU support for Hungary is allocated to transport and environment protection; here the engineers' requested membership in Hungarian professional chambers was the problem. In case of the other suspended projects there were other problems.

It is possible that the suspicion of corruption plays a role in the suspension of the EU transfers. Hungarian opposition parties frequently refer to the remarkably high success ratio in public procurement procedures of KÖZGÈP, a company in the ownership of a person from the innermost circles of Prime Minister Viktor Orbán. This company is one of the strongest market players in EU cofinanced investments. Anonymous sources claim that it caught the Commission's eye that the circle of winners at public procurement procedures was too different from the successful bidders before the change of government. KÖZGÈP's remarkable success was also conspicuous: government-friendly firms could win because the cheaper bidders were excluded; sometimes only one or two bidders submitted a proposal at certain tenders, because the conditions for application were practically tailored to the later winners. Domestic control of EU spending was found insufficient by the Commission.

4.2.4 The 2014-2020 MFF

Size of the EU budget

For the first time in the history of Multiannual Financial Frameworks, the size of the budget for the period 2014-2020 does not surpass that of the previous one. As main beneficiaries of the cross-Member State redistribution of resources through the EU budget, Poland and Hungary were unsatisfied with this development. Hungary, just as Poland, had supported the bottom-up approach concerning the size of the EU budget, according to which means should be tailored to the targets, and not vice versa.

Poland had been convinced that the debate on the budget was at the same time a debate on the future of the EU and a European vision – a debate on the future, concentrating not only on the size of the budget but on policies that help EU economies exit the crisis, stabilise financial markets and support key European investments. The size of the EU budget was found to have been decreased compared to national budgets. The Europe 2020 strategy, however, would have necessitated an inverse development. When national budgets are under fiscal pressure, the EU budget should provide a growth impetus.

Estonia, another beneficiary country, followed its liberal credo at this juncture. In the preparatory stage of the MFF negotiations Estonia declared that the size of the then current (2007-2013) MFF was optimal and an increase would be unjustified with regard to the pressures on the national budgets. Unofficially even a cut by about 10% of the EU budget was considered feasible by senior government officials. The real challenge was seen by the Estonian government in the more efficient use of the existing funds, and not in a victory in endless discussions about the size of the budget. The new MFF should help attain the objectives of the Europe 2020 strategy, supporting primarily interventions that create European value added. Ironically, Estonia will receive about EUR 907 million more than the total transfers in the 2007-2013 MFF.

Even though Slovenia's positioning in the 2014-2020 MFF negotiations was not as straightforward as previously, the country remained firmly in the pro-Europe camp arguing for a larger, not smaller budget. This was primarily related to the question of the size of cohesion policy funds, which at the time of negotiations had already become one of the main financing sources of development policy. Hence, Slovenia, due to high risks related to its cohesion policy envelope, eventually had no real choice in the negotiations but to continue fighting for a larger budget. This can be further explained by the fact that Slovenia is actually rather strongly positioned also in research and other centrally managed programmes, which were only to lose from a reduced EU budget.

CAP versus Cohesion

The two countries with substantial agricultural sectors, Poland and Hungary, were interested in preserving their transfers both in the CAP and Cohesion segments. Nevertheless, Poland indicated during the negotiations that the country had a clear priority for cohesion policy over CAP. For Estonia, transfers for agriculture play a subordinated role in real life as compared to cohesion-related transfers, but the Estonian government treated this issue for reasons of prestige: it rated the indeed very low level of direct payments for its farmers as unacceptable and fought hard for a more balanced allocation of resources across recipients in the old and new Member States in this field. In the case of Slovenia, this battle was fought until the very end since both rural development (as the most ‘flexible’ part of CAP in financial terms) as well as cohesion policy are at the top of the political agenda. Eventually Slovenia remained a strong supporter of both until the end of negotiations and had not signalled its preference between the two.

Competitiveness and Cohesion

Research, innovation and education are principal areas of development in Estonia, therefore the government supported the planned increase in funding of these areas in the EU budget. It also supported that ‘excellence’ should be the guiding principle in the respective funds’ allocation (and not schemes for pre-allocation by Member States). Nevertheless, solutions were called for where considerations for a proper regional balance of developing Europe-wide science infrastructure are an important criterion. Estonia also urged for better synergy between cohesion policy funds and the strategic framework for research and innovation. While Estonia’s official policy of liberalism should have made the country a supporter of a rearrangement between Cohesion policy and Competitiveness expenditures in the new MFF, and a pioneer of change in the direction of a lighter and more innovative EU with less regulations and subsidies, Estonia became instead a member of the ‘Friends of cohesion’ group fighting for the preservation of the weight of Cohesion expenditures in the budget. Secured money seems to have been preferred to more risky Competitiveness expenditures, where there is an open competition for participation in announced projects.

In the negotiations on the 2014-2020 MFF Hungary’s focus was on cohesion policy and CAP, and less attention was paid to competitiveness-related resources. As for a competition-based allocation of EU transfers, Hungary had fears concerning the Connecting Europe Facility (CEF): if projects are selected on a competitive basis, then the less developed Member States will have a smaller chance to win, although their infrastructure is much less developed than that of the highly developed Member States. This concern refers to the competition-based allocation of EU expenditures on R&D as well.

Poland supported the Commission’s proposal to link cohesion policy to competitiveness policy. According to Poland, each Member State should select priorities corresponding to the specific conditions of its individual regions. The obligatory priorities should cover those which are most in line with the Europe 2020 strategy in such areas as innovation, energy efficiency, education or issues related to employment and social exclusion. Priorities such as modern transport infrastructure or information and communication technologies (ICT) should also be considered as one of those, since they constitute tools of delivering Europe 2020 strategy objectives. A definite majority of resources should be allocated to the obligatory priorities (e.g. 70% of allocations). Directing financial measures within cohesion policy towards implementation of the Lisbon Strategy priorities will significantly contribute to attaining the objective of making the EU the most competitive economy in the world.

Given Slovenia’s rather competitive research position in the European context, the country regarded competitiveness-oriented expenditures as an essential part of the budget whose share should be increased. Slovenia also had no reservations as regards the excellence-based approach, but it did point out that the European territorial development model should nevertheless be considered in this framework as well – in other words, that different capacities should be taken into account; this however was also claimed with a view to the cohesion policy mandate.

Conditionality

Poland and Slovenia did not accept any kind of conditionality of payments out of the Cohesion Fund or pillar II of CAP upon macroeconomic indicators. On the other hand, both countries supported the ex-ante conditionality that guarantees the success of cohesion policy instruments at the beginning of the programming period.

Estonia was a strong supporter of the introduction of macro-conditionality and was suspicious of non-performing Member States. This attitude is understandable with regard to the country's good record in public finance; nevertheless, in the field of macroeconomic imbalances Estonia's record is less impressive than in the fiscal area. Of the monitored indicators, the net international investment position may become an issue in the future.

According to Hungary, the newly introduced macroeconomic conditionality should not impede the government's economic policy measures taken against the crisis, i.e. it should not be pro-cyclical. Further on it should correspond to the principles of equal treatment and subsidiarity.

Capping

Poland did not accept a decreased level of capping, which was found to be against the principle of concentrating cohesion policy on the least prosperous regions.

According to Estonian calculations, the newly created Common Strategic Framework (SCF), where funds for the Structural Funds, the Cohesion Fund, Rural Development, and Fisheries are pooled, may bring transfers for Estonia in the value of about 3.7% of the country's GDP. Therefore Estonia, fighting for a maximum net financial position, was strongly against capping of the respective transfers, especially the 2.5% GDP proportional limit in the original proposal of the Commission. Estonia disagreed with the Commission's argument that this capping was justified by the weak absorption capacity found in several of the net beneficiary countries. Estonia, as a Member State with one of the best absorption records, was resolutely against 'collective punishment' in this context.

Hungary was strongly against the lowering of the cap on cohesion policy spending to 2.35% of the GDP. During the negotiations Hungary managed to achieve a positively deviating cap (2.59% of the GDP) compared to the standard rate (2.35%).

Slovenia, one of the members of the 'Friends of cohesion policy' group, was not particularly loud on this issue, even though financially speaking capping played in Slovenia's favour.

New spending strategy

As discussed earlier, Hungary had an extremely one-sided spending structure prioritising infrastructure investments. In the new MFF this is planned to be changed radically. The support of enterprises will receive more attention than in the earlier MFF period. The annual allocation of EU resources to the enterprise sector will match the corporate income tax collected annually by the budget. The bureaucratic procedures are planned to be simplified to encourage the participation of a wider circle of firms in

EU- supported programmes. A positive change compared to the earlier MFF is that the share of grants will be smaller and the role of credit-like financial instruments will gain in significance.

Slovenia's cohesion funds allocation has been reduced by 32% compared to the preceding period requiring a significant concentration of funding. One third of funding will be invested in transport and in environmental and energy sector infrastructures. Concerning the remaining parts, absolute priority will be given to R&D, innovation and employment, where 50% of funds is intended to be invested. The plan is to put in place as simple a system as possible, starting with only one operational programme, one managing authority and information systems as integrated as possible. Furthermore, much more attention is to be given to revolving funds, and to assuring that more synergies are achieved between different policy areas. In order to achieve this, a development platform dedicated to this goal is envisaged as well, which should enable an optimisation of funding instruments (across policy fields and across different institutions), especially as far as the private sector and its competitiveness is concerned.

