Better and different spending through a new multilevel governance approach for the EU budget

The report was written by
by the European Policy Centre (authors: Elisa Molino and Fabian Zuleeg).

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Executive summary

This present note expands the analysis of the two topics identified in our first note (Zuleeg, F., Molino, E., 2001a):

- **Better spending**, raising the question of how to design the EU budget framework to deliver more efficient and effective outcomes;
- **New delivery mechanisms**, such as loan-based financial instruments where there is a need for clarification of their regional dimension, the potential opportunities for territorial entities and the relation to other forms of funding (i.e. EU grants).

As we underlined, these two issues are likely to be central issues in the debate on the next MFF. Moreover, our previous note suggests that on these items the CoR has the most potential to influence the positions of other EU institutions.

The paper discusses most recent EU developments relevant to these issues and takes stock of the conclusions reached by the workshop ‘How to add value with future EU spending?’, which was conducted as part of this framework contract (http://www.epc.eu/prog_forum.php?forum_id=21&prog_id=2). To help the CoR in determining its position in the coming discussions, this note conducts an analysis of the Draft Opinion (*Draft Opinion of the Committee of the Regions on The EU Budget Review*, CdR 318/2010), based on the previous notes delivered under this framework contract and the workshop findings. As discussed in our first note (Zuleeg, F., Molino, E., 2001a), the CoR’s role in this debate is enhanced by a mixture of realism, recognising where CoR can make an impact, and innovation, highlighting new areas and solutions for the negotiations.

In relation to better spending, this note emphasises the need for concrete proposals. First-and-foremost, there is a need to set clear policy priorities for the EU budget to pursue. There is also a need for a more outcome focused EU budget. Following an analysis of the Draft Opinion, this note suggests concrete solutions the CoR could take forward, in order to enhance the pursuit of better spending in the next MFF, building on the proposals contained in the draft opinion. More efficient EU spending, we suggest, would require a simplification of funding, an operationalisation of ‘Territorial Pacts’ and the insurance of national matching funds. Moreover, the management and evaluation of programmes should include performance related measures.

As regards new delivery mechanisms, this note argues that there is a need for clarification both concerning the purpose of these instruments and their potential regional dimension. CoR will need to formulate a set of clear and coherent messages on the issue of new financial instruments. The focus should be on two main questions: complementarity with EU grants and capacity building in regions and local entities. Within this context, we suggest the following points to be stressed in CoR key messages: need to accompany new financial instruments with capacity building at regional level; need to define objectives of financial instruments in the first place; check the added value of grants against EU political priorities.

1. Introduction

This note has been produced by the European Policy Centre (EPC) under its Framework Contract with the Committee of the Regions (CoR), under which CoR is receiving expert support on issues related to the future budgetary resources of the Union, viewed with a territorial perspective. It aims to analyse possible policy options for the next Multi-Annual Financial Framework (MFF), highlighting the importance of multilevel governance for the future EU budget. The analytical support provided is composed by a series of studies and analysis as well as a workshop on better spending and multilevel governance.

The present note takes a closer look at two issues identified in the first note (Zuleeg, F., Molino, E., 2001a), which suggested that the CoR should concentrate on 'better spending' and 'new delivery mechanisms' in its input into the budget negotiations. The following points were explored in this note:

• **Better Spending** – where the note sees a particular role for the CoR in helping to design the MFF in such a way that future funding delivers effectively and efficiently, especially since much of the management of funds has a regional component. Areas for consideration include defining the nature of EU added value, how the burden of bureaucracy can be limited in future, how absorption capacity can be increased, whether an exclusive focus on Europe 2020 is desirable, how a greater outcome focus can be achieved, the future of match funding, whether funds should increasingly be distributed on the basis of competition and whether more can be done to reflect the changed environment, for example in terms of funding education, health or public sector reform policies.

• **New delivery mechanisms** – such as EIB interventions, PPPs or EU project bonds, which have increased in importance in recent years but where more could be done to clarify the role they can and should play in the next MFF. Areas for consideration include how the linkage between traditional EU funding and new delivery mechanisms, as well as the linkage between the new delivery mechanisms themselves, can be improved, more clarity and transparency of how and when to use these mechanisms, how access can be facilitated for all regions, what scope there is for the involvement of regional authorities in the design and implementation of these new mechanisms and clarity on what objectives the new delivery mechanisms aim to deliver.

