

The next EU budget and the financing of the Cohesion policy

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Structure of the presentation

- Cohesion policy in focus
- Search for solutions in financing the EU budget/Cohesion policy
- Cohesion policy and corruption
- Lessons from the ‘Juncker Plan’ (EFSI)
- Financing Cohesion policy expenditures: grants versus financial instruments
- Recommendations for reform

LESS AVAILABLE FUNDING FOR COHESION POLICY

- Cohesion policy (CP) is one of the largest components of the EU budget
- Intense cross-Member State redistribution via the EU budget > subjects to debates
- Brexit: a major net contributor to the EU budget is out
- New important priorities for expenditures: migration & borders, security & external actions, research & innovation > CP's share is declining
- Regional shift: CEE-EU successful in fighting unemployment, southern periphery not
- 'Rule of law' a new conditionality?

HOW TO FIND A COMMON DENOMINATOR IN THE SEARCH FOR NEW OWN RESOURCES? (1)

- Currently: traditional own resources: customs revenues, a special VAT-based component, GNI proportional component
- Search for new own resources for decades along the criteria: financial autonomy, visibility, transparency and simplicity; externalities, sufficiency, stability, effectiveness of tax collection; horizontal and vertical equity, fair contribution across Member States
- The candidates:
 - *Income tax*: personal income tax, corporate income tax, transfer of seigniorage revenue
 - *Tax on real economy transactions*: genuine VAT, taxation of energy, communication taxation, climate charge on aviation, excise duties on tobacco and alcohol
 - *Tax on financial transactions*: stock exchange transactions, foreign exchange transactions, all financial transactions

HOW TO FIND A COMMON DENOMINATOR IN THE SEARCH FOR NEW OWN RESOURCES? (2)

- Fair contribution across Member States > the role of net financial positions (NFP)
- Proposed reforms are judged by changes in NFP
- Indirect effects are not considered > new research (Naldini 2018) quantifies spill-overs
- Further calculations > spill-over effects for Austria about +17% of NFP, +4.5% for Germany (average in 2007-2014)
- Various tax reforms have *in fact* quite different impact in individual MS

THE ISSUE OF CORRUPTION (1)

- Traditional control > investigation of suspicious individual cases
- New approach > analysis of ‘big data’ > important new research results
- Fazekas and King (2018) analysed over 100 000 public procurement contracts, of which about one third was EU co-funded (HU and CZ, 2009-2012)
- Filtering out ‘red flags’ through incidence of:
 - Single bidder contracts
 - Same company winning all of the contracts of a given issuer
 - Short time between advertisement of tender and submission deadline
 - Changing the bidding conditions once or more often after the official publication
 - Tailoring the conditions to a single company through over-specification
 - Eligibility criteria which are hard to quantify and subjective

THE ISSUE OF CORRUPTION (2)

- Single bidder contracts were found to be 6-15% more expensive than multiple bidder contracts (contracted price/estimated price)
- A comparison of *EU co-funded* with *national* public procurement contracts shows substantially higher corruption risks in the former group
- Conclusion of Fazekas and King (2018): in EU co-funded public procurement contracts prices were about EUR 219 million higher than in national contracts (in 2009-2012 in HU and CZ)
- Recommendations in Fazekas and King (2018):
 - > improve ‘ownership’: restore the link between local taxes, local policy performance and local civil society oversight
 - > decrease the ratio of EU funds to national funds.....
 - > reduce the role of grants in EU funding compared to financial instruments

FINANCIAL INSTRUMENTS (FI) IN THE COHESION POLICY

- European Commission: ‘Financial instruments represent a resource-efficient way of deploying cohesion policy resources ... financial instruments provide support for investments by way of loans, guarantees, equity and other risk-bearing mechanisms, ... interest rate subsidies or guarantee fee subsidies.’ http://ec.europa.eu/regional_policy/en/funding/financial-instruments/ 01.11.2018
- FI have been used since 1994-1999; in 2007-2013 they amounted to 5% of ERDF resources
- 2014-2020 FI will amount to about 8% of ERDF and CF resources
- Overall role of FI is still very modest

LESSONS FROM THE 'JUNCKER PLAN' (1)

- The aim of the European Fund for Strategic Investments (EFSI) established under the auspices of the European Investment Bank (EIB) is to generate EUR 315 billion in additional investment in the EU-28 over the period 2015-2017
- A guarantee of EUR 16 billion appropriated under the EU budget
- EIB committed an additional EUR 5 billion
- This initial combined contribution of EUR 21 billion was hoped to generate EUR 315 billion funding

LESSONS FROM THE 'JUNCKER PLAN' (2)

- How?
 - First: EUR 21 billion was supposed to mobilise EUR 60.8 billion additional financing by the EIB group, implying a multiplier of 3,
 - Second: that should enable the mobilisation of a total of EUR 315 billion in investment, implying a multiplier of 5.
- Altogether this is a leverage of 1:15; and the goal is exactly this: mobilising additional private funding by attaining a multiplier effect of 1:15.
- The EIB Group is thus able to provide financing to projects with higher risk than they normally would. There are strict criteria to decide whether a project is eligible for EFSI support. No quotas are applied either by sector or by country
- Initial data from September 2018 suggest that the investment realised with the help of EFSI will amount to EUR 344 billion, i.e. more than the planned EUR 315 billion.

LESSONS FROM THE 'JUNCKER PLAN' (3)

- Given the success of the EFSI, its duration and capacity have been extended. 'EFSI 2.0' runs from mid-2018 to end-2020 and increases its investment target from EUR 315 billion to at least EUR 500 billion.
- **Cohesion policy 2014-2020: EUR 461 billion**
EFSI 1.0 and 2.0 for 2015-2020: EUR 500 billion

THINKING OUTSIDE THE BOX (1)

Summary of insights:

- Less available funding for Cohesion policy
- Failed attempts to create new resources for the revenue side
- High corruption risk of EU co-funded projects
- No breakthrough in use of financial instruments in Cohesion policy
- Highly successful implementation of EFSI ('Juncker Plan')

THINKING OUTSIDE THE BOX (2)

Recommendations:

- Fundamental reshuffle of the Cohesion policy along the principles of the 'Juncker Plan'
- Financial instruments-based funding for all business sector projects and, where it is feasible, in public sector projects; grants preserved primarily for projects in the non-profit sector and as an exceptional solution in other sectors

Expected results:

- Substantially improved efficiency in utilisation of European taxpayers' money
- Better 'ownership' of EU funded projects by beneficiaries
- Reduced corruption risk

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