4.3 CONDITIONALITY IN THE 2014-2020 MULTIANNUAL FINANCIAL FRAMEWORK

4.3.1 The Europe 2020 conditionality

The 2014-2020 MFF is strongly focused on the implementation of the Europe 2020 strategy. For illustration, we cite here Commission President Jose Barroso's foreword to the Commission's main document in the preparatory process of the new MFF: 'This is an innovative budget. I invite you to look beyond the traditional headings and focus on how throughout the budget we will deliver the Europe 2020 goals that we have collectively defined. That is why we break from the culture of entitlement where some public authorities expect to spend funds as they wish. Now every request must be clearly linked to the goals and priorities that we have commonly agreed.'[48]

Later in the same document the close relation of the new MFF and the Europe 2020 strategy is mentioned several times. Among the main principles of the new MFF it is declared that 'results will be clearly related to the implementation of the Europe 2020 strategy and the achievement of its targets. This means concentrating programmes on a limited number of high profile priorities and actions that achieve a critical mass. Fragmentation and uncoordinated interventions must be avoided. Where possible, existing programmes will be merged (for example in areas such as home affairs, education and culture) and/or redesigned (such as research and cohesion) to ensure integrated programming and a single set of implementation, reporting and control mechanisms.'[49]

Accommodation to the Europe 2020 strategy affects each main part of the new MFF. In this paper the attention is focused on the consequences for cohesion policy. The main change in cohesion policy will be the strengthening emphasis on the results and the effectiveness of cohesion-related spending through tying cohesion policy systematically to objectives of the Europe 2020 strategy.[50] As part of the process the Commission proposed the establishment of the Common Strategic Framework (this will unite the European Regional Development Fund, European Social Fund, Cohesion Fund, European

[48] European Commission (2011).

[49] Op. cit., p. 9.

[50] Op. cit., p. 11.

Agricultural Fund for Rural Development and European Maritime and Fisheries Fund) with the purpose to translate the Europe 2020 objectives into investment priorities. In operational terms, the Commission intends to conclude a partnership contract with each Member State. The contract will include a commitment of partners both at national and regional level to use the allocated funds for the implementation of the Europe 2020 strategy. These commitments will serve as a benchmark for assessing the progress achieved.[51]

The later discussed macroeconomic conditionality is presented as part of the efforts to ensure the effective delivery of the Europe 2020 objectives and targets through cohesion policy. This is the stick of the obvious ‘stick and carrot’ approach of the Commission. The carrot appears in the form of a bonus for good performers: 5% of the cohesion budget will be set aside and allocated, during a mid-term review, to the Member States and regions whose programmes have met their milestones in relation to the achievement of objectives related to Europe 2020 targets and objectives. The milestones will be defined in accordance with the regulations for cohesion policy.[52]

By summer 2013 more concrete features of the Europe 2020-related changes in the EU budget had appeared. In July the European Parliament's Regional Development Committee adopted a series of reports that in principle agree a radical reform of regional policy. Key elements of the reform confirmed by the Regional Development Committee are as follows:[53]

› Focusing investments on key areas for growth and jobs as outlined in the Europe 2020 strategy through a common set of rules which apply to all five European Structural and Investment Funds (the Common Strategic Framework).

› The majority of the budget will have to be concentrated on just few priorities closely linked to the EU 2020 growth strategy. In particular:

    between 50% and 80% of the ERDF budget concentrates on measures to support innovation and R&D, the digital agenda, the competitiveness of SMEs, and the shift towards a low carbon economy;

    concerning the goal of a low carbon economy, a further obligation is due to allocate at least between 12% and 20% to energy efficiency and renewable energy;

    Member States and regions are to establish clear and measurable targets for the impact of the investments. Progress is to be measured and communicated;

    measures to cut red tape and simplify the use of EU funds: more common rules among all funds, more targeted but fewer reporting demands, more use of digital technology.

All in all, the Europe 2020 conditionality will exert a strong pressure towards modernisation, and that will be felt much more in the CEE new Member States, as the main beneficiaries of the redistribution

---

51 Op. cit., p- 12.

52 Op. cit., p. 12.

53 Europa Press Releases, Brussels, 10 July 2013.

through the EU budget, than in the more developed Member States. While shifts in earlier (2007-2013) priorities will have to take place without doubt, and some non-Europe 2020-compatible pet projects of the NMS governments will have to be omitted, it seems that this will not constitute a special challenge to be faced by the CEE new Member States. The real challenge will be the macroeconomic conditionality, discussed in the next section below.

4.3.2 Macroeconomic conditionality

4.3.2.1 Introduction

One of the most unpleasant features of the recent financial and economic crisis in the EU was the weak economic performance of the 'old' cohesion countries Greece, Portugal, Spain and Ireland which had all enjoyed generous financial support from the pre-enlargement European Union in the framework of the European cohesion policy over the 1980s, 1990s and early 2000s. While the problems these countries are struggling with were caused by several factors, from poisonous US securities to real estate price bubbles derived from the adoption of the euro, the questions yet to be raised are as follows: What role did cohesion policy play in these countries' failures? Did cohesion policy contribute to the crisis or did it, on the contrary, diminish the extent of the crisis, or was its role indifferent? These questions are especially relevant in the case of Greece, which accumulated its huge debt and maintained an unsustainable fiscal and current account position already before the crisis, while the country had been by far the single largest beneficiary (relative to GDP) of cohesion policy in the 1990s and early 2000s. To what extent is the failure of Greece, and to a smaller extent that of Portugal and Spain, simultaneously the failure of the EU's cohesion policy as well?[54]

These questions are yet to be answered, and it is not the task of this chapter to resolve them. This chapter is however closely related to the questions raised, as its topic is the EU's reaction to the old cohesion countries' failure, a response which appears in the strengthened and expanded macroeconomic conditionality attached to transfers in the framework of cohesion policy in the MFF for 2014-2020. The message is clear: the EU wishes to prevent that failures like that of Greece will ever occur again.

4.3.2.2 The measures

As a note of the European Parliament (EP) confirms, the EU has so far been unable to prevent major crises in Member States' public financing, a situation which calls for the introduction of large-scale macroeconomic conditionality. The European Commission intends to extend the existing partial macroeconomic conditionality. In the future, macroeconomic conditionality shall cover all of the economic governance procedures and apply to both fiscal and macroeconomic issues.[55]

On the way to practical implementation the EU called into being the category 'Common Strategic Framework' (CSF) which includes the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD)

[54] Ireland's problems are of different nature, mostly related to a banking crisis triggered by the poisonous US securities.

[55] European Parliament (2012), p. 9.

and the European Maritime and Fisheries Fund (EMFF).[56] The bulk of the cross-Member State redistribution in the EU is implemented through the funds pooled now in the CSF.[57]

Resources from the funds under the umbrella of the CSF will be made conditional on sound economic policies of the recipient countries, a decision that intends to ensure the effectiveness of respective expenditures from the EU budget.[58] The tool to reach this is the establishment of a close link between the EU's economic governance and its cohesion policy, which may, if necessary, require the redirection of CSF funds to address the economic problems the Member State concerned is facing.

For details of the newly introduced conditionality we cite here the European Council's conclusions in detail:

'78. The Commission may request a Member State to review and propose amendments to its Partnership Contract and the relevant programmes, where this is necessary to support the implementation of relevant Council recommendations or to maximise the growth impact of CSF funds in Member States receiving financial assistance from the EU. Such a request may be made to support implementation of:

(a) recommendations under the broad guidelines of the economic policy;

(b) employment recommendations;

(c) specific measures addressed to euro area Member States in accordance with Article 136(1);

(d) recommendations under the excessive deficit procedure;

(e) recommendations under the excessive imbalances procedure;

(f) union support under the medium-term balance of payments facility;

(g) union support under the European financial stabilisation mechanism;

(h) financial assistance under the European Stability Mechanism.

79. If a Member State fails to take effective action in response to a request from the Commission to review and propose amendments to its Partnership Contract and the relevant programmes, part or all of payments may be suspended.

80. Where it is concluded that a Member State has not taken sufficient action under:

(a) specific measures addressed to euro area Member States in accordance with Article 136(1);

---

56 European Commission (2012).

57 The idea was also raised that macro-conditionality should be extended to all expenditures from the EU budget. EUROPOLITICS, 26.03.2012.

58 European Council (2013).

(b) the excessive deficit procedure;

(c) the macroeconomic imbalances procedure;

(d) a programme under the medium-term balance of payments facility;

(e) a programme under the European financial stabilisation mechanism;

(f) financial assistance under the European Stability Mechanism;

part or all of commitments and payments shall be suspended.'[59]

A decision on sanctions will be easier than in the previous MFF. A proposal made by the Commission will be automatically adopted by the European Council, unless the latter rejects such a proposal with a qualified majority within one month. 'Any decisions on suspensions will be proportionate and effective, taking into account the economic and social circumstances of the Member State concerned, and respect equality of treatment between Member States, in particular with regard to the impact of the suspension on the economy of the Member State concerned. Priority should be given to the suspension of commitments; payments should only be suspended when immediate action is sought and in case of non-compliance.'[60]

Concerning the extent of the CSF transfers suspended there is no minimum level fixed, however, the sum is delimited from above. The Council opted for a 'double capping' methodology in paragraph 82:

a. 'a capping of maximum 50% of the CSF funds in the first case of an excessive deficit procedure (EDP) and maximum 25% of the CSF funds in the first case of an excessive imbalance procedure (EIP). The level of the suspension should be gradual and increase up to a maximum of 100% of the CSF funds in the case of an excessive deficit procedure and up to 50% of the CSF funds in the case of an excessive imbalance procedure, in line with the seriousness of the breach;

b. a capping of a maximum 0.5% of nominal GDP applying to a first breach of an excessive deficit procedure (EDP) according to Art. 21 (6b) of the CSF regulation and a maximum of 0.25% of nominal GDP applying to a first breach of an excessive imbalance procedure (EIP) according to Art. 21 (6c) of the CSF regulation. If non-compliance persists, the percentage of this GDP cap should be gradually increased up to a maximum of 1% of nominal GDP applying to a further breach of an excessive deficit procedure (EDP) according to Art. 21 (6b) of the CSF regulation and a maximum of 0.5% of nominal GDP applying to a further breach of an excessive imbalance procedure (EIP) according to Art. 21 (6c) of the CSF regulation, in line with the seriousness of the breach.'[61]

The suspension of commitments can be lifted by the Commission, that of the payments by the European Council. This may take place as soon as the Member State undertakes the required steps.