Since delivering the first note, discussions have progressed at the institutional level, so it is possible at this stage to table concrete proposals, building on the preliminary analyses. On better spending, this note benefits from the new perspectives, which have been discussed at the workshop. Moreover, new delivery mechanisms also clearly have a better spending dimension, so this note examines the consultation paper on Europe 2020 project bonds (European Commission, Stakeholder consultation paper, Commission Staff Working Paper on the Europe 2020 Project Bond Initiative, 2011) in which the European Commission puts forward the view that more effective spending is the underpinning objective of Europe project bonds. This claim calls for a more comprehensive preliminary analysis of the purpose of these new financial instruments.

Against this background, the aim of this note is threefold:

- To further advance the discussion on better spending, in particular its operationalisation;
- To analyse the current policy direction of the European Commission with regard to new financial instruments;
- To evaluate the potential impact of these considerations on the forthcoming MFF.

The note takes into account the Draft Opinion of the CoR on the EU Budget Review (*Draft Opinion of the Committee of the Regions on The EU Budget Review*, CdR 318/2010), suggesting ways of taking the debate forward. The comprehensive position detailed in the draft CoR opinion can be complemented by the concrete proposals for better spending and for developing the new financial instruments explored in this note.

The key points developed in the present note might not necessarily be integrated in the Draft Opinion. However, by further elaborating on the messages put forward by the CoR, we aim at offering arguments and proposals which will be helpful in the context of the ongoing debate.

2. Better spending

Better spending of EU money has been high on the European Union agenda since talks started about the next Multiannual Financial Framework. The EU Budget Review (COM(2010)700final) addressed the need for better spending both in relation to priorities' setting and programmes' management: 'Well targeted spending is indispensable, but not enough. Spending also needs to be delivered in a way which is designed to bring results. If the public's investment in the EU budget is to pay off, the next generation of financial programmes needs to be reworked to put effectiveness at the top of the agenda.'
Better spending appears to be a horizontal underlying principle to the reform of the EU budget, as well as a mean to get the most added value out of EU money.

2.1 State of play

As we underlined in our first note (Zuleeg, F., Molino, E., 2001a), better spending encompasses different components:

- EU added value, where the issues of definition, determination of EU public goods (and how the MFF could be designed to contribute to their creation) were outlined;
- Bureaucracy, and in particular the reforms needed to limit excessive bureaucracy;
- Absorption capacity, which entails the question on what can the EU budget do to increase such capacity
- Outcome focus, and the challenge of how to achieve this in practice;
- Focus on Europe 2020, its pertinence and the practical consequences of alignment;
- Match funding, and how to ensure that current public finance difficulties do not have too heavy repercussions on territorial entities;
- Competition & efficiency/effectiveness vs. need, and how to balance out these elements in grant financing;
- Reflecting the changed environment, on the need for a re-examination of where EU funding can make the biggest impact.

Based on these initial considerations, the workshop offered an opportunity to explore a more detailed perspective of how to look at better spending in light of the negotiations on the next MFF. The workshop demonstrated the extent to which the concepts of better spending and EU added value remain elusive at this point. Frequently, these terms are used by European policy makers to present an ex-post justification to policy choices rather than having real meaning. A key finding of the workshop is that a definition of these principles is needed, which would allow for a more in-depth exploration of policy tools, including the EU budget.

Defining the concept of better spending is difficult as it is multi-faceted. Better spending does not automatically means spending less. The concept is associated both with efficiency (e.g. spending less while achieving the same outcome or achieving more output with the same level of resources) and effectiveness (i.e. delivering the desired outcomes) as well as value for money considerations of EU spending. Better spending also has made reference to subsidiarity and cross-border implications, which can be seen as implying that European action can deliver more efficiently and effectively than a more fragmented approach.

Going beyond the usual definitions, Iain Begg advanced the concept of 'investability' in his presentation at the workshop. This approach takes into account territorial differences, and implies a consideration of the obstacles hampering growth in each region. Added value of EU spending would thus be directly linked to the identified obstacles in a specific region. In this context, the money spent might not perfectly correspond to efficiency and effectiveness considerations, but is likely to trigger positive developments within the region (i.e. attracting more investments in the long run) as well as addressing cohesion objectives.

Against this background, the discussions at the workshop led to the following broad conclusions on better spending:

- The importance of outcome focus - there is a need to start by determining what the money is meant to deliver;
- This outcome focus presupposes that we identify the objectives of EU action;
- Decisions on most efficient policy and financial tools to achieve these objectives should be the last step in the process.

