THE EU BUDGET: A "TROJAN HORSE" FOR BETTER NATIONAL SPENDING?

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1. Introduction

The legend of the Trojan Horse, told in Virgil's Aeneid, exemplifies a masterstroke of cunning. At the end of the 12th century BC, after ten years of war, the Greeks could not breach Troy's walls. Yet, the Trojans could not drive the Greeks away.

Then, the Greeks devised a plot. Pretending to admit defeat and to sail home, they left behind them a huge wooden horse as an offering to the goddess Athena. Thirty Greek warriors hid themselves inside the horse. In fact, the Greek fleet actually hid just nearby.

Smelling a trap, the priest Laocoon wanted to burn the horse and warned the Trojans:

> "O wretched countrymen! What fury reigns? What more than madness has possess'd your brains? Think you the Grecians from your coasts are gone? (…) Somewhat is sure design'd, by fraud or force: Trust not their presents, nor admit the horse" (Vergilius).

The Trojans ignored the warning and rolled the horse into the city as a reminder of their victory. During the night the Greek warriors came out of the horse and opened Troy's gates to the other Greek warriors. There was a big battle and the Greeks won.

The idea of a "Trojan Horse", meant as a way to put in place the conditions for achieving specific objectives, is somewhat implicit in the EU's actions, whose aim is to reach a better result than the member states

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[1] The opinions expressed by the author in this publication in no way commit the European Court of Auditors to which he belongs. The author gratefully acknowledges the insightful comments as well as the editorial assistance received.

could achieve by themselves. This aim is the basis of the EU added value concept.

2. The EU fundamentals

The European Union originates from the member states' decision to pool selected aspects of their respective sovereign powers to attain objectives they have in common (Articles 1, 5(1)(2) of the Treaty on European Union (TEU)). The Union's competences, most of which are shared with the member states, are therefore based upon the achievement of these objectives.[2] The Union's competences imply the identification of "what" the EU should be doing and "how" it should be done. Here the principles of subsidiarity and proportionality come into play. Before launching an initiative, it is essential to systematically check (a) whether public action is really necessary, (b) whether action at the European level is the most appropriate, and (c) whether the measures chosen are proportionate to achieving those objectives (European Commission 2001, 11).

The subsidiarity principle, applicable in the areas of shared competence with the member states, requires one to demonstrate that the member states cannot sufficiently achieve the objectives of the proposed EU action, which can instead, by reason of its scale or effects, be better achieved by the Union (Art. 5(3) TEU). Subsidiarity implies weighing up all types of advantages and disadvantages and, finally, the exercise of political discretion. Subsidiarity is a dynamic concept that allows EU action to be expanded where the circumstances so require and, conversely,

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[2] Art. 2 of the Treaty on the Functioning of the European Union establishes three categories of EU competences depending on the intervention field (exclusive, shared with the member states, and competence to carry out actions to support, coordinate or supplement the members states' actions). The European Union has exclusive competence in few areas (see Art. 3 TFEU). It is worth mentioning that Art. 4(1) TEU (and Declaration No. 18 in relation to the delimitation of competences attached to the Treaty of Lisbon) underlines that "competences not conferred upon the Union in the Treaties remain with the Member States". Protocol No. 25 on the exercise of shared competence clarifies that "when the Union has taken action in a certain area, the scope of this exercise of competence only covers those elements governed by the Union act in question and therefore does not cover the whole area". An increase or a reduction of EU competences can be decided in accordance with the Treaty's ordinary revision procedure provided for in Art. 48 TEU. The procedure can be initiated by the member states, the European Parliament or the Commission. A Treaty revision would require ratification by the member states in accordance with their respective constitutional requirements.

to be restricted or discontinued where it is no longer justified. One of the characteristics of EU action is therefore to be "inevitable" in terms of reaching a better result and making a real difference.[3] The underlying logic is that for every EU action, one should be able to convincingly answer the question: Why Europe?

Moreover, the content and form of any Union action should be limited to "what is necessary to achieve the objectives of the Treaties" (principle of proportionality) (Art. 5(4) TEU). All EU measures should leave as much scope for national decision as possible. This concept explains, for example, why the Union has no administration at the individual country level so that it must rely on each member state to implement its decisions. The EU's implementing power is consequently residual and not monopolistic. The EU administration is, in fact, a chain of national administrations (Sigma 1998, 13).

EU actions are pursued above all through EU legislation. The latter is at the root of a significant (and growing) part of national legislation and is therefore instrumental in bringing different national laws in line with each other and effecting changes in the member countries' basic economic, social and political structures. For governments, EU law might even represent a welcome externally imposed discipline for overcoming internal resistance to far-reaching domestic reforms (i.e., the "*vincolo esterno*" metaphor conceptualised by the Italians).

3. The EU budget

As observed by the President of the European Commission, the EU budget is one of the tools available to achieve the Union's objectives and, in particular, to foster change (Barroso 2008).