59 Op. cit., p. 32.

60 Op. cit., p. 33.

61 Op. cit., p. 33.

4.3.2.3 Interpretation

Suspension of financial support from the Cohesion Fund was a possibility established already in the 2007-2013 MFF for a Member State being found in a progressed stage of the Excessive Deficit Procedure (EDP). Actually this weapon, sometimes called 'the nuclear option', was never used, although in 2012 Hungary got very close to that point. In a last minute action Hungary adjusted its fiscal policy in order to fulfil the required deficit target. Hungary had been under the EDP since its accession in 2004. No other Member State has ever been involved for so long in an EDP. Another type of conditionality appeared in the macroeconomic adjustment programmes for Greece and Portugal, the two Member States being currently under EU financial assistance. A formal commitment of the two countries to accelerate the absorption of resources from the Structural Funds and the Cohesion Fund became part of the conditions fixed in the adjustment programmes.[62]

In the MFF 2014-2020 the opportunity to bring the goals of European governance and that of cohesion policy closer to each other will gain new dimensions.

Ex ante conditionality

Paragraphs 78 and 79 specify ex-ante conditionality with the so-called partnership contracts in focus. These have been introduced in the new MFF with the purpose to concentrate financial resources from cohesion policy on a relatively small number of objectives within the CSF priorities, which are required to be closely linked to the 2020 agenda. The European Commission has the possibility to require amendments in a Member State's partnership contracts so that the Member State concerned follows EU recommendations or warnings.[63] These requests may appear in the case of

› economic policy or employment recommendations;

› recommendations when opening an EDP or EIP;

› a Member State being under an EU-initiated financial assistance programme.

It must be underlined that in these cases the EU is not obliged to suspend financing from the CSF, but it may do so.

Intervention by the EU is of limited scope in the sense that the recommended solutions principally remain within the framework of cohesion policy. Changes in the partnership contracts, practically a reallocation of cohesion policy related resources across potential spending targets, are assumed to offer a remedy to the problems seen by the Commission.

Ex-post conditionality

Ex-post conditionality (paragraph 80) enables the EU to intervene in a much broader circle. Paragraph 80 requires mandatory suspension of CSF funding, here the sanctions automatically follow if

[62] Marzinotto (2012), p. 5.

[63] Tokarski and Verhelst (2012), Macroeconomic Conditionality in Cohesion Policy: Added Value or Unnecessary Burden? European Policy Brief No. 13, November.

a Member State has not taken sufficient action either in an EDP or EIP, or while the country is involved in an EU-initiated financial assistance programme. Although contrary to paragraph 78 (ex-ante conditionality) there is no specification of the measures the Commission may require, from the context it is clear that the whole economic policy of the Member State involved will be regarded as a terrain of required adjustment.

4.3.2.4 Sanctions

The sanctions introduced in the case of non-compliance are formally uniform across the Member States, but their potential impact is highly asymmetric. It is obvious that the first cap expressed in terms of the CSF funding is tailored to the circumstances of the contributor Member States, while the second cap in terms of GDP to those of the beneficiary Member States. In the former group CSF transfers play a much smaller relative role in the economy than in the latter one, and therefore the stimulus threshold must be high, so that the whole pool of CSF resources must be endangered in case of non-compliance (see Table 48).

Table 48 / Relative importance of transfers from cohesion policy, rural development and fisheries for net beneficiary Member States (million EUR)

Member States	Cohesion policy	Rural developm.	Fisheries	Coh+Rur +Fish	GNI (2011)	Coh+Rur+Fish in % of 2011 GNI
	(2007-2013 annual average, in current prices)					
Belgium	323	60	26	409	380,444	0.11
Denmark	88	64	134	286	246,059	0.12
Germany	3,763	1,159	156	5,078	2,647,794	0.19
France	2,046	920	216	3,182	2,066,387	0.15
Italy	4,116	1,185	424	5,725	1,561,316	0.37
Luxembourg	9	13	0	22	31,250	0.07
Netherlands	272	69	49	390	615,000	0.06
Austria	209	559	5	773	298,185	0.26
Finland	245	297	39	581	191,794	0.30
Sweden	270	261	55	586	401,636	0.15
UK	1,516	273	138	1,927	1,739,250	0.11

Source: Cohesion policy 2007-2013, Commentaries and official texts; European Union Regional Policy, Guide January 2007, p. 25; Official Journal of the European Union 22.9. 2006, L 261/32; EU budget 2011, Financial Report, p. 102; own calculations.

Contrary to this, in net beneficiary Member States CSF transfers are much more relevant compared to the whole economy, and here a complete loss of CSF resources as prescribed by the first cap would be a disaster, thus the potential impact of sanctions would be asymmetric. In a worst-case scenario a Member State is sanctioned by the most severe punishment, the suspension of 100% of CSF funding or 1.5% of GDP. For the sake of simplicity let us disregard here the difference between GDP and GNI. In this worst-case scenario, out of the potentially 17 net beneficiary Member States of the 2014-2020 period, six would turn into net contributors to the EU budget (Cyprus, Spain, Ireland, Slovenia, Malta and Greece). The net financial position of another five originally net beneficiary countries (Portugal, Croatia, the Czech Republic, Slovakia and Poland) would fall to a range of 0 to 1% of their GDP, from a much more favourable foreseeable position without sanctions. Even the three best positioned Member States – Bulgaria, Hungary and Lithuania – would lose, by a rough estimation, about 40% of their cohesion policy and rural development resources (see Table 49).

Table 49 / Estimated net financial position of net contributor and net beneficiary Member States in the 2014-2020 MFF

Net contributor Member States	Net financial position 2014-2020, in % of GNI	Net beneficiary Member States	Net financial position 2014-2020, in % of GNI
Germany	-0.38	Cyprus	0.06
Netherlands	-0.37	Spain	0.18
Luxembourg	-0.36	Ireland	0.35
Sweden	-0.34	Slovenia	1.12
Belgium	-0.33	Malta	1.4
Austria	-0.31	Greece	1.46
France	-0.31	Portugal	1.52
UK	-0.31	Croatia	1.53
Finland	-0.3	Czech Republic	1.74
Denmark	-0.29	Slovakia	2.04
Italy	-0.23	Poland	2.31
		Romania	2.52
		Estonia	2.88
		Latvia	3.12
		Lithuania	3.7
		Hungary	3.73
		Bulgaria	3.88

Source: Estimation of the Ministry of Finance, Austria, FIW lecture ‘MFF 2014 bis 2020. Ergebnisse ER 7./8.2.2013’, Vienna, 14 February 2013.

4.3.2.5 Connection to European governance

Simultaneously with the introduction of macroeconomic conditionality attached to CSF funds, macroeconomic conditionality as part of European governance has remained in place. In this respect euro area members are distinguished from non-euro area members. Member States which belong to the former group may lose CSF transfers and, additionally, may be obliged to place a deposit ranging from 0.2% to 0.5% of their GDP in case of violating the Stability and Growth Pact. The fine is imposed annually until the Council decides that sufficient progress has been made to reverse the fiscal imbalance.[64]

That raises the question whether double punishment for the same ‘sin’ is acceptable. A euro-area Member State which is unable to keep its fiscal deficit under control will be punished both in the framework of European governance and the macroeconomic conditionality attached to the CSF funds. This may be especially painful for those Member States which are part of the euro area and simultaneously substantial recipients of cohesion policy transfers. Tokarski and Verhelst (2012) claim that the Charter of Fundamental Rights of the EU declares that no one can be punished twice for the same criminal offence (Article 50).[65] Apart from this fundamental question there are important technical details concerning the implementation which are not clear. Both the procedures of European governance and those of macroeconomic conditionalities are highly complex issues, with ample room for

[64] European Parliament (2012) p. 25.

[65] Tokarski and Verhelst (2012), p. 9.

interference both in contents and schedule of implementation. This may imply unforeseeable consequences.