The results of the workshop, together with the content developed in our previous notes (Zuleeg, F., Molino, E., 2001a, 2001b, 2011c), thus constitute the basis on which this note elaborates some policy recommendations, allowing us to bring a more concrete perspective and proposals to build up the CoR position as regards to 'better spending'.

2.2 Concrete options for better spending

The Draft Opinion of the Committee of the Regions on the EU Budget Review stresses the importance of better spending in several parts. The main chapter dedicated to the concept is entitled 'Efficiency':

Efficiency

56. welcomes the Commission's call for greater efficiency in administering the EU budget, since more efficient management of spending would give better results;

57. strongly encourages regional and local authorities to develop appropriate financial and human resources to cope with the complexity of EU funded projects, mainly in terms of administrative burden and red tape; in the context of the economic crisis which has resulted in major cuts in public budgets, and so as to endure the efficient use of the EU budget, stresses the need for appropriate levels of financing to be ensured in order to properly enable regional and local authorities to take part in major projects financed through structural funds;

58. also welcomes the proposal to focus spending on concrete priorities; to do this it suggests that the range of objectives should not be increased too much, bearing in mind also that successive enlargements have created greater disparities within the EU;

59. points out that the only way to achieve efficiency in implementing the EU budget, and thus in spending, is through coordination, consistency and cooperation, both between different administrative levels and between funds;

60. it therefore seems illogical to return to single fund planning, as has been done, as this means that arrangements also have to be made for new inter-fund coordination mechanisms to avoid overlapping and duplication;

To further highlight the commitment of the CoR to the objective of better spending points 56 to 60 could be put together under a ‘Better spending’ heading rather than just referring to efficiency.

As the CoR underlines in its draft opinion, better spending entails two dimensions: the need to focus EU spending on concrete policy priorities and the need for efficient management of EU funds, which presupposes enhanced coordination among European, national and subnational levels.

RLAs are responsible for the management of a significant proportion of EU funds. In this respect, they are well placed to elaborate concrete proposals which can help to enhance the efficiency and effectiveness of EU funds. The following items could be brought forward to complement the CoR opinion:

- Territorial pacts

  As the CoR has rightly stressed, Territorial Pacts can be an effective tool for the management of EU financial resources. They should take the form of ‘outcome agreements’, resulting from a matching of what Regions can deliver with the respective EU funding. The CoR should call for a quick operationalisation of these pacts, in time for the next MFF.

- Risk-based approach
  Efficient EU budget management requires efficient monitoring, evaluation and financial control mechanisms. The form and frequency of such mechanisms should be designed to relieve some of the burden from the RLAs which have performed well in this respect.

- Limiting the number of funds and reducing differential administrative requirements
  This dimension of efficiency figures in other parts of the opinion, but it would be helpful to bring this together under the efficiency heading (i.e. 'better spending'). Limiting the quantity of funds will imply a simplification of means of financing and procedures. Even where separate funds continue, there should be a reduction in the differential administrative procedures between funds. In this respect, whenever possible, national rules should be accepted as the basis for efficient monitoring, evaluation and financial control rules. Allowing for this 'rules recognition' would avoid duplication of obligations for the same project.

- Simplified and quicker procedure to avoid conflict with competition and procurement rules
  National and territorial public agencies should be able to rely on prompt responses from the EU's competition authority if there is a potential competition or procurement issue. More efficient implementation and realisation of projects requires quicker procedures, and efficient exchange of information between national/territorial and EU administrations. The implementation of fiscal stimulus during the economic crisis gave good evidence of the possibility for swift cooperation among administrations. Such efficient exchanges should become the rule.

- More rigorous and solid design of indicators
  When designing the new funding programmes, the setting up of outcome targets should be done on the basis of an evidence-based indicator framework. To achieve this, a European-wide framework needs to be established which underpins the decisions of national/regional authorities with solid evidence.

The draft opinion also looks at other significant issues related to better spending, such as capacity building and the required level of financing (point 57). The CoR should send a strong message to the other EU institutions, as regards to these two points, as they can impact significantly on the efficiency and effectiveness of EU spending at the RLA level.

On capacity building, there is a clear need for the RLAs to be supported in the efficient management of EU funding. Capacity building should be built in as a key objective into future funding mechanisms.

Concerning the level of financing, two aspects are worth considering. Firstly, co-financing implies that there are sufficient matching funds available. This could be a challenge in times of crisis and public budget limitations. A thorough ongoing assessment is needed of the capacity for match funding and co-financing rates might have to be adjusted in some RLAs to take this into account (including a temporary derogation of match funding requirements if necessary). Secondly, all different forms of funding (i.e. other grants, loan mechanisms, private funding etc.) should be counted as match funding.