As a consequence of the European Union's unique framework, the EU budget represents a type of "rare bird" in all aspects, from its approval and

[3] For example, the European Parliament has underlined that the main purpose of EU budgetary spending is to create European added value (EAV) by pooling resources, acting as a catalyst and offering economies of scale, positive transboundary and spill-over effects thus contributing to the achievement of agreed common policy targets more effectively or faster and reducing national expenditure. EU spending must always aim at creating greater value than the aggregated individual spending of member states (see European Parliament 2011, para. 15).

financing, through the management of its revenue and expenditure, to holding to account for its implementation.[4]

The EU budget does not, in general, finance goods and services aimed directly at EU citizens.[5] A significant part of its expenditure (approximately one-third) is devoted to agricultural markets and direct payments to farmers. The rest is divided up into more than 70 spending programmes, covering a wide range of sectors and contributing to similar actions financed from national budgets (for example, providing funds for infrastructure and favouring productive investments, training, research and studies).[6] In quantitative terms, the EU funds represent a relatively marginal financial contribution to the far higher-funded national programmes.[7] In some cases (notably, Cohesion, Rural Development and Fisheries), the EU actions are co-financed by national budgets. As a result, the EU and the national budgets are closely interconnected.

The EU budget has evolved over the years from a primarily political instrument of compensation to an instrument for economic development and pan-European objectives. Currently, the budget is a hybrid between a political and an economic instrument. One example is its pivotal role in the development of the internal market by making it acceptable for the member states (Núñez Ferrer 2012, 8). The cohesion policy is another example where the policy's rationale goes well beyond its financial dimension because it focuses on a long term change in investment patterns and on overcoming structural barriers to development; in order words, a

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[4] For a complete review of the EU budget process, see European Commission (2008a). For a critical analysis, see the numerous contributions presented in the context of the EU budget review (European Commission 2008c). My own considerations are developed in Cipriani (2007).

[5] BusinessDictionary.com defines a public good as an "item whose consumption is not decided by the individual consumer but by the society as a whole, and which is financed by taxation. A public good (or service) may be consumed without reducing the amount available for others, and cannot be withheld from those who do not pay for it. Public goods (and services) include economic statistics and other information, law-and-order enforcement, national defence, national parks, etc. No market exists for such goods, and they must be provided to everyone by the government."

[6] For an overview of the different programmes funded by the EU budget, see European Commission (2012c).

[7] For example, although taking approximately 1/3 of the EU budget resources, the cohesion policy is still a relatively small policy when compared to similar spending in member states. Another example is provided by the research domain, the bulk of whose public funding is provided by the national budgets (approximately 95%).

"Trojan Horse" to improve and modernise public administrations, to enhance transparency and to foster good governance (Hübner 2007, 3).

The concept of EU added value mentioned earlier implies the ability to do things that nobody else can (or will) do, with better results. For the EU budget, this added value means that one euro spent at the EU level can offer more than one euro spent at the national level (European Commission 2004, 5,8). The EU budget *raison d'être* is, therefore, to produce a better added value compared to national spending, not to replace it.

Yet, what can the EU budget do that the member states cannot do for themselves? Does the European Union's role in a given policy area necessarily require EU spending? Is an EU budget of over €130 billion needed?

There is no straightforward answer to these questions because there are no "objective" criteria for deciding whether a policy fulfils the conditions for EU financing.[8] For example, if funding for cohesion, agriculture and research can be traced back to the Treaty, the latter does not clarify what actions should be undertaken and how much money should be invested in those policies. This lack of clarity is why the European Court of Auditors has suggested that "[t]he concept of European added value should be articulated in a suitable political declaration or in EU legislation in order to provide guidance to the EU's political authorities to be used when choosing expenditure priorities" (European Court of Auditors 2010a, point 18).

In fact, because of the integration between the European states, "nearly all policies have a European dimension and a national dimension" (European Commission 2002, 20).[9] In practice, the decision to complement EU actions with spending measures is made on "political" grounds. In

[8] It is worth mentioning that, already in 1978, the Commission had tried to define the intervention of the EU budget on the basis of criteria such as "economies of scale", the "need for a global approach with the other policies funded" or the "reduction of the burden of national budgets" (see European Commission 1978, 6–8). However, these criteria turned out to be too vague to be applied. With the Lisbon Treaty, it would still be possible for the EU budget to intervene in all sectors. Indeed, while the Treaty establishes three types of categories and areas of EU competence (see note (i)), it does not provide operational criteria to define the EU area of intervention.

[9] For example, immigration, justice, taxation, the labour market, energy and telecommunications are all sectors in which responsibilities are still largely national but which doubtlessly have effects across frontiers.

given situations, on the basis of different arguments, the member states can decide that the "European" level is preferable to the national level.[10]

Without denying the difficulties and differences surrounding the concept of EU added value,[11] it appears reasonable to identify three main characteristics for EU expenditure: *catalytic* (making something happen that otherwise would not happen or would happen more slowly); *targeted* (concentrated on the best added value and the most effective results on the basis of evaluation and impact assessment); and *realistic* (objectives should be achievable).

The use of the EU budget to make something happen that otherwise would not happen is based on three elements.

There is first "money", earmarked for specific objectives and meant to increase the overall funds available nationally for a given policy. This can be relatively significant in some cases.[12]

Second, these funds are made available for spending according to specified rules that are instrumental to achieving the EU added value through a number of specific requirements concerning for example public procurement, competition, environment, financial management, audit and control. More recent tendencies aim to introduce other forms of conditionality, such as funding disbursements that are linked to the

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[10] Gros (2008, 2) argues that the current composition of spending is the result of historical accidents and that the main legacy of the 'founding' compromises on Agriculture and Structural Funds is that the budget is basically seen as a vehicle for the redistribution of money between member states, rather than as a tool for fostering common goals.