4.3.2.6 The regions: why punished for central governments' mistakes?

The most substantial part of cohesion policy transfers reaches Member State regions. Suspension of funding would thus hit primarily regions, although these are not responsible for the failed fiscal and macroeconomic policy pursued by the central government. No wonder that regions, namely the Conference of Peripheral and Maritime Regions of Europe and the Committee of Regions, had reaffirmed their strong opposition to macroeconomic conditionality when the European Commission's proposal first appeared.[66] In another approach regions, more precisely local governments, are not so innocent as they would like to appear in this discussion, as local government spending represents about a quarter of general government spending and in some Member States they run high deficits worsening the general government's fiscal stance.[67] Nevertheless, even in a single Member State some regions/local governments may follow a wasteful development strategy producing high deficits while other regions/local governments may pursue a responsible development policy without running deficits. This latter group would be punished due to policy mistakes of the central government and irresponsible regions/local governments in the same country. This can be interpreted as a sort of collective punishment.[68] In another interpretation, targeting the regions in the case of sanctions has a positive consequence, namely that these are compelled to exert strong pressure on the central government for a change in the fiscal and economic policy in order to avoid sanctions or to reach as early a suspension of them as only possible.[69]

4.3.2.7 Sanctions and fiscal deficit

The note published by the European Parliament argues that macroeconomic conditionality has a less immediate effect on fiscal balances of a sanctioned Member State than European governance induced sanctions, where a deposit must be made from the national budget. Indeed, if a Member State breaches the Stability and Growth Pact through a higher than allowed fiscal deficit, it will be punished by a fine which immediately increases the fiscal deficit while the original target is further on the reduction of that deficit. Contrary to that, the financial sanctions attached to non-fulfilment of the macroeconomic conditionality will not have this immediate deficit-deteriorating effect.[70] Though the impact of sanctions attached to macroeconomic conditionality may be indirect, its extent should not be underestimated. EU cofinanced projects constitute a large part of public investment in several CEE Member States. In Bulgaria, 95% of public investment consists of EU cofinanced projects[71]; anecdotal evidence suggests a similar proportion in Hungary. That means that a radical reduction of SCF transfers would either be compensated by increased government expenditure to maintain the achieved level of public investment, or would trigger radical cuts in public investment, or most probably a combination of the two would happen. The first option would immediately increase the fiscal deficit, the second would hurt economic

66 EUROPOLITICS 10.02.2012; Committee of the Regions (2012).

67 Tokarski and Verhelst (2012), p. 6.

68 Op.cit., p. 8

69 European Parliament (2012), p. 42.

70 European Parliament (2012), p. 42; Tokarski and Verhelst (2012), p. 4.

71 EU Budget 2014-2020: Views from across Europe after 7-8 February 2013, Bulletin of European and CIS Studies, Special edition, Moscow, March 2013, p. 6.

growth, leading, ceteris paribus, to a deterioration of the fiscal deficit/GDP ratio. Taking into consideration that the sanctions attached to CSF conditionality are three times as large as the extent of the sanctions attached to the Growth and Stability Pact (reckoning with worst-case scenarios for both) the overall negative budgetary impact may not be too different after all.

4.3.2.8 Sanctions and economic growth

The impact on economic growth is a precarious issue anyhow. Major beneficiaries of cohesion policy may easily be confronted with a dilemma with no good outcome. Being in breach with the Maastricht deficit target in a recessionary state of the economy, governments involved will have to choose between decreasing the deficit and thus cutting aggregate demand and, consequently, having to reckon with a deterioration of the growth outlook. The other option is the maintenance of aggregate demand through abstaining from cutting the fiscal deficit and, consequently, the provocation of sanctions which in turn deteriorate the growth outlook via less public and also private investment due to suspension of CSF funding. A country may even get into a downward spiral beginning with a decreased deficit followed by slower or negative growth, not decreasing or even increasing the deficit, and then the consequent suspension of EU transfers which again may diminish growth and deteriorate the deficit. As discussed above, the sanctions attached to the ex-post conditionality are mandatory and automatic, that means no room is left for discretionary interventions taking account of the special situation of the individual Member State.

There is an interesting contradiction in the case of Member States under EU assistance programmes. These countries are threatened by sanctions if they fail to comply with the Memorandum of Understanding they signed with lenders, just as the Member States being involved in an EDP or EMI. Nevertheless, in the case of the Member States under assistance programmes the European Commission has the choice either to increase the EU cofinancing rate, as has happened in recent cases, from 85% to 95%, or to suspend CSF transfers.[72] At this juncture a carrot and stick approach to the very same status will become possible, which is a good opportunity for fine-tuning but simultaneously necessitates a very sophisticated and fair evaluation procedure that leads to one or the other option.

Macroeconomic conditionality may be a new feature in the EU but it is certainly not new or unusual in an international context. In programmes of the IMF and the World Bank conditionality, namely requirements for reforms, has been the cornerstone of agreements. As the EP note explains, today international organisations ‘are shying away’ from pre-defined macroeconomic conditionalities. Conditions became more flexible and the IMF and the World Bank place more weight on national ownership of the programmes.[73] Nevertheless, the usefulness of conditionality has not been confirmed in respective evaluations of international organisations’ lending programmes.[74]

4.3.2.9 Further considerations

The planning and implementation of cohesion policy related projects must reckon with a long project lifecycle and several interrelated stages. If macroeconomic conditionality leads to sanctions and

---

72 European Parliament (2012), p. 39 and Tokarski and Verhelst (2012), p. 4.

73 European Parliament (2012), p. 44.

74 Dreher (2009).

transfers are suspended, that may negatively influence project lifecycle and seriously deteriorate efficiency.[75] In the worst case, economic growth may be negatively influenced by failed projects. This means increased uncertainty, leading to a changed attitude where planning with EU funds and EU cofinanced projects will become less ambitious. Especially in Member States where suspension of funds is a real possibility, less than potentially possible reliance on EU cofinancing may have negative consequences for the country's growth potential. In cross-border projects, suspension of EU funds in one participating Member State may seriously hurt the interests of another participating Member State. It is a critically important question whether commitments or actual payments will be suspended in case of sanctions. Member States would become less vulnerable if sanctions referred to commitments as more room would be left to adjustment. Suspension of payments would immediately ruin most running projects, with an unknown share of non-reparable ones. According to Deutsche Bank (2013), initially commitment appropriations will be suspended, and suspension of payments will follow only in later stages of the procedure.[76] The authors of this publication note that exactly this pattern makes it questionable that macroeconomic conditionality will bring about changes in behaviour. A further factor diminishing the power of macroeconomic conditionality is seen in the way how sanctions will be introduced. Sanctions can be blocked by a qualified majority vote of the Council of Ministers. In case such a blockade is a real option, the Commission might decide to renounce submitting the proposal for sanctions to avoid losing face.[77]

If the consequences of a possible suspension of CSF transfers are assumed to be so serious, the question must be raised whether there are other options to reach the very same goal – the adjustment of the fiscal and economic policy in a Member State. Suspending the voting right of a Member State concerned in the European Council would be such a sanction. The introduction of non-financial sanctions has already been proposed but without success.[78]

4.3.2.10 Macroeconomic conditionality: good against the juste retour logic?

Tokarski and Verhelst (2012) claim that macroeconomic conditionality may serve as a tool to mitigate the impact of the 'juste retour' logic. It should be seen as part of a broader compromise between net contributors and net beneficiaries and it would facilitate a more ample cohesion policy budget.[79] This paper was published before the European Council of 7-8 February 2013 where macroeconomic conditionality was included in the proposal but cohesion policy funds decreased instead of the expansion envisaged in 2013. While responsible (macroeconomic) behaviour of the beneficiary Member States is certainly appreciated by contributor Member States, economising with overall (national) budgetary expenditures, especially under the growing requirements in the framework of European governance, must be a much more important consideration in contributors' attitude to the EU budget in general and cohesion policy or CSF funds in particular than soundness of the macroeconomic performance of the beneficiary Member States. Nevertheless, rigour shown towards net beneficiary Member States may have its undeniable benefits in the domestic policy arena of net contributor countries.

---

75 Tokarski and Verhelst (2012), p. 10; European Parliament (2012), p. 46 and 47.

76 Deutsche Bank (2013), p. 5.

77 Deutsche Bank (2013), p. 5.

78 European Parliament (2012), p. 42.

79 Tokarski and Verhelst (2012,) p. 7.

4.3.2.11 Concluding remarks

Member States will find it far more difficult to gain access to CSF funds in the 2014-2020 MFF than was the case in the MFF 2007-2013. The potential impact of sanctions on grounds of non-compliance is asymmetric; net beneficiary Member States may lose substantially more resources than net contributors. While the Union's basic concept is justifiable in the sense that everything must be done to avert a crisis such as the one that hit the southern periphery countries, the main beneficiaries of cohesion policy in the 1990s and then up to 2006, particularly hard, the solution proposed may prove counterproductive. Under certain unfortunate circumstances, the suspension of large segments of pre-allocated CSF funding may give rise to a further deterioration of the fiscal stance in net beneficiary Member States and their economic growth may well decelerate. Adopting preventative measures so as to avoid sanctions may also lead to a slowdown in economic expansion and a deterioration of fiscal balances. A less painful form of financial sanctions, combining financial and non-financial penalties, incorporating a limitation on automatisms in the process and according a greater role to discretionary decisions where the specific circumstances prevailing in individual Member States may take on greater importance, would provide a more satisfactory tool for strengthening discipline than the sanctions foreseen in 2014.

REFERENCES

Begg, I., H. Enderlein, J. Le Cacheux and M. Mrak (2008), Financing of the European Union Budget (Final Report, completed on 29 April 2009)

Cohesion policy 2007-2013 Commentaries and official texts. European Union Regional Policy. Guide January 2007, p. 25; Official Journal of the European Union 22.9. 2006. L 261/32; EU budget 2011 Financial Report p. 102

Committee of the Regions (2012) Opinion on the Proposal for a General Regulation on the Funds covered by the Common Strategic framework. 95th plenary session, 3-4 May.

Deutsche Bank (2013) Not quite fit for purpose. Conditionality under the EU's financial framework for 2014 to 2020. Box 6. March 28, 2013.

Dreher, A. (2009) IMF conditionality: theory and evidence. Public Choice, No. 141.

EU Budget 2014-2020: Views from across Europe after 7-8 February 2013. Bulletin of European and CIS Studies, Special edition. March 2013, Moscow, p. 6.

EU Budget 2014-2020: Views from across Europe after 7-8 February 2013. Bulletin of European and CIS Studies, Special edition. March 2013, Moscow.

Europa Press Releases Brussels 10. July 2013.

Europa Press Releases, Brussels 10. July 2013.