Outcome focus is covered in point 58 of the draft opinion. As previously noted, there needs to be clarity on the outcomes the EU wants to achieve for the broad budget headings. This could be emphasised more in the messages of the CoR.

The last points (59 and 60) in the 'efficiency' section of the opinion tackle the question of enhanced coordination between levels of government. While the CoR might want to voice its opposition to return to single fund planning, it is worth underlying that the need for simplification will certainly require a further effort of coordination at national and subnational level.

In addition to the paragraphs dedicated to 'Efficiency' ('Better Spending'), the CoR also examines other aspects of effective and efficient management of the EU budget in the remainder of the draft opinion. Some of the more important elements that could further refine the CoR messages are highlighted below

5. suggests that it will be easier to launch the next programmes quickly if there is a certain degree of continuity in the basic rules governing their operations and if all legislative and regulatory measures are brought forward as much as possible with the aim of simplification

The reference to simplification and reduction of bureaucracy is certainly in line with what it is stated in the other parts of the draft opinion ('Efficiency'). But pursuing simplification can entail a trade-off with the need for continuity. To achieve continuity using the same rules which have already applied to the management of EU budget so far is helpful. On the other hand, simplification and increased efficiency may require changes to these rules, requiring adaptation efforts on the RLAs' side.

a) Added value

9. considers that the visibility of EU interventions, those involving investments in heavy infrastructure or intangibles (research, social inclusion, training, etc.)

must be sought at all levels, from the authority that takes the political decision, to the programme manager, and right down to the citizen and final beneficiary. It may be achieved by various procedures that are flexible and adapted to actual conditions, so as to avoid excessive administrative burdens, and should be based on the numerous examples of good practice that exist, in line with each region's potential

11. stresses the need to develop a dynamic communication strategy that is permanently relayed to the territories about the aims and achievements of the EU budget and points out, with this in mind, that it is available for setting up a decentralised action plan

As previously discussed, the concept of EU added value should play a significant role within the discussion of 'better spending'. This point could be emphasised again in this part of the draft opinion.

The CoR wishes to stress the importance of EU visibility and of ensuring a communication strategy based on a decentralised approach. While visibility can be argued to be one of EU objectives which constitutes added value, this is currently not made explicit in the opinion.

18. considers that existing new technologies, which have had the benefit of R and D funding, and which are able to be utilised should be exploited to the full

This point also connects well with the 'Efficiency' chapter. Here the CoR could advance more concrete proposals on how to best exploit the full potential of new technologies, and how to achieve more efficient R&D funding. In line with the principles of simplification and efficiency, existing funds should be used in a much more integrated way.

22. does not favour the option of setting up special large-scale funds dedicated to the implementation of investments in energy and climate; prefers prioritising and further incorporating these policy priorities into all relevant policy fields, where a management set-up involving all levels of governance would ensure the efficiency and visibility of European action

Within a 'better spending' perspective, the CoR might want to consider how to avoid fragmentation of funding streams and the danger of insufficient means being available for key priorities. There might be a need for further examination of areas where funding it is not delivering the required transformation. For example, large scale infrastructure networks still remain an issue of concern for Europe with three main pan-European problems needing to be addressed by the next MFF:

- Next generation broadband;

- Smart grids;
- Smart transport infrastructures (at cross-border, European level).

The specific problems related to large scale infrastructure need to find appropriate solutions in terms of policy tools and funding. In those cases, the exploration of dedicated funds could be considered, as well as making full use of alternative financial instruments such as PPPs.

28. approves the proposed common strategic framework covering the Structural Funds and other funds for territorial development such as the EAFRD and the EFF and believes such simplification approaches could be extended to other funds in future; supports the concept of partnership contracts for development and investment that are an accurate budgetary illustration of the territorial pacts that it promotes for National Reform Programmes; such contracts must be developed in partnership with local and regional authorities and not just between Member States and the Commission as proposed in the Fifth Cohesion Report, in accordance with the principles of multi-level governance; supports the idea of expanding the governance of cohesion policy to include other policies, as it believes that experience has shown that this is the most effective and efficient method

This point effectively addresses the question of simplification of funding related to territorial development. In addition, reference is made to the governance of policies, specifically the case of cohesion policy. While cohesion policy governance has proved to be efficient, there remains room for further improvement and simplification. An extension of these principles to other policy areas should thus be predicated on first achieving significant reforms based on the experience gathered by RLAs in the management of cohesion policy.