[11] For example, Tarschys (2005) observes that the notion of European added value can often appear to be capable of justifying almost anything as a worthy target for European funding. To make the concept operational in policy-making practice, one should design procedures and methods for assessing how the specific programmes and projects rank. This assessment would speak in favour of a two-pronged strategy. First, there is a need to take a hard look at the economic elements involved. Returns could differ a great deal between various policy areas. The second part of the appraisal would aim at estimating the strength of the various proposals with regard to their contribution to European cohesion, in the widest sense of that word. As a result, the concept of European added value should be reserved for (i) investments where the limited scope of the member states and the existence of economic externalities reduce their propensity to take appropriate action and for (ii) programmes and projects likely to make substantial contributions to promoting the sense of community and effective interaction within the European Union.

[12] For example, for the 2007–13 period, some €348 billion are set aside for Cohesion (all Funds), €96 billion for Rural Development, and €50 billion for Research programmes.

achievement of results or the countries' compliance with the Stability and Growth Pact (European Commission 2011b, articles 11 and 21).

Third, the budget is implemented by the Commission on its own responsibility and with regard for the principles of sound financial management.[13] However, to reflect the EU model of governance *without government*, the EU spending programmes can be implemented through several management modes, which are very different in nature and which imply a variable intensity for the EU intervention.[14] This intensity concerns, in particular, the degree of decision by the Commission in granting the funds and its direct control at the level of the funds' beneficiaries.

For most of the expenditures (approximately 80%), there is "co-administration" with the member states based on a partnership (or "shared management"). This partnership means that in reality the financial implementation (Commission) is dissociated from the main decision-taking aspect (member states). In particular, the member states must satisfy themselves that the actions financed from the EU budget are actually carried out and implemented correctly, while the Commission has a supervisory role and is not expected to micro-manage the implementation of the spending programmes. This segregation of functions shows that the EU might well have a "shared competence" in terms of policy, without necessarily having a corresponding full competence in terms of implementation.

4. Beware of myths

When discussing EU expenditure, very often three "myths" come to light. The first myth is that significant spending is essential to achieve some public objectives. The second is that spending is a sufficient

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[13] See Art. 17(1) TEU and 317 TFEU. In particular, Art. 17(1) TEU provides that the Commission shall execute the budget and "manage programmes". This addition from the Lisbon Treaty appears to indicate an enhancement of the Commission's role. One should also note that the "cooperation" with the member states in the budget implementation is related to specific tasks only and, therefore, it should not undermine the Commission's full responsibility (Art. 317 TFEU).

[14] Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities as amended last by Council Regulation (EC) No. 1525/2007 of 17 December 2007 provides for four different management modes: centralised management by the Commission (used mainly for administrative expenditure and internal policies), shared management with member states (namely agriculture and rural development, cohesion), decentralised management (external actions/pre-accession aid) with third countries and joint management (cooperation with international organisations).

condition for durable results. The third is that when EU payments are found to be irregular, recovery procedures can fully repair the damage to the EU budget.

4.1 No spending, no results

To what extent a given policy requires EU spending (or non-budgetary measures only) depends on an assessment of EU spending's added value compared to national spending. As has been observed, the strongest generators of economic expansion are most likely found in the regulatory sphere. The important engines for this development are the internal market, the monetary union and the growing mobility of skills and knowledge. In stimulating lasting growth, the EU's rules matter more than the EU's expenditures (Núñez Ferrer 2012, 43).

For example, crossing borders between some national rail systems remains complicated because many trans-European rail services are interrupted by required stops at border locations. Making progress on alleviating these constraints has the potential to facilitate improvements in trans-European transport that are of comparable scale to the performance gains that result from significant investments in infrastructure. As shown below, this progress would entail more co-operation between the member states' authorities than a financial investment in infrastructure (Box 4-1).

Box 4-1

25 minutes saved and 25 minutes delay on Priority Project 1

25 minutes	
The journey time saved by constructing a new high speed line between Nürnberg and Ingolstadt in Germany at an overall cost of 2,336 million euro (with EU co-financing of 134 million euro from TEN-T).	The additional time needed for a technical control for trains entering Italy at the Brennersee station at the Austrian-Italian border, because the Italian railway undertaking does not accept the technical control already carried out at the point of departure in München by its German counterpart.

(European Court of Auditors 2010c)

4.2 Just a question of money

The success of the EU budget cannot be measured by a high rate of expenditure implementation. This rate could represent a good indicator of “political efficiency” for the various levels of government concerned, showing how far their (often short-term) expectations have been fulfilled. However, a more adequate approach would require an examination of “policy efficiency” and, in particular, of the achievement of the declared objectives.

Things do not happen automatically just because there are funds and processes in place. The European added value of a policy is not only dependent on its stated objectives but also on its management system, funding tools and implementation. Policies that, at face value, appear to have a high added value can fail to deliver it in practice (Núñez Ferrer 2012, 10). Box 4-2 shows a key EU objective that might not be achieved due to an inadequate framework.

Box 4-2

Measures taken to date to reduce fishing overcapacity by adapting the fishing fleet to fishing resources have been unsuccessful. This is due in particular to important weaknesses in the framework, such as the existing definitions of fishing capacity did not adequately reflect the ability of vessels to catch fish; fleet capacity ceilings do not impose real restrictions on fishing fleet capacity; despite the key objective of aligning fishing capacity to fishing opportunities, fishing overcapacity has not been defined or quantified (European Court of Auditors 2011d).