European Commission (2008) Reforming the Budget, Changing Europe. Launch of the consultation on the Budget Review 2008/9.

European Commission (2011) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A budget for Europe 2020. COM (2011) 500 final Part 1 Brussels, June 29.

European Commission (2012) COM 496 final Brussels 11.9. 2012.

European Commission (2013) Results of in-depth reviews under Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. COM (2013) 199 final 10. April.

European Commission Spring Forecast 2013.

European Commission website
http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm

European Commission website
http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/hungary_en.htm

European Commission website
http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

European Council 7/8 February 2013 Conclusions EUCO 37/13 Brussels 8. February.

European Parliament (2012) Macroeconomic Conditionalities in Cohesion Policy. A note by the DG for Internal Policies, Policy Department B: Structural and Cohesion Policies.

EUROPOLITICS 10.02.2012; Committee of the Regions, 2012 Opinion on the Proposal for a General Regulation on the Funds covered by the Common Strategic framework. 95th plenary session, 3-4 May.

EUROPOLITICS 26.03.2012.

KPMG Central and Eastern Europe Ltd. (2013) EU Funds in Central and Eastern Europe. Progress report 2007-2012, p. 12.

Marzinotto, B. (2012), The long-Term EU Budget: Size or Flexibility? Breugel Policy Contribution, Issue 2012/20.

Richter, S. (2008), 'Facing the Monster 'Juste Retour': On the Net Financial Position of Member States vis-à-vis the EU Budget and a Proposal for Reform', wiiw Research Reports, No. 348, Vienna, p. 17-18.

Richter, S. (2014a), 'Case study: Estonia', Paper prepared in the framework of the GRINCOH project 'Cohesion Policy as a Function of the EU Budget: A Perspective from Central and Eastern European Member States'.

Richter, S. (2014b), 'Case study: Hungary', Paper prepared in the framework of the GRINCOH project 'Cohesion Policy as a Function of the EU Budget: A Perspective from Central and Eastern European Member States'.

Szemlér, T. and J. Eriksson (2008), The EU Budget Review: Mapping the Positions of Member States, SIEPS 2008:2, Stockholm.

Tokarski, P. and S. Verhelst (2012), Macroeconomic Conditionality in Cohesion Policy: Added Value or Unnecessary Burden? European Policy Brief No. 13. November.

Wisniewski, A. and T. Szemlér (2014), 'Case study: Poland', Paper prepared in the framework of the GRINCOH project 'Cohesion Policy as a Function of the EU Budget: A Perspective from Central and Eastern European Member States'.

Wostner, P. (2014), 'Case study: Slovenia', Paper prepared in the framework of the GRINCOH project 'Cohesion Policy as a Function of the EU Budget: A Perspective from Central and Eastern European Member States'.

5 Conclusions and scenarios for reform

MOJMIR MRAK, SÁNDOR RICHTER AND TAMÁS SZEMLÉR

5.1 INTRODUCTION

Since the 1986 EU enlargement by Portugal and Spain, at the latest, the heterogeneity of the Member States and their regions in terms of economic development level has been a central issue of European integration. In view of the 2004/2007/2013 enlargements by 13 additional members, all with development levels below the average level of development of the 'old' EU-15, as well as the future enlargement by SEE countries, efforts to enhance territorial and social cohesion in Europe will remain a focus of EU policy for a long time.

The implementation of EU policies requires appropriate financing. Over the past decades, the financial requirements of various EU policies associated with various sources of funding have created a complicated system of cross-Member State financial flows with largely autonomous sub-systems and an undeserving decision-making practice at its key point (the final decision on the next Multiannual Financial Framework at the respective European Council with the climax of the Member States' bargaining process). This system bears some important features of the budget of a state, while its other features are unique; nevertheless it is regarded as the budget of the European Union both by experts and the broad public. Cohesion policy is an integral part of the EU budget and any substantial reform of it can only be imagined in its interrelatedness with the EU budget as a whole and its main constituents. It is not realistic to expect that the future of cohesion policy could be discussed seriously in isolation, i.e., without simultaneously discussing other major expenditure items of the EU budget, especially the common agricultural policy and competitiveness policy, as well as the way how the EU budget is being financed.

This concluding chapter consists of two parts. In the first part, we analyse the future of the Cohesion Policy from the context of the EU budget while in the second part we will articulate several scenarios on this subject.

5.2 ISSUES FOR THE FUTURE OF COHESION POLICY WITHIN THE EU BUDGET FRAMEWORK

When analysing the EU's cohesion policy in the future from the perspective of its influence on the EU budget and especially on the 'net financial position' issue, a couple of fundamental issues must be addressed. Some of them are specific to cohesion policy while others put the future of this policy into a broader framework of the EU budget.

5.2.1 Broader framework issues

The size of the EU budget

Is there room for a more extended cross-Member State redistribution (for a bigger EU budget) compared to the current situation, which would open the door for more spending, among other targets, on cohesion as well? Will the EU budget maintain its current size, or will it possibly diminish?

The preparatory discussions and then the decision on the 2014-2020 MFF have shown that there are very strong constraints on a potential future expansion of cross-Member State redistribution. Net contributor Member States are not ready and, for domestic policy reasons, also not able to allow for a bigger EU budget. In fact the 2014-2020 EU budget is, for the first time in the history of European integration, smaller than the previous seven-year budget. From our survey it turned out that more than half of the responding experts from net beneficiary Member States agree with the historically emerged magnitude (about 1% of the EU's GNI) of the EU budget and only a third of them would propose a radically higher cross-Member State redistribution in the EU. Unless a serious crisis appears or a disintegration process begins, the most probable outlook is that the current magnitude of the EU budget will prevail. That means that more spending on cohesion can only be imagined to the detriment of other EU policies, in a zero-sum game.

The size of net cross-Member State redistribution

Will the readiness of net contributor Member States increase, stay at the current level or decrease as concerns renouncing a part of their GNI, approximately 0.25%, to the favour of net beneficiary Member States?

Cohesion policy is exactly that section of the EU budget where efforts for levelling differences in the economic level of development across Member States and regions are concentrated. It is a key issue therefore what extent of net redistribution of their GNI is acceptable for the net contributor Member States. This issue is rarely discussed directly, discussions are rather focused on individual policies and their proportions within the EU budget, and net redistribution emerges as a resultant. Our research results show that about 60% of the responding experts from the net beneficiary new Member States were satisfied with the current magnitude of the net redistribution and only 17% would prefer a much larger extent of it in the favour of the net beneficiary Member States. All in all, with regard to the lack of strong pressure from the net beneficiary Member States and the obviously missing readiness on the part of the net contributor Member States, any substantial changes in this field are unlikely in the coming years.

The way how net financial positions emerge

Will the current, partially non-rule-based creation of individual Member States' net financial positions vis-à-vis the EU budget prevail, maintaining the 'juste retour' attitude and the consequently biased approach to any cohesion policy reform?

Our survey results (in particular the responses from experts working in the administration) show that the net financial position logic is fairly strong in the net beneficiary new Member States. At the same time, the majority of the respondents are against the current non-rule-based arrangements to come to terms in the final stage of the MFF negotiations. The respondents were clearly supporting rule-based alternatives: either some form of a generalised correction mechanism or the establishment of a direct linkage to the Member States' GDP or GNI.

Certainly we must keep in mind that the survey was sent to academic and administrative experts of net beneficiary new Member States and not to politicians in the countries concerned. Political considerations, such as the wish of top politicians returning home from the final MFF negotiations with an extra rebate or an exceptional last-minute financial gain may overrule the best rule-based solutions proposed by experts.

The proportion among the main constituents of the EU budget

Is a considerable rearrangement across the major constituents CAP, cohesion and competitiveness possible? If yes, cohesion policy will gain or lose, to the detriment or in favour of the other main constituents.

The future proportion among the main policy areas will depend on various factors. Our research results indicate that experts from net beneficiary countries are not one-sidedly preferring cohesion policy, although the most net gains via pre-allocated resources are available there. Though our respondents would prefer a somewhat higher share of cohesion policy expenditures in the total EU budget than the one agreed upon at the February 2013 European Council for 2014-2020, the real message from the survey was that they call for smaller agricultural expenditures and much higher expenditures for the future-oriented 'Competitiveness for growth and jobs' section of the EU budget, where the allocation of resources is mostly competition-based and where the NMS track record has not been really favourable so far. All in all, it seems that the NMS expert community will not be a stumbling block in the way of reforms to make the EU budget more future-oriented.

EU and euro-area budgets

There is a continuous discussion whether the euro area would actually need its own budget as an instrument for stabilising the currency in the long run. What would be the role of this budget? (The focus would probably be on stabilisation.) What would be the relation of the euro-area budget vs the EU budget?

Concerning this very complex issue, we will address here only one question, namely the possible interference of the two EU budgets. In the future budget for stabilising the euro area, the distribution of the burdens of financing will be not less important than in the current MFF. The current non-rule based decision-making process, targeted at acceptable net balances for all 28 Member States, will obviously become unsustainable as soon as a second budget for stabilisation is set up. Interference of net financial positions in two highly complex EU budgets raises the danger of endless bargaining with an unforeseeable outcome.

5.2.2 Issues specific to cohesion policy

Conditionality of transfers

Should Member States' and regions' access to resources financed by cohesion policy be conditional on the fulfilment of various requirements being outside the domain of cohesion policy itself (macroeconomic, 2020 targets and possible other conditionalities)?