As stressed previously, 'better spending' also entails greater outcome focus. As already outlined, Territorial Pacts represent a tool which could further enhance delivery. Accurate, thorough and independent ex-ante and ex-post evaluations of performance should accompany these pacts, resulting in a tighter link between funding and performance. This is especially important in light of the potential increase of alternative ways of financing, such as loans, which expect not only delivery of outcome objectives but also a reimbursement of the initial funding in the longer term.

65. calls for a comprehensive review of the EU financial regulation to make financial rules simpler both to implement and to enforce with the aim of encouraging more potential beneficiaries to apply to EU calls for tenders;

This last point, focusing on improvement of financial rules, well complements the chapter on 'Efficiency' and it could be considered whether to include it there. As previously noted, it would be helpful to offer concrete proposals for the simplification of financial rules which can serve to encourage potential beneficiaries to apply.

On the *Structure of Expenditure*, as noted previously (Zuleeg, F., Molino, E., 2011c) it would be helpful for the CoR to propose an alternative subdivision of budget headings, highlighting the territorial component of policies. However, what needs to be kept is a clear link between the budget and decision-making structures. This implies that, for example, the division between 'territorial impact of climate change', and 'climate change' could prove difficult. This needs to be borne in mind when proposing the structure for the next MFF.

Under *Duration of the Financial Framework*, the Draft Opinion also refers to the questions of flexibility (point 48). The importance of flexibility should be stressed in general terms, because adapting to a changing world can enhance efficiency and effectiveness of delivery. In order to design flexibility mechanisms efficiently, the principles underpinning flexibility should be defined in the first instance (i.e. which kind of flexibility? to achieve which objectives? etc.).

In response to the European Commission EU Budget Review (COM(2010)700final), the CoR also addresses the question of *Reform of Funding*. As noted previously (Zuleeg, F., Molino, E., 2011b), significant progress is unlikely with a new European tax unlikely to result from the next MFF negotiations. However, it is important to participate in the debate feeding into the considerations of the SURE committee of the European Parliament. In this respect, and from a 'better spending' perspective, it is important to stress that an EU tax should be seen as an instrument to achieve policy aims rather than simply raising revenue. A carbon tax, for instance, should be determined with the aim of reducing carbon emission in mind. Using a tax this way implies that the amount of revenues it generates is unlikely to match exactly the desired level of EU revenue, nor does it guarantee stability of revenue over time.

Summary: BETTER SPENDING

Key point: messages to be made more concrete in order to bring forward the discussion on the next MFF

Main proposals:

- Simplification of funding, avoidance of fragmentation and increase of concentration of instruments
- Operationalisation of 'Territorial Pacts'
- Application of a performance related management, from the design to the evaluation phase of each programme
- Insurance of an adequate level of financing, depending on the different capacity of Regions

3. New delivery mechanisms

3.1 Financial instruments in the EU: the emerging framework

(New) financial instruments to accompany the EU budget have been attracting the attention of European institutions and stakeholders during these past months[i]. The European Commission has emphasised that these instruments can lead the way towards more flexibility and better EU spending.

In his 'State of the Union 2010' address (José Manuel Barroso, 07 September 2010) President Barroso introduced the issue of financial instruments, as a means to achieve the Europe 2020 objectives and as an important delivery mechanism to be considered alongside traditional budget spending. The EU Budget Review (COM(2010)700final) further advances this argument: "Innovative financial instruments could provide an important new financing stream for strategic investments. […] Blending between grants from the EU budget and loans from the EIB and other financial institutions has made it possible to treble the financial impact of EU external spending by attracting huge multiples of investment from financial institutions. This should be extended to become the norm in areas of long-term commercial potential, with new rules to govern blended instruments."

On February 28, the European Commission opened a consultation process on Europe 2020 project bonds, which were first proposed by the Commission President last September. These project bonds are intended to be a tool to attract private investment on specific projects, focusing particularly on infrastructure. Internal discussion should be ongoing in the European Commission on the development of two other financial instruments: an EU Equity Platform Mechanism and an EU Risk Sharing Platform Mechanism, as the mechanisms where announced in the EU Budget Review (COM(2010)700final). The main role of these instruments should be to enhance a greater involvement of the private sector to deliver the Europe 2020 objectives, especially regarding investment in growth, jobs and innovation. Financial instruments should help mobilise private investments (leveraging), which could contribute to foster private-public cooperation in the delivery of public goods.