4.3 Recovery procedures: a full damage waiver

EU rules allow the Commission to apply financial corrections in the case of irregularities in EU spending. In the Commission’s view, these procedures permit the restoration of a situation where 100% of the EU expenditure complies with the applicable rules.[15] Yet, the effectiveness of ex-post clearance in both “cleaning” national expenditure and in representing

[15] Financial corrections are the main tool for the correction of errors and irregularities in the context of shared management. The final objective is to ensure that all expenditure declared by the member state (i.e., on the basis of which the EU contribution is paid) is regular (see the annual accounts of the European Union 2010, 61).

a deterrent against irregularities does not meet with unanimous agreement (Box 4-3).[16]

Three main factors weaken the actual impact of the financial correction mechanisms. First, financial corrections do not constitute genuine financial sanctions. Corrections are limited to a recovery of EU irregular expenditure from member states and the final recipient may feel no effect whatsoever. The same expenditure can still continue to be financed through national budgets and represent, in the end, a further contribution by taxpayers. Additionally, the practical possibility of imposing financial corrections is very much dependent on the necessarily reduced number of the Commission’s controls. Second, as these corrections generally occur at the end of a programme, it is no longer possible to correct any fundamental system weaknesses and to re-direct the objectives to be achieved by the co-financed policies. Third, due to the “input” nature of EU expenditure, based on items of eligible spending, the extent to which the expected outputs, outcomes and impacts are achieved by the EU programmes is not the basis on which a financial correction is triggered.

The regular (and increasing) occurrence of financial corrections has made them an inevitable routine procedure, thus demonstrating the limited deterrence of this instrument and its reduced ability to effect structural repairs. The corrections can counteract the financial consequences of an “error”, but not necessarily solve the problem at source.[17]

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[16] Parliament has recently confirmed serious doubts on the effectiveness of financial corrections mechanisms (see European Parliament resolution of 10 May 2012 with observations forming an integral part of its Decisions on discharge in respect of the implementation of the European Union general budget for the financial year 2010, Section III – Commission and executive agencies, paras. 120–122).

[17] This situation, for example, occurs in the case for the non respect of procurement procedures, a key precondition for the implementation of the internal market but also a major source of infringements in the cohesion area. If public administrations and beneficiaries in the member states are unable to improve the implementation of the procurement rules, the cohesion policy would continue to be systematically affected.

Box 4-3

The likelihood of recovery of an undue payment made under the Common Agricultural Policy is affected by delays in the member states initiation of recovery procedures, shortcomings in their recovery actions, and their limited enforcement possibilities. During the period 2006–2008 around 90% of the amounts reported in the EU annual accounts as “recoveries of undue payments” were those made by the Commission through deductions from the member states and not actual recoveries of the unduly paid aid from beneficiaries. This undoubtedly protects the financial interests of the EU but without the full deterrent effect of a recovery made from an unduly paid beneficiary (European Court of Auditors 2011c).

For the cohesion policy, although the financial correction process is lengthy (30 months on average), the Commission took the appropriate actions and measures were properly applied in about two-thirds of the cases examined. However, there is a limited assurance that financial corrections mechanisms translate into lasting systems’ improvements as to avoid errors uncovered to occur again. Only in 28% of the programmes the assurance was found to be high. This means that the Commission will have to take further corrective actions, entailing increasing resource and administrative costs. For half of the programmes examined member states were able to replace ineligible expenditure disallowed by new projects, thus off-setting the financial impact of the corrections. This is not without risks, since some of the deficiencies identified are systemic (e.g. incorrect application of procurement rules) and are therefore likely to apply also to new projects (European Court of Auditors 2012a).

Financial corrections are, above all, an indicator of whether a policy has been implemented according to the established rules. If EU money is invested to achieve some sensible results, it can then be said that the objectives have not been met. As a result, the higher the number of financial corrections, the higher the evidence of failure and missed opportunities.

5. Light and shadow

The EU budget’s reputation is sometimes tainted by cases of waste and fraud, which can represent a temptation to question the budget’s very existence. Yet, there is no evidence that, overall, the EU budget is performing worse than national expenditures. Actually, for the policies where the actions are co-financed (for example, cohesion), if infringements are established for the EU's expenditures, then the national spending is equally affected.

Box 4-4

The waste water and sewage sludge from urban agglomerations can affect the quality of Europe's lakes, rivers, coastal waters, soils and ground waters. As a result the EU has adopted a series of directives and has also co-financed the building of urban waste water treatment plants through the Cohesion Fund and the ERDF.

The EU funded infrastructures have contributed to a significant increase in the coverage rate of the urban population served. This is particularly marked in the four member states who received more than 50% of EU expenditure for implementing urban waste water treatment for the 2000–06 programme period. Of the treatment plants visited, 18 out of 26 were deemed to be operating satisfactorily with regard to capacity, having a utilization rate above 50%. In these cases, there was an adequate connection of households and industrial users to the treatment plant. A large majority of the treatment plants produced effluent meeting EU requirements.