It is a crucial question how the EU can avoid the recurrence of crises like that of Greece, where ample resources from the EU budget, first of all financed by cohesion policy, allowed the postponement of modernisation and reform for decades and indirectly contributed to the regretful course of events. The strict conditionality introduced by the EU has exactly this purpose. Certainly this change affects the highly exposed net beneficiary Member States much more than the net contributor countries, with much higher potential losses of resources in case of non-compliance in the former group. Remarkably, despite the possible negative outcome (reduced resources in case of non-compliance) more than half of the responding new Member State experts agreed or even strongly agreed with the introduction of macroeconomic conditionality. While one third of the respondents did not agree, only less than 4% disagreed strongly. That is a positive sign in the sense that the majority of responding experts gave preference to longer-term interests (securing EU resources and pursuing a prudent economic policy by their governments) over the immediate interest to maximise the inflow of resources without regard to anything else.

Departure from grants

Is there a way for a radical or gradual departure from the current, basically grant-based, support system to an alternative system relying on predominantly financial instruments?

Currently grants are the typical form of support in the framework of cohesion policy. Although cofinancing is a requirement in each case, to different extents, grants bear the risk of moral hazard as they make projects possible which would never have been feasible under the conditions of market financing. This may exactly be the goal in certain cases; the bulk of the projects financed from cohesion and structural funds should be able to become profitable (sustainable) once the project enters a mature stage of its existence. A significant expansion of financially sustainable projects requires a radically increased role of debt financing and financial engineering instruments in cohesion policy compared to the current situation. However, a development in that direction may be uncomfortable for potential recipients of such transfers, as applying for grants necessitate first of all excellent proposal writing abilities, while relying on preferential debt financing and financial engineering instruments such as preferential interest rates instead requires from the applicants the ability to invest efficiently and operate the project in a profitable way. In this regards, it can be seen as an encouraging sign that about half of the experts from the net beneficiary new Member States responding to our survey question agreed with the increasing role of debt financing and financial engineering products in the future.

Eligibility criteria for cohesion policy

There has been a lot of discussion whether eligibility for cohesion policy funds should be at the regional level (as has been the case until now) or at the national level.

Close to 70% of the experts interviewed found the current system appropriate which is based on the allocation of the bulk of cohesion policy funding to NUTS II regions appropriate. That means that there seems to be no immediate need for reform in this field at least from the net beneficiary NMS experts' point of view.

5.3 SCENARIOS

After having assessed the characteristics, performance and challenges of the EU's cohesion policy within the framework of the EU budget (Chapters 2, 3 and 4) and based on the identification of those issues that are expected to shape each of the two as well as their interconnection (sub-chapter 5.2.), the following question arises: What will be the general features of the EU budget, in particular its size and structure, and what will be the position of cohesion policy within this framework? It is practically impossible to give a definite answer to this question, as the answer depends on many ongoing trends and challenges with only some of them being economic while others being sociological, environmental and political. What, however, is possible is to articulate scenarios. In principle, scenarios describe alternative paths into the future and are typically mutually exclusive. Here, this is not necessarily the case. The scenarios are composed of various components, of which some or all may be adjusted/changed and this may happen at very different dynamics.

Taking into account that EU cohesion policy as part of the EU budget is practically fixed for the 2013-2020 period, the three scenarios developed in this study focus on the post-2020 period, i.e., on the period of the forthcoming MFF. Each of the three scenarios is based on its own underlying logic with two of them sharing a conservative approach with respect to the total volume of the EU budget. In the 'status quo scenario', the guiding feature is the 'no change' approach and this applies not only to the volume of the EU budget but also to its major expenditure and revenue components. The 'advanced status quo scenarios' is again characterised by a conservative approach towards the total volume of the EU budget, but also by significant advancements/changes in the structure of the budget's components. Finally, the 'community scenario' with its underlying logic of a 'strengthened EU' views the budget as an important instrument of European integration supporting the EU in efficiently answering the major challenges it is facing.

In the following each of the three scenarios will be presented in some more detail.

5.3.1 'Status quo scenario'

The EU budget has proved to be extremely resistant to any serious changes. Although there have been major developments of the EU itself, of its environment and of the world as a whole, the EU budget has changed little since its last major transformation in 1988. Over almost three decades, in terms of size the EU budget has remained at a low and practically unchanged level of approximately 1% of GNI. As for the structure of budget expenditures, CAP and cohesion policy continue to be dominant with a combined share of still close to 80%. Not much has changed on the revenue side of the EU budget either. The dominance of national contributions as the main funding source of the EU budget associated with the highly distributive character of its main two spending categories have resulted in a system overburdened (at least in the recent three MFF negotiations for 2000-2006, 2007-2013 and 2014-2020) with the 'juste retour' logic characterised by straightforward attempts of individual Member States to bring back home as much money from the EU budget as possible. In addition to its strong pro 'status quo' bias, further strengthened by the existing governance of the MFF negotiations, the EU budget has over the recent decades also become less and less transparent due to the dominance of the net national financial position logic in the MFF negotiations.

The guiding approach of this scenario is that the patterns presented in the previous paragraph will continue and will involve only small changes of the EU budget in the post-2020 period. In more specific terms, this scenario is based on the following assumptions:

› *Size of the EU budget:* It will remain at the existing level of approximately 1% of EU GNI.
› *Expenditure side:*

- CAP and cohesion policy will continue to participate with over 70% in the total EU budget expenditures with no significant change in the respective shares. In each of the two, significant internal changes will continue.
- Funds for competitiveness will continue to be treated as a 'budgetary reserve'.

› *Revenue side:*

- TOR will remain in place while the VAT source will be abolished.
- The GNI source will remain the main funding source and will continue to be a funding source with a residual character.

› *Correction mechanisms:* The UK rebate as well as numerous 'corrections on the correction' will remain largely unchanged.

From today's perspective and taking into account the responses from the survey, this scenario is being assessed as the most realistic one among the three.

5.3.2 'Advanced status quo scenario'

On the one hand, some key principles underlying this scenario are the same as for the 'status quo scenario'. In particular, the two scenarios share their approach with respect to the overall size of the EU budget: that also this scenario is based on a conservative assumption of the overall EU budget at a level of 1% of EU GNI. On the other hand, however, the scenario also involves significant changes in the expenditure as well as the revenue side of the EU budget and consequently also in the correction mechanisms. Though framed conservatively with respect to the overall size of the EU budget, the scenario is rather ambitious in eliminating some other systemic weaknesses of the EU.

The scenario is based on the following assumptions:

› *Size of the EU budget:* It will remain at the existing level of approximately 1% of EU GNI.
› *Expenditure side:*

- Funds for cohesion policy will remain the largest expenditure item of the EU budget with a proportion similar to the one at the end of the 2014-2020 MFF. Further internal changes within the policy will continue (territorial approach, eligibility criteria, etc.).

- Expenditures for CAP, especially for direct payments, will be reduced as proportion of total expenditures (following the concept of fiscal federalism whereby expenditures of this type –

subsidies – should be financed from the level that is as close to the final beneficiary as possible and therefore not from the EU level).

- Expenditures for competitiveness will increase substantially while some upward adjustment will be made also for expenditure items aimed at addressing major EU challenges, such as globalisation, migration, climate change, energy, etc.

› *Revenue side:*

- TOR will remain in place while the VAT source will be abolished.
- EU tax(es) contributing a relatively small proportion of the EU budget revenue needs will be introduced.
- The GNI source will remain the main funding source and will continue to be a funding source with a residual character.

› *Correction mechanisms:* The UK rebate and the ‘corrections on the correction’ system will be replaced either by a general correction mechanism or by some other mechanism addressing effectively the ‘net balance position’ issue. In this context, proposals have been developed in academic and other literature suggesting to split EU budget negotiations into two stages (see, for example, Heinemann, 2007; De La Fuente and Domenech, 2001; Rant and Mrak, 2010 mentioned in Chapter 3).

From today’s perspective and taking into account the responses from the survey, this scenario is being assessed as less realistic than the ‘status quo scenario’.

5.3.3 ‘Community scenario’

Although the history of European integration has been largely dominated by incremental steps rather than big institutional changes and although the EU budget has been characterised by a strong pro ‘status quo’ bias, the possibility for its more fundamental reform should not be excluded. Who would have expected such dramatic changes in the EU/euro economic governance only five years ago? In contrast to the previous two scenarios, the ‘community scenario’ seems to have higher relevance from a longer time perspective. It should therefore be taken as a scenario which is less realistic for the MFF starting in 2020 than for the following one.

One important feature distinguishing this scenario is the necessity of changes to the EU Treaties. Though it is possible to argue that considering Treaty changes today does not look politically very realistic (taking into account the difficult discussions on the Treaty of Lisbon), one should not overlook the lessons of the past 20 years when the EU changed several times.

In this scenario, a considerably broader concept of common European policies prevails which fundamentally supports the view that, taking into account the principle of subsidiarity, the spectrum of expenditures which could be financed from the EU budget is broader than in both versions of the status quo scenarios. With respect to the size of the EU budget, this scenario is based on the assumption of a significant increase. On the revenue side, it foresees a significant proportion of revenues to be financed by EU-wide taxes. As a consequence of the changes on both sides of the EU budget, correction mechanisms will be less of a problem and will be dealt with, if still needed, through a general correction mechanism. In the long-run view, this scenario is appropriate for an EU that will transform from its current economic integration and intergovernmental structure into a higher level political and institutional integration in which the influence of community decision-making would increase.

Size of the EU budget: It will increase to well above the existing level of 1% of EU GNI. The magnitude of the increase will depend on the agreed concept of European public goods to be financed from the EU budget. The increase would have to be substantial in case the EU budget should assume a stabilisation role.