The main added value of new financial instruments, as far as both the Commission and the European Investment Bank (EIB) are concerned, is that grants are not always the most efficient financing instrument to achieve EU objectives. The President's speech (State of the Union 2010, José Manuel Barroso, 07 September 2010) indicated the opportunities of using new financial instruments in areas such as research and energy interconnections. One consideration is that money in these instruments can be recycled and that, given scarce resources, "grants should not be used to support projects that are capable of raising income as it is a waste of money in the long term" (EPC Event Report, Workshop 'How to add value with future EU spending?, 18

February 2011). Against this background, it is timely to seek further clarification on the different purposes these new financial instruments can serve. As set out in our first note (Zuleeg, F., Molino, E., 2011a), the CoR could make a significant contribution to the discussion on new delivery mechanisms. For all possible financial instruments, the potential regional dimension and implications should be checked.

Using financial instruments such as public-private partnerships (PPPs) instead of traditional public spending has been on the increase in most European countries, especially in the area of infrastructure investments. Infrastructure represents a significant part of public investment, whose quality and quantity has been dramatically changing during the last decade (Wagenvoort, R., de Nicola, C., Kappeler, 2010). Governments now face the need to maintain the value of existing assets and the need to adapt infrastructures to climate change objectives (share of renewable energies etc.) (Dieter Helm, 'Infrastructure and infrastructure finance: The role of the government and the private sector in the current world', EIB Papers, Vol. 15, No. 2, 2010). In addition, financing needs are high for the future: the European Commission and the EIB have pointed out that the needs for infrastructure financing will dramatically increase in the coming years: 'around €1.5-2 trillion in investment will be needed over the next decade to upgrade Europe's transport, energy, high-speed Internet and telecommunication networks.' (http://ec.europa.eu/news/economy/110301_1_en.htm).

Infrastructure only represents one example of how new financial mechanisms can play a role, at national as well as European level. A broader perspective is needed with regard to the different purposes of new financial mechanisms in the context of the EU budget. Financial instruments can fulfil several needs, corresponding to specific tools, which might all have a role to play at EU level:

1) <u>Financing of large scale projects</u>: characterised by significant costs in the short term but income raising opportunities in the long run. Europe 2020 Project Bonds are aimed to fulfil such needs. The final aim of these bonds is to create a class of high-quality bonds that institutional investors would feel comfortable buying. As investors tend to be risk-avoiding for long term projects, these bonds could well bridge the gap and offer interesting opportunities to attracting private finance.[ii]

2) <u>Need for private-public cooperation</u>: this can respond to various interests, such as risk transfer, incorporation of expertise, direct injection of private capital or insurance purposes. Public-private partnerships are one example of such cooperation.

3) <u>Need to overcome budget constraints</u>: In a period of unprecedented spending constraints, public authorities might increasingly struggle with finding money for long term investments in current budgets.

4) Lowering the financing cost of public debt: the current budget difficulties have inspired a renaissance of discussions around the idea of Eurobonds. These bonds, aimed at ensuring that national public debt in economically weaker countries benefits from lower debt financing rates in the stronger ones, need to be clearly distinguished from project bonds. Fundamentally, they serve a different purpose, i.e. financing public debt more cheaply.

5) To correct market failures: it can take the form of working with private lenders to provide capital to SMEs, or venture capital for innovative start-ups where a gap in the market exists, for example due to changed lending behaviour in the aftermath of the financial crisis.

So far, the main European Commission focus for the next MFF seems to be on intervening in situations where there are sub-optimal levels of investment, such as in large scale European projects through future EU project bonds. However, the institutional discussion needs to become broader, helping to clarify what aims are intended to be achieved by the new instruments and potentially the development of further instruments to meet specific needs.

3.2 The need for a coherent CoR position on new financial mechanisms

The CoR has addressed the issue of new financial mechanisms in its draft opinion on the EU Budget Review. We use the elements listed in the opinion as a starting point to develop an analysis of possible territorial implications that should be looked at. Ultimately, the CoR needs to develop consistent and coherent messages on the topic, which could be used to kick-start a broader discussion on these instruments at the European level.

The Draft Opinion addresses new delivery mechanisms in two different sections: ‘Infrastructure for the Future’ and ‘New Funding’. Following up on the above, we might suggest merging the two sections, infrastructure being just one example for the implementation of new financial instruments.