However, six of the seven cases of underutilization resulted from problems in completing the network, with many households and industrial users remaining unconnected to the treatment plants despite the plants being five years or more in operation. As a result, not all of the waste water produced in the area was treated. Where the quality of the effluent did not meet EU requirements (nine cases) one of the problems noted was that some treatment plants were being operated by local authorities lacking adequate resources and expertise and with no mechanisms in place to be informed of best practice (European Court of Auditors 2009b).

As for the national budgets, the main issue is how to make the best use of the available funds. The following examples show that useful achievements are reached through EU spending, although this does not necessarily mean that these funds were used in the most effective way and that, compared to national spending, EU funding has resulted in a better added value (Box 4-4, Box 4-5).

Box 4-5

Investments in water supply address different needs, such as: increasing availability of water in response to increased demand; expanding geographical coverage; improving the quality of the water distributed; improving the efficiency of water supply systems and the quality of the service.

Structural measures spending has contributed to improving the supply of water for domestic use, either by increasing the available volume of water, extending the public network to areas which were previously not connected or improving water quality, network efficiency or service continuity.

However, better results could have been achieved at a lower cost. In particular, the focus is on building infrastructures to exploit new water sources and attention is rarely paid to other solutions, such as reducing water losses and using other nearby resources. This could have made it possible to build smaller capacity infrastructure. Also, some projects were not operational because of missing complementary infrastructure. When measured by the two main efficiency parameters (capacity utilisation rate and non-invoiced water), several projects were found to operate with limited efficiency (European Court of Auditors 2010e).

The question is, therefore, how to make the EU budget more effective. In this respect, there are some lessons learned, pointing to three issues in particular.

5.1 Institutional capacity

As noted by the European Court of Auditors (2011a, para. 22), adequate institutional capacity is necessary to ensure that the EU funds are correctly spent to support durable economic development. The effectiveness of national management and control systems should therefore be ensured from the start. Regulation alone is, however, not enough. In this respect, the day-to-day actions of the managers in the member states are key because the assurance at the EU level heavily relies on their systems.[18] Additionally, these bodies very often also manage

[18] For example, the Commission's analysis of errors in cohesion policy for the years 2006–09 points to weaknesses in the administrative capacity and the national management and control systems as the main factors explaining those errors (see European Commission, 2011c).

national funds. Here, the interest in getting things right is therefore common because there is a real win-win opportunity for both the EU and the member states and, ultimately, for the taxpayer.

It is unrealistic to believe that in the current governance framework, the Commission can alone ensure an adequate budget implementation. As long as the member states do not put in place more effective management structures and increase the possibility that the Commission can rely upon these structures, it will not be possible to reduce the frequent checks, remedial action plans, and financial corrections, which will not compensate for the missed opportunities.

Box 4-6

Limited value was added by the Commission and the member states' Managing Authorities' appraisal (European Court of Auditors 2010e).

The Commission does not make full use of the instrument's potential due to insufficient expertise in the priority areas related to the General Budget Support programmes' objectives and weaknesses in its management of the dialogue process (European Court of Auditors 2010g).

Education expertise is not optimally assigned and developed in Delegations. This deprives the Commission of a vital monitoring mechanism as well as of the best opportunities for effective influence on implementation (European Court of Auditors 2010h).

The Commission assessments and decisions for Major Projects and Cohesion Fund projects did not lead to action to remedy project weaknesses observed during the audit. The results and impact of the projects were not monitored and empty ports and unused seaport infrastructures were found. Monitoring Committees and the Managing Authorities focused on the rate of spending. Some regions retrospectively financed replacement projects to absorb the available allocated resources. However, two of the three replacement projects included in the sample did not attain their objectives (European Court of Auditors 2012b).

The European Court of Auditors has, for example, observed that for a significant number of the transactions affected by error, sufficient information was available for the member state authorities to have detected and corrected at least some of the errors prior to certifying the expenditure to the Commission (European Court of Auditors 2009a, para. 4.23; 2010d, para. 4.25). This fact shows the difficulty of applying the principle of partnership and common interest that underlies the "shared management" arrangements.

There is no "geography" of the good and bad administration; improvements are needed in all member states. Improvements are also needed within the Commission. As a consequence of the emphasis put on compliance and funds absorption, the institutional capacity has focused on processes rather than on the achievement of sensible objectives. The Commission should therefore improve its appraisal procedures, supervision, and the monitoring of achievements to make the best use of the funds. There is also a need to put the right skills in the right places. Some examples are provided below (Box 4-6).

5.2 Needs and objectives

The EU budget is not meant to replace the national budgets; it is meant to perform better than them. The "needs" are basically quantified by 1% of the member states' GDP, which reflects what the member states' governments consider to be an acceptable contribution, rather than the outcome of an EU added value driven analysis. Whether the 1% is too little or too much depends on what it is intended to achieve.

As observed by the European Court of Auditors, the EU objectives are too wide-ranging, unclear or somewhat conflicting; policy instruments and resources are insufficient to meet the set objectives; causal links between the funded activities and the desired outcomes are unclear; and there are deficiencies in the monitoring and evaluation arrangements (European Court of Auditors 2010a, para. 14). Some examples are indicated below (Box 4-7).