› Expenditure side:

- Funds for cohesion policy will increase vis-à-vis the 2014-2020 level. Further changes within cohesion policy will continue (territorial approach, eligibility criteria, etc.).
- Expenditures for CAP will remain at the 2014-2020 level. Significant internal changes will continue.
- Expenditures for competitiveness as well as for expenditure items aimed at addressing major EU challenges, such as globalisation, migration, climate change, energy, etc., will increase substantially.
- Expenditures for macroeconomic stabilisation will be introduced (in case the EU budget assumes this role).

› Revenue side;

- TOR will remain in place while the VAT source will be abolished.
- EU tax(es) contributing more than 50% of the EU budget revenue needs will be introduced.
- The GNI source will remain in place, but its relative importance will be significantly diminished.

› Correction mechanisms: The UK rebate and the 'corrections on the correction' system will be replaced by a general correction mechanism.

From today's perspective, this is by far the least realistic of the three scenarios.

5.4 FINAL REMARKS

As mentioned above, from today's perspective the status quo scenario has the highest probability. However, as also stated, with regard to unexpected developments a rapid sequence of changes leading towards other models of the EU budget according to the other two scenarios cannot be excluded either. Our survey results convey the important message that the feasibility of scenarios other than the 'status quo' one will most probably not depend on the behaviour of the new Member States. Despite their strong and explicit interest for securing ample resources from cohesion policy for themselves, the new Member States' administrative and academic experts with their non-negligible influence on the political decisions of their prevailing governments cannot be seen as a stumbling block in the way towards reforms for a modernised and more rule-based EU budget. A resolute shift towards increased EU budgetary support for projects with more European value added and stronger future orientation than today, and a fair and transparent allocation of net financial positions will be far more determined by the outcome of a multifaceted interest reconciliation among the 'major players' of the old EU-15.

6 Annex – The questionaire

Cohesion policy as a function of the EU budget: a perspective from Central and Eastern European Member States

Questionnaire for the research under the FP-7 GRINCOH project

There are 28 questions in this survey

Basic information about the profile of the respondent

1 [Info1]

Info 1: **Type of institution the respondent is affiliated with:**

Please choose **only one** of the following:

- Ministry
- Managing authority, paying or audit authority
- Institution involved in the implementation of the cohesion policy (intermediate body or similar) at national level
- Institution involved in the implementation of the cohesion policy (intermediate body or similar) at regional or local levels
- Academia (educational and research institutions)
- Other

2 [Info2]*Info 2:* **Respondent's work experience with cohesion policy/EU budget (in years):**

Please choose **only one** of the following:

- Less than 1
- Between 1 and 3
- Between 3 and 6
- More than 6

3 [Info3]

Info 3: **Information provided by the respondent refers to the experience of the following EU Member State from Central and Eastern Europe (Croatia included):**

Please choose **all** that apply:

- Bulgaria
- Croatia
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Poland
- Romania
- Slovakia
- Slovenia

A. Position of the present cohesion policy (2007-2013) within the EU budget

4 [QA1]Question A/1: How would you rank the importance of the main expenditure headings of the EU budget for your country? (1 = top priority; 3= bottom priority; 2= in between)

Please write your answer(s) here:

Common agricultural policy

Cohesion

Competitiveness, such as R&D, education

5 [QA2]Question A/2: If cohesion policy is important for your country, this is because it is considered (more than one answer is possible):

Please choose **all** that apply:

- ☐ to be a good instrument to promote growth and jobs in your country
- ☐ to contribute decisively towards an improved 'net budgetary position' of your country
- ☐ to be an efficient instrument for reducing of economic and social disparities within the country
- ☐ Other:

6 [QA3]Question A/3: To what extent is the policy of your country towards cohesion policy geared by the 'net financial position' logic?

Please choose **only one** of the following:

- ○ Not at all
- ○ To a small extent
- ○ Strongly
- ○ Very strongly

7 [QA4]Question A/4: Do you think that the current mechanisms (e.g. UK rebate, rebate on rebate, 'presents') to address perceived budgetary imbalances in national contributions to the EU budget are necessary?

Please choose **only one** of the following:

- ○ No
- ○ Yes

B. Assessment of the past and present (2007-2013) cohesion policy

8 [QB1]Question B/1: Cohesion policy has been of high importance for new Member States from Central and Eastern Europe. Evaluate from the point of view of your country the success of the cohesion policy in each of the following three periods:

Please choose the appropriate response for each item:

	Not successful at all	Not successful	Successful	Very successful
Period of the Pre-accession Aid (2000 – April 2004; for Bulgaria and Romania 2000 – 2007; for Croatia 2007-2013)	○	○	○	○
Cohesion policy of the 'phasing-in' period (May 2004 – 2006; for Bulgaria and Romania 2007 – 2009)	○	○	○	○
Cohesion policy in the post-'phasing-in' period (2007 – 2013; for Bulgaria and Romania 2010 - 2013)	○	○	○	○

9 [QB2]Question B/2: Cohesion policy in the 2007-2013 period has numerous objectives. Indicate on a scale of 1 to 6 your assessment of the importance (1 = lowest; 6 = highest) of individual cohesion policy objectives for your country.

Please choose the appropriate response for each item:

	1	2	3	4	5	6
Economic growth (economic convergence)	○	○	○	○	○	○
Competitiveness	○	○	○	○	○	○
Job creation	○	○	○	○	○	○
Development of urban areas	○	○	○	○	○	○
Development of rural areas	○	○	○	○	○	○
Environmentally sustainable development	○	○	○	○	○	○
Socially sustainable development	○	○	○	○	○	○
Support to territories with specific problems, such as depopulation, etc.	○	○	○	○	○	○

10 [QB2i]Supplement the above list by additional objectives if you deem appropriate.

Please write your answer here:

11 [QB3]Question B/3: Please indicate on a scale of 1 to 6 your assessment of how successful (1 = lowest; 6 = highest) each of these principles has been in practice for effective implementation of cohesion policy in your country.

Please choose the appropriate response for each item:

	1	2	3	4	5	6
Programming	○	○	○	○	○	○
Management of funds (implementing structures)	○	○	○	○	○	○
Project facilitation and selection procedures	○	○	○	○	○	○
Decentralisation of decision-making	○	○	○	○	○	○
Financial management (co-financing requirements, N+2/N+3 rule, eligibility rules, control requirements)	○	○	○	○	○	○
Monitoring and evaluation	○	○	○	○	○	○
Partnership principle	○	○	○	○	○	○
Long-term approach and predictability of development support	○	○	○	○	○	○

C. Assessment of cohesion policy arrangement for 2014-20 & the desired policy features for post-2020

12 [QC1]

Question C/1: In your view, what would be the optimal size of the EU budget in terms of percentage share of EU GNI?

Please write your answer here:

13 [QC2]

Question C/2: What would be your proposal for the proportions among main EU budget expenditure headings under your preferred size of the EU budget? Please mind that the proportions you allocate to individual expenditure headings should add up to 100!

A reminder: allocation of expenditures in the MFF 2014-2020, as approved by the European Council, 7-8 February 2013 (amounting to 1% of the EU GNI) is as follows:	
1. Economic, social and territorial cohesion	33.9%
2. Competitiveness for growth and jobs	13.1%
3. Natural Resources	38.9%
4. Other	14.1%
5. Total	100%

Your preferred allocation of expenditures

1. Economic, social & terr. cohesion

2.Competitiveness for growth and jobs

3.Natural Resources

4. Other

5. Total

14 [QC3]Question C/3: Do you believe that the changes in the design of cohesion policy as approved by the European Council on February 7-8 of this year for the 2014-2020 period are:

Please choose **only one** of the following:

- Not appropriate at all
- Not appropriate
- Appropriate
- Very appropriate

15 [QC4]Question C/4: What is your attitude towards the introduction of various forms of macroeconomic conditionality for the eligibility of cohesion policy funding?

Please choose **only one** of the following:

- I strongly agree
- I agree
- I disagree
- I strongly disagree

16 [QC5]Question C/5: At present, the volume of funding available to a Member State under the cohesion policy is capped at the level of 3.8 per cent of GDP while for the 2014 – 2020 period it is planned to be reduced. What is your view on cohesion policy capping?

Please choose **only one** of the following:

- ◯ There should be no capping on cohesion policy funding
- ◯ Capping should remain at the present level (3.8 per cent GDP)
- ◯ I support the capping at the level proposed for the 2014 – 2020 period (2.35 or 2.59 per cent of GDP)
- ◯ Capping should drop to an even lower lever than proposed by the European Council for the 2014 – 2020 period.

17 [QC5i]What would be the level of capping suggested by you in per cent of GDP?

Only answer this question if the following conditions are met:
Answer was 'Capping should drop to an even lower lever than proposed by the European Council for the 2014 – 2020 period.' at question '16 [QC5]' (Question C/5: At present, the volume of funding available to a Member State under the cohesion policy is capped at the level of 3.8 per cent of GDP while for the 2014 – 2020 period it is planned to be reduced. What is your view on cohesion policy capping?)

Please write your answer here:

18 [QC6]Question C/6: GDP/GNI per capita is the main criterion for allocation of cohesion policy funding to eligible geographical areas. Do you agree with this approach?

Please choose **only one** of the following:

- ◯ No
- ◯ Yes

19 [QC6i]In case your answer in 'No', please specify what other criteria should be taken into account for allocation of cohesion policy funds (more than one answer is possible):

Only answer this question if the following conditions are met:
Answer was 'No' at question '18 [QC6]' (Question C/6: GDP/GNI per capita is the main criterion for allocation of cohesion policy funding to eligible geographical areas. Do you agree with this approach?)