Infrastructures for the Future

19. considers that removing cross-border bottlenecks on strategic transnational axes of the transport, communication and energy networks would be of significant added value to society and would be in the spirit of the EU's new approach to growth. It is necessary to develop fit-for-purpose, high-quality infrastructure and to remove critical bottlenecks for the sake both of the EU's economic competitiveness and of

balanced and sustainable development;

20. emphasises that the funding of infrastructures for the future is a necessity for two reasons of equal importance: to increase mobility and internal cohesion within the EU and to increase European competitiveness vis-à-vis third countries as the Commission rightly points out;; recommends proceeding logically, starting with political decisions on infrastructure projects and then agreeing on the relevant instruments and financial packages;

21. reiterates its opposition to the establishment of a single fund which, relying mainly on resources allocated under the Cohesion Fund, would group together all the EU financial instruments used to fund transport infrastructure. Not only could the "transfer" of funds result in a net loss of resources allocated to transport policy, but it could also call into question the integration of transport projects in regionalised development strategies;

New funding

35. is in favour of looking at the possibilities of having support from the EU other than subsidies, although fully respecting the principle of subsidiarity and on a case-by-case basis, depending on the types of expenditure and the economic situation of the beneficiaries; financial engineering instruments should be seen as a valuable addition to grants, rather than as a replacement;

36. insists, however, that caution should be observed when devising and spreading the use of new financial instruments; considers that the crisis has shown that there is a need for regulation on EU level, the absence of which has sometimes jeopardised the financial equilibrium of local authority budgets; stresses the need to be accountable to the general public and not to get too far away from the real economy;

37. draws attention to the need to provide regional and local authorities with better facilities for producing results, especially when new funding machinery (EIB, PPP, EU-project bonds) is provided which requires a high level of expertise; the introduction of new funding mechanisms should not therefore be permitted unless it is proven that they can be applied more simply and effectively by regional and local authorities than existing instruments;

38. encourages, however, the Commission to be ambitious so as to effectively mobilise any leverage effect that might be represented by the commitment of local and regional authorities to policy priorities; stresses the multiplier effect of local and regional public funding, including its impact on private partners, and the unifying role that can be played by the EU;

39. feels that it is essential to be able to issue EU-project bonds, in order to finance works on a large scale whose economic impact will be felt in the medium or long term. This device is likely to make the EU's interventions more visible and – above all – more efficient. It may have a highly beneficial leverage effect on the momentum of the internal market and help boost territorial cohesion. It is clearly consistent with the search for more rational EU spending focusing on European added value;

40. calls on the European Commission to carry out a more detailed analysis of the proposed issuing of Euro-bonds which, by pooling some public debt, would allow all euro area countries to borrow at interest rates close to the best on the market, limit speculation against national borrowing and improve the quality of budgetary policy coordination;

41. considers that a credible budget is one of the answers to the current economic crisis, since it would act as a lever for economic, social and territorial development;

A significant number of pertinent issues are raised in the opinion, but these could be drawn out more clearly to provide a more cohesive and effective messages. The need to determine which objectives are to be achieved through financial instruments, for instance, is touched upon by point 20. However, no reference is made to political priorities of EU action, but only to 'political decision on infrastructure projects'. In order to ensure the most added value for EU money, the discussion should start at higher level, concerning first priorities and objectives and only then projects/instruments.

A second key issue is the relationship between different sources of funding. There is a clear interest of the CoR to reiterate the significance of grants as mean of financing EU objectives in all regions, making sure that any new financial instruments are complementary and not alternatives to grant funding. While this is a reasonable concern from the RLAs perspective, the message could be balanced out by recognising the overall limitations on grant funding and the need for different financing mechanisms to ensure more efficient spending.

The opinion also needs to decide on a coherent stance regarding the introduction of new financial instruments (points 37 and 38). Making the introduction of these instruments conditional on a comparative assessment against current funding (the second part of point 37) could constrain the use of new mechanisms without guaranteeing a continuity of traditional grant funding. Such a potential conflict can be avoided by reformulating as follows: 'new financial instruments should be accompanied by capacity building measures for RLAs to ensure all RLAs can access such instruments'.

Thirdly, the opinion makes reference to the question of Eurobonds (point 40) without clearly coming out in favour. In general, Eurobonds are a macro-economic instrument with little connection to the investment considerations which underlie the development of the new financial instruments so it would be helpful if the issues pertaining to Eurobonds and to other new financial mechanisms are clearly divided in the opinion. While it is unlikely that the discussion on Eurobonds proceeds further in the coming months, the CoR should determine whether these bonds could also represent an opportunity to lower financing costs for RLA debt.