The EU's expenditure is 'input' oriented, based on items of eligible spending, as opposed to disbursements based on a set of concrete objectives and linked to the achievement of results. Additionally, "fair return" considerations invite member states to seek "acceptable" net balances rather than specific policy objectives, leading to an inevitable trade-off between the desired outcomes and the spending levels. The absorption of funds potentially becomes an objective in itself, encouraging the dispersion of resources in a multitude of small initiatives whose main characteristic is that they are easily implemented rather than that they have intrinsic added value. This situation introduces a tension with the aim of making efficient, effective and economic use of funding by pursuing specific policy objectives. In this way, the EU budget is adding "something" to a number of existing policies already financed by national budgets, with a result that the EU *de facto* makes no choices regarding purpose. Where "political efficiency" can be satisfied, "policy efficiency" is diminished.

Box 4-7

The usefulness of the programming work was reduced by insufficient clarity and prioritisation. Clarity was further reduced as the same priorities were reformulated and restructured from one document to the next. The lengthy programming and design process did not suit the fast changing and conflict-affected environment of the Southern Caucasus, endangering the relevance of the assistance. Programming and design of assistance were not sufficiently guided by a structured dialogue with the beneficiary countries (European Court of Auditors 2010i).

There was a lack of clarity as to what was to be achieved and how the success of the projects' activities could be assessed. This had negative consequences for the implementation of projects (European Court of Auditors 2011b).

Concerning the EU financial assistance for the decommissioning of eight non-upgradeable nuclear reactors, the Court found that 10 years after there is still no comprehensive needs-assessment, prioritization and setting of specific objectives (European Court of Auditors 2011e).

None of the regions visited had a long term port development plan for seaports' transport infrastructures. Needs assessments to support the selection of seaport infrastructure projects had not been carried out (European Court of Auditors 2012b).

In some cases, as shown below, the objectives of the programmes were eventually not achieved, also because they were found to be contradictory, such as in the sugar sector (Box 4-8).

Box 4-8

There is no rationale in initially making available additional quotas and later striving to reduce them. Moreover, in the case of additional isoglucose quota, undertakings were paid even when they renounced quotas which had just been granted for free. The costs involved amounting to around 97 million euro cannot be justified. If additional costs are taken into account, the overall cost to the EU budget after the reform for the period 2007-2013 is likely to be 1.2 billion euro higher than before the reform. EU dependence on imports has been increased and the reduction of the prices of sugar is unlikely to benefit to final consumers (European Court of Auditors 2010b).

Owing in particular to the low subsidy rate, the school milk scheme continues to be relatively unattractive and, as a result, generally has no more than a deadweight effect. In most cases, the products subsidised either would have been included in canteen meals anyway or would probably have been bought by the beneficiaries even without the subsidy. While the decision by certain member states to organise milk distribution free of charge has resulted in a more satisfactory impact, this form of distribution is at present covered by costly national schemes to which the Community budget makes only a marginal contribution. Both the School Milk and School Fruit Schemes allow only of a limited impact, especially as neither scheme has a mechanism for targeting priority needs (European Court of Auditors 2010f).

5.3 Results

One of the consequences of the often grand EU objectives, with no clear or specific expected achievements, is that very little is known about the achievements, especially their outcomes and impacts (Box 4-9). This opacity makes it extremely difficult to identify (and report on) the added-value that citizens get in return for their money. As the Court has observed, “[i]nsufficient information on results and outcomes also undermines accountability and transparency as well as decisions on the allocation of resources” (European Court of Auditors 2010a, para. 16).

The lack of selective and focused objectives is directly reflected in the difficulty in setting measurable indicators for the policies financed. This difficulty, in turn, undermines the role of the ex-post evaluation and the potential ‘pedagogical’ effects for future policies. For example, the ex-post Evaluation of Cohesion Policy Programmes 2000-06 shows that, although quantitative targets were often set and an indicator system established, in many cases they were not linked in a meaningful way to any ultimate policy objectives and determined in relation to the funding made available and what it could plausibly achieve. Accordingly, targets were either attained far too easily or were unattainable given the funds deployed (European Commission 2010b, 11).

Box 4-9

The objectives of the programmes tend to be formulated in too general terms which hinders the design of the various components of the programmes and makes it more difficult to hold the Commission accountable for their effectiveness. The Commission should be able to demonstrate that the amount of funds allocated is appropriate in view of the objectives as well as the framework for dealing with risks and benefits. It is often difficult to assess whether conditions have been met or not, particularly due to a lack of clarity over what constitutes satisfactory progress as well as weaknesses in the statistical systems used for assessing results (European Court of Auditors 2010g).

Due to the ‘input’ based design of the spending programmes, the focus of a significant number of the reporting documents provided by the national bodies and by the Commission rests on financial and physical implementation only. The Treaty of Lisbon has recently introduced an obligation for the Commission to establish “an evaluation report on the Union’s finances based on the results achieved”, in particular in relation to the indications given by the budgetary authorities (Art. 318 TFEU). The idea was that this evaluation would represent an assessment that goes further than the traditional record of budgetary implementation and rules compliance “so that the relation between the key performance indicators, their legal/political basis, the amount of expenditure and the results achieved is clear and transparent”.[19] Yet, the first report falls short of this

[19] See European Parliament resolution of 10 May 2011 with observations forming an integral part of the Decisions on discharge in respect of the implementation of the general budget of the European Union for the financial year 2009, Section III, para. 200.

expectation.[20] This shortfall is primarily due to a lack of sufficient and reliable information on the results and impacts of the specific programmes (European Commission 2012).