Please choose **all** that apply:

- ☐ Employment / unemployment level criteria
- ☐ Education criteria
- ☐ R&D and innovation criteria
- ☐ Territorial cohesion criteria
- ☐ Other:

20 [QC7]Question C/7: At present, a large majority of cohesion policy funding is being allocated to NUTS II regions. In your view, is this appropriate?

Please choose **only one** of the following:

- ◯ Not appropriate at all
- ◯ Not appropriate
- ◯ Approriate
- ◯ Very appropriate
- ◯ Other

21 [QC7i]In case your answer in 'Not appropriate at all' or 'Not appropriate', please specify what other geographical eligibility criteria should be used for allocation of cohesion policy funds (more than one answer is possible):

Only answer this question if the following conditions are met:
Answer was 'Not appropriate at all' *or* 'Not appropriate' at question '20 [QC7]' (Question C/7: At present, a large majority of cohesion policy funding is being allocated to NUTS II regions. In your view, is this appropriate?) *and* Answer was 'Not appropriate at all' *or* 'Not appropriate' at question '20 [QC7]' (Question C/7: At present, a large majority of cohesion policy funding is being allocated to NUTS II regions. In your view, is this appropriate?)

Please choose **only one** of the following:

- Country level
- Macro-regions, such as Baltic region, Danube region, etc.
- NUTS III
- Other

22 [QC8]Question C/8: From time to time a proposal is made that cohesion policy should be increasingly implemented with debt-financing and financial engineering instruments, such as loans of the EIB, project bonds, etc. Consequently, these instruments should start replacing classical grant-based instruments financed from the EU budget. What is your position on this approach?

Please choose **only one** of the following:

- I strongly disagree
- I disagree
- I agree
- I strongly agree

D. Net financial positions and possible mechanisms to correct budgetary imbalances

23 [QD1]Question D/1: Should an important objective of a future overall budgetary reform of the EU be the elimination of all mechanisms for correction of budgetary imbalances?

Please choose **only one** of the following:

- ○ No
- ○ Yes

24 [QD2]Question D/2: If there is no alternative to the continuation of some form of mechanism to correct budgetary imbalances, should it be generalized (should it apply to all Member States if they meet criteria)?

Please choose **only one** of the following:

- ○ No
- ○ Yes

25 [QD3]Question D/3: If there is no alternative to the continuation of some form of mechanism to correct budgetary imbalances, would you favour a mechanism that ensures that a Member State's net balance is always directly linked to its per capita GDP or GNI?

Please choose **only one** of the following:

- ○ No
- ○ Yes

26 [QD4]Question D/4: One possibility to eliminate all mechanisms for correction of budgetary imbalances would be two-phase multi-annual financial perspective negotiations. In the first phase, Member States would reach an agreement about net balances, and only then (i.e. in a second phase of negotiations) an agreement about the expenditure side of the budget. This would in theory have the advantage of eliminating the discussion about net balances from the choice of expenditures and budget priorities. Would you support this approach?

Please choose **only one** of the following:

- ○ No
- ○ Yes

27 [QD5]Question D/5: In 2011 the EU budget accounted for 1.08% of the EU GNI. One quarter of it represented redistribution from 'net contributors' to 'net beneficiaries'. (The rest represented Member States' payments to the EU budget which were fully compensated by transfers from the EU budget.) In your opinion what would be the appropriate share of redistribution from 'net contributors' to 'net beneficiaries' within the EU budget?

Please write your answer(s) here:

The approproate share of cross-MS redistribution would be:

28 [QD6]Question D/6: In your opinion should there be a cap on the degree of redistribution from 'net contributors' to 'net beneficiaries' within the EU budget?

Please choose **only one** of the following:

- ○ No
- ○ Yes

2013.05.31 – 01:00

Submit your survey.

Thank you for completing this survey.

SHORT LIST OF THE MOST RECENT WIIW PUBLICATIONS

(AS OF MAY 2015)

For current updates and summaries see also wiiw's website at **www.wiiw.ac.at**

COHESION POLICY AS A FUNCTION OF THE EU BUDGET A PERSPECTIVE FROM THE CEE MEMBER STATES

by Mojmir Mrak, Sándor Richter and Tamás Szemlér

wiiw Research Reports, No. 400, May 2014
115 pages including 59 Tables and 1 Figures
hardcopy: EUR 24.00 (PDF: free download from wiiw’s website)

WHAT DETERMINES SMES’ FUNDING OBSTACLES TO BANK LOANS AND TRADE CREDITS? A COMPARATIVE ANALYSIS OF EU-15 AND NMS-13 COUNTRIES

by Sandra Leitner and Robert Stehrer

wiiw Working Papers, No. 114, May 2015
35 pages including 6 Tables and 4 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw’s website)

EFFECTS OF INCOME INEQUALITY ON POPULATION HEALTH AND SOCIAL OUTCOMES AT THE REGIONAL LEVEL IN THE EU DIFFERENCES AND SIMILARITIES BETWEEN CEE AND NON-CEE EU REGIONS

by Sebastian Leitner

wiiw Working Papers, No. 113, May 2015
35 pages including 24 Tables and 7 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw’s website)

WIIW MONTHLY REPORT 5/15

edited by Vasily Astrov and Sándor Richter

› Graph of the month: GDP and railways in Europe: historical data
› Opinion corner: What are the Slovak and Slovene reservations against the Greek bailout?
› Regional heterogeneity in the Danube Region
› Trade integration along the river Danube
› Labour market and migration in the Danube Region
› Recommended reading
› Statistical Annex: Monthly and quarterly statistics for Central, East and Southeast Europe

wiiw, May 2015
43 pages including 1 Table and 33 Figures
(exclusively for wiiw Members)

POLICY OPTIONS FOR ECONOMIC GROWTH AND COMPETITIVENESS OF KOSOVO
by Mario Holzner

wiiw Policy Notes and Reports, No. 15, May 2015
13 pages including 11 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

THE GREAT COLLAPSE IN VALUE ADDED TRADE
by Arne J. Nagengast and Robert Stehrer

wiiw Working Papers, No. 112, April 2015
22 pages including 7 Tables and 3 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

WIIW MONTHLY REPORT 4/15
edited by Vasily Astrov and Sándor Richter

› Graph of the month: Per capita GDP in Ukraine and Poland, 1991-2013
› Opinion corner: Is the EU Danube Region Strategy helpful?
› Implications of EU integration for Ukraine's foreign trade
› How to attract FDI to Ukraine after stabilisation?
› Supporting industrial and regional economic development in Ukraine
› Recommended reading
› Statistical Annex: Monthly and quarterly statistics for Central, East and Southeast Europe

wiiw, April 2015
45 pages including 2 Tables and 29 Figures
(exclusively for Members of wiiw)

WIIW MONTHLY REPORT 3/15
edited by Vasily Astrov and Sándor Richter

› Graph of the month: Direct cost shares of selected business services in manufacturing
› Opinion corner: Financial assistance to Ukraine: Will it Help?
› Specialisation in manufacturing and business services in the EU, with a particular focus on the new Member States
› The use of services in European manufacturing
› The role of business services linkages for manufacturing performance in EU Member States
› Recommended reading
› Statistical Annex: Monthly and quarterly statistics for Central, East and Southeast Europe

wiiw, March 2015
41 pages including 2 Tables and 26 Figures
(exclusively for Members of wiiw)

A TIME OF MODERATE EXPECTATIONS

by Leon Podkaminer, Sándor Richter, Amat Adarov, Vasily Astrov and Serkan Çiçek, Mario Holzner et al.

wiiw Forecast Report. Economic Analysis and Outlook for Central, East and Southeast Europe, Spring 2015
wiiw, March 2015
143 pages including 34 Tables, 29 Figures and 2 Boxes
hardcopy: EUR 80.00 (PDF: EUR 65.00)

WHAT DETERMINES SMES' FUNDING OBSTACLES TO BANK LOANS AND TRADE CREDITS? A COMPARATIVE ANALYSIS OF EU-15 AND NMS-13 COUNTRIES

by Sandra Leitner and Robert Stehrer

wiiw Working Papers, No. 112, February 2015
35 pages including 6 Tables and 4 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

WIIW MONTHLY REPORT 2/15

edited by Vasily Astrov and Sándor Richter

› Graph of the month: Energy sector – selected indicators
› Opinion corner: Is there any chance of a compromise in the Greek crisis?
› Natural gas and electricity prices in the EU and its major industrial competitors
› Energy cost shares and energy intensities in manufacturing: comparing the EU with its major external competitors
› Energy intensity, energy cost shares and industrial competitiveness
› Recommended reading
› Statistical Annex: Monthly and quarterly statistics for Central, East and Southeast Europe

wiiw, February 2015
43 pages including 4 Tables and 27 Figures
(exclusively for Members of wiiw)

SHOULD I STAY, SHOULD I GO BACK OR SHOULD I MOVE FURTHER? CONTRASTING ANSWERS UNDER DIVERSE MIGRATION REGIMES

by Michael Landesmann, Sandra Leitner and Isilda Mara

wiiw Working Papers, No. 111, January 2015
37 pages including 9 Tables and 7 Figures
hardcopy: EUR 8.00 (PDF: free download from wiiw's website)

IMPRESSUM

Herausgeber, Verleger, Eigentümer und Hersteller:
Verein „Wiener Institut für Internationale Wirtschaftsvergleiche" (wiiw),
Wien 6, Rahlgasse 3

ZVR-Zahl: 329995655

Postanschrift: A 1060 Wien, Rahlgasse 3, Tel: [+431] 533 66 10, Telefax: [+431] 533 66 10 50
Internet Homepage: www.wiiw.ac.at

P.b.b. Verlagspostamt 1060 Wien

Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.

wiiw.ac.at