Fourthly, the discussion around new financial mechanisms should clarify the aim of leveraging private investment. In line with the concept of added value, new delivery mechanisms have to leverage private investments to achieve public outcomes, i.e. the priorities the European Union will set for itself. The possibilities for PPPs to take on a broader role than simply infrastructure financing should be encouraged.

Finally, with regard to point 36, this seems to be more related to the general problems in the financial sector than to the kind of instruments currently under consideration.
More generally, the CoR should try to understand to what extent the new financial mechanisms would have a regional dimension, and what implications for RLAs could be foreseen. This would allow a clarification on the question of potential competition between new financial instruments and EU grants.

Summary: NEW DELIVERY MECHANISMS

Key point: CoR to develop a consistent position on the question of financial instruments, analysing their potential regional dimension.

Main proposals:

- Need to accompany new financial instruments with capacity building at regional level
- Need to define objectives of financial instruments in the first place, to decide the best tool available
- The added value of grants to be checked against EU political priorities

4. Conclusions

Already, the discussions on the next MFF have shown that better spending and new delivery mechanisms will be featuring prominently in the debate. As underlined in our first note (Zuleeg, F., Molino, E., 2011a), a clear regional dimension exists regarding these topics and the CoR has concrete possibilities to influence the debate.

For these reasons, this note looks closer at these two issues, with the aim to analyse the policy direction of the European Commission and to outline concrete proposals which could be part of the CoR message.

In order to do so, this note is based on an analysis of the current institutional developments and the CoR Draft Opinion with respect to these two issues.

On better spending, this note has outlined two key dimensions. Firstly, the need for setting clear policy priorities was well summarised by CoR secretary general, Gerhard Stahl, during the workshop (EPC and Committee of the Regions, 'How to add value with future EU spending?' Event Report, 18.2.2011), "it is important to begin with no taboos and focus on objectives. This means going through the Lisbon Treaty and through all policies to produce a list of policy commitments already undertaken at the EU level. This should direct the debate on financing and instruments." Secondly, better spending encompasses better management of EU spending, which calls for an increased focus on outcomes. As it stands, the CoR Draft Opinion mainly focuses on the second dimension of better spending, related to efficient management but this note suggest some ways in which this focus could be broadened.

Concerning new delivery mechanisms, this note summarises the main features of the current debate. The drive to use new financial instruments, different from grants, has been gaining much ground at EU level. The European Commission, together with other financial institutions, has promised to deliver alternative delivery mechanisms for European investment priorities. Within this context, the proposed Europe 2020 project bonds signify the start of a new policy direction, as far as means of financing are concerned. However, caution is needed: these instruments can serve several different purposes, which needs to be taken into account in their design. The discussion must focus more on the purpose of using these new instruments and their efficacy for achieving specific policy objectives. The CoR will need to develop a cohesive and coherent position on these new financial instruments, which must start with an analysis of the regional and better spending dimensions attached to their use.

Two main common points come out from our analysis: the concrete need for capacity building enhancement and for clarity of objectives. These concern both better spending and new delivery mechanisms. Within the context of the debate on next

MMF, this would suggest that CoR messages could be elaborated around these two elements.

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6. Endnotes

[i] Several financial instruments are already in place at EU level. Within the Competitiveness and Innovation Framework Programme (CIP, http://ec.europa.eu/cip/), the High Growth and Innovative SME Facility has been developed. In the field of Research and Development (7th R&D Framework Programme), the Risk Sharing Finance Facility is in place. This latter, together with the Loan Guarantee Instrument for TEN-T project, has been developed together with the European Investment Bank.

In addition, a series of smaller instruments exist: the Marguerite Fund, for investment in infrastructure equity funds, the European Microfinance Facility for Employment and Social Inclusion, to provide micro-credit, and several others.

The role of European Investment Bank in developing financial instruments with the European Commission has been growing overtime. As underlined both in the EU Budget Review and in the Consultation Paper on Europe 2020 Project Bonds, the European Commission aims at enhancing its relations with EIB and other financial institutions.

[ii] The consultation process which has been launched by the European Commission aims to gather the opinion of different stakeholders, such as financial institutions, development banks and other long-term lenders, institutional investors, financial, legal and other advisors, and public administrations: (http://ec.europa.eu/economy_finance/consultation/index_en.htm). The consultation procedure consists of a questionnaire, available on ECFIN website. The consultation closes on May 2. A major conference is foreseen on April 11 in Brussels. The first bonds should be available in 2014.