This means that if the EU rules oblige spending to comply with “sound financial management”,[21] there is not yet a framework for ‘performance’ accountability. It is therefore not possible to provide a conclusive answer concerning the use of funds and their impact, thus making the Commission’s ultimate responsibility all the more fragile.

6. If not now, when?

The financial and economic crisis has put the spotlight on the member states’ severe public deficits, requiring the adoption of rigorous measures to significantly curb public spending. Tougher budgetary discipline and rigour will also be an issue for the next EU multi-annual financial framework, currently under discussion. In particular, future spending is bound to meet the expectations raised by the EU budget review for a more targeted and results-driven expenditure. Faced with these significant issues, the EU’s credibility in providing clear and visible benefits for the EU and its citizens that could not be achieved by spending only at the

[20] For example, the European Parliament considered that the coverage and the content of this first report is not in line with the Treaty requirements (see resolution of 10 May 2012 with observations forming an integral part of its Decisions on discharge in respect of the implementation of the European Union general budget for the financial year 2010, para. 99). The European Court of Auditors observed that the report is vague, short on substance and, consequently, adds limited value. However, it presents the Parliament, the Council and Commission with an opportunity to discuss and agree how the evaluation report can be made useful to the discharge authority (see European Court of Auditors 2012c).

[21] See Articles 310 (5) and 317 TFEU. The concept of ‘sound financial management’ is built around three principles. The principle of “economy” requires that the resources used shall be made available in due time, in appropriate quantities, of appropriate quality and at the best price. “Efficiency” is characteristically a managerial value consisting, in essence, of maintaining a good ratio between the resources employed and the results attained. A related value is “effectiveness”, which basically consists of ensuring that the performance of public administration is successful in achieving the goals and solving the public problems set for it by law and government (see Sigma 1999, 13). These principles (known as the “three E’s”) are codified in the EU Financial Regulation under the concept of sound financial management (see Art. 27 of the Financial Regulation, Council Regulation (EC, Euratom) No. 1605/2002, op. cit.).

national, regional or local level, is ultimately at stake.[22] The current difficulties and the longstanding weaknesses require that a number of issues be addressed and that the necessary changes be put into place without delay.

Indeed, identifying the areas where the EU dimension can offer more than national spending is not, in itself, sufficient. Spending on the right policies is only worthwhile if it secures the desired results (European Commission 2010d, 5–6). It is inevitable that hard choices are needed. A catalytical effect from EU expenditure would require a sufficient critical mass to produce visible results, which is also a factor in any potential increase of the EU citizens’ confidence. Given the present financial constraints and compared to the present framework, this requirement should mean more money for a “few” spending programmes, rather than less money for a plurality of programmes. Less funds from the EU budget does not necessarily mean less funds for a given policy, but rather the choice to have funding supplied by a different level of government.[23] This concept would also mean fewer and more precise objectives than currently exist, to be put in relation to the available funding. The EU budget should provide the “cake” rather than the “icing”.

Almost any expenditure creates somewhere some type of growth because it boosts consumption and therefore economic activity. It is, however, important to distinguish between short-term and lasting growth.

[22] The conclusions of the Westendorp report are illuminating in this respect, stating already in 1995 that “the Union's principal internal challenge is to reconcile itself with its citizens. Therefore, enhancing its legitimacy in their eyes has to be the prime task of the coming reform. The achievement of this aim will depend on a clear definition of the Union's objectives, i.e., the joint goals sought, the credibility of common policies and the cooperation machinery designed to attain those objectives (or, to put it another way, the suitability of the instruments for the purpose of achieving the objectives set) and the preservation of the Union's internal cohesion” (Report by the Reflection Group: A Strategy for Europe, Brussels, 5 December 1995, part two, para. 10). The Reflection Group was established by the Corfu European Council of 24 and 25 June 1994 to examine the challenges to be addressed to bring the European Union up to date and to prepare it for the next enlargement.

[23] For example, as noted by Parliament, “a large proportion of the Union’s objectives have been taken into account by the Member States in their national budgets” (see European Parliament 2009, para 18). Parliament also noted that because the EU budget is very limited compared to the national budgets, there is a need to create synergies between the EU budget and the national budgets to implement common EU strategies. It stressed that coherence gives European policies greater impact, achieving true European added value while supporting long-term policy objectives (see European Parliament 2010, para. 15).

Consistent with the definition of EU added value and taking account of the limited resources available, one would expect EU expenditure to aim at long-term “sustainable” results. One should note in this respect that one of the three priorities of the Europe 2020 growth strategy is precisely to achieve sustainable growth (European Commission 2010a, 10; 14–17). However, the fact that less than half of the EU annual budget is currently directed at financing initiatives that support the Europe 2020 strategy shows the long road still ahead of us (European Commission 2011a, 10).

The Commission’s claim of a results-driven EU expenditure (European Commission 2010c, point 4; 2011b, points 1 and 5.2.2.) should materialise with a shift from the ‘eligible’ inputs for spending towards outputs and outcomes. Yet, for example, for the future cohesion scheme, the Commission has essentially proposed retaining the old input-based framework, though with a few performance-based exceptions. The same applies to the future agricultural policy scheme, which remains fundamentally input-based and therefore oriented more towards compliance than performance.

For EU expenditures to be measured in terms of real impact, rather than in terms of the inputs involved, there is a need to set meaningful indicators that are linked to realistic policy objectives and to evaluate at key intermediate points whether the defined objectives and intended impacts are likely to be achieved.

Processes and rules are not enough to deliver the expected results. There is a need for adequate governance. Because it is about placing public resources in common to achieve EU objectives, it is legitimate to expect that the management of the EU funds takes place through an effective EU-driven process, resulting in a full accountability at the EU level. This management should be the role of the Commission that is charged by the Treaty to promote in various ways the general interest of the Union: giving policy direction and coherence, initiating proposals for EU law, and acting as the guarantor of EU law and of a level playing field in Europe (European Commission 2008b, 2).[24] One of these roles is to “execute the budget and manage programmes” (Art. 17(1) TEU). As a result of an enhanced concept of EU added-value, the full responsibility for the Budget implementation should lay in the Commission’s hands.

One precondition is the alignment of the Commission’s tasks, powers and responsibilities. There should no longer be a segregation of functions between the EU and the national level, but a true “sharing” of roles under one single responsibility: national bodies handling EU funds should act on

[24] As pointed out by Ponzano (2009, 218), the general interest of the Union does not necessarily correspond to the addition of national interests, nor does it equate to the lowest common denominator of the different national stances.

behalf of the Commission. This responsibility would require some form of accreditation and "contract" based upon pre-specified output and performance targets and budgetary allocations consistent with the EU objectives selected.[25] The Commission should be prepared to directly endorse that, what is intended to be achieved, responds to the criteria of EU added-value. It is only if there is "one" implementation line (and not as many as there are national bodies), that the Commission's ultimate responsibility can be sustained.

The administrative structures at the national level should be assessed (at an operational level) by the Commission as being adequate to deliver the expected outcomes. The aim is to ascertain the structures' capacity to "absorb" funds effectively, by putting forward, managing and maintaining meaningful and sustainable projects consistent with the pre-agreed policy objectives. A "selective" process for the identification of national bodies for EU spending (a type of "Champions league") would introduce an element of "reward" and sound external pressure, which in the end should also benefit public spending at the national level.[26]

In a future perspective, where one might look more to results than to the inputs of spending, the Commission will have to demonstrate that it has done everything possible to achieve the intended results, 'making the difference' when compared to purely national actions and that it has learned from past experience what does and does not work. Indeed, the primary purpose of accountability is not to cast blame and to punish. Accountability should rather help to identify lessons for the future that make future approaches more relevant and effective.

The demonstration and acknowledgment that the EU's actions add value to national policies and address people's concerns more effectively than the "national" or "local" levels, potentially provides the grounds for a positive "Trojan Horse" impact on public spending in general. This effect occurs through identifying and promoting best practices in planning and

[25] In its conclusions on the EU budget review, the Commission proposes the idea of a 'Development and Investment Partnership Contract' between the Commission and the member states, setting out the objectives to be achieved, how the progress towards the achievement of these objectives will be quantified and measured and the allocation of national and EU resources among the priority areas and programmes. Also, the Commission identifies the institutional capacity at a national, regional and local level as the key for successful development, implementation and monitoring of the policies. The allocation of EU financial resources should therefore take account of the capacity to effectively utilise these resources (see European Commission 2010d, p. 14).

[26] This process should be effective, in particular, because of the national co-financing and/or because these bodies often manage other national funds.

managing by objectives, with managers held to account for the agreed expectations and the means used.

7. Conclusions

EU's actions represent a kind of 'Trojan Horse' to achieve specific objectives with better results than the member states could do by themselves. This is the basis of the EU added value concept which can be articulated around three main characteristics: *catalytic* (making something happen that would otherwise not happen or would happen more slowly); *targeted* (concentrating on the best added-value and the most effective results on the basis of evaluation and impact assessment); and *realistic* (objectives should be achievable).

To achieve EU objectives, EU spending is not necessarily required. For example, the strongest generators of economic expansion are most likely found in the regulatory sphere. In addition, spending is not by itself a sufficient condition for durable results. Finally, ineffective spending constitutes a missed opportunity that cannot be repaired *ex-post*.

Making the best use of the available funds requires paying due attention to three issues in particular: adequate institutional capacity to realise sensible projects, the identification of the needs and the establishment of realistic objectives consistent with the available funds, and the demonstration of the results achieved through meaningful indicators. This is equally important for both the EU and the national budgets also because very often the same bodies manage funds from both sources.

Consistent with the Europe 2020 growth strategy, the aim of EU spending should be to achieve sustainable growth. A distinction must be made between short-term and lasting growth. The requirement for a catalytic effect for EU expenditure would need to secure a sufficient critical mass to produce visible results. This concept should mean more money for a "few" spending programmes rather than less money for the approximately 70 current spending programmes. The EU budget should provide the "cake" rather than the "icing".

The natural outcome of a virtuous process where objectives are clear, agreed and realistic is an unequivocal ownership as a precondition for both achieving policy objectives and ensuring 'value for money'. Because the EU budget is about placing public resources in common to achieve common EU objectives, it is legitimate to expect the Commission, as the promoter of the general interest of the Union, to be fully accountable for the money spent. For this to happen, a precondition is the alignment of the

Commission's tasks, powers and responsibilities. An adequate accountability process for EU funds is not only instrumental in good management; it is also a critical condition of legitimacy for public authorities and therefore a factor in the potential increase of the EU citizens' confidence